



## STATE OF WISCONSIN

Notice of **Material Information** #2003-06  
Dated January 6, 2003

This document provides information which may be material to financial evaluation of the State of Wisconsin, however neither the preparation nor submission of this document constitutes a Listed Event pursuant to the State's Master Agreement on Continuing Disclosure.

- Issuer:** State of Wisconsin  
Petroleum Inspection Fee Revenue Obligations
- CUSIP Numbers:** Bonds—977109 Prefix (All)  
Extendible Municipal Commercial Paper—97710E Prefix (All)  
and 97711U Prefix (All)
- Type of Information:** Financial Statements or CAFR Pursuant to Rule 15c2-12  
**Attached is the audited financial statement for the year ended June 30, 2002 for the Petroleum Inspection Fee Revenue Obligations Program.**
- Fiscal Period Covered:** July 1, 2001 through June 30, 2002
- Type of Filing:** Filed in both electronic and paper form with each Nationally Recognized Municipal Securities Information Repository.

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing Annual Reports and giving notice of Listed Material Events when notice is required by the State's Master Agreement on Continuing Disclosure.

/S/ FRANK R. HOADLEY  
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AN AUDIT

*Petroleum Inspection Fee  
Revenue Obligations Program*

*02-19*

*November 2002*

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Brian Burke  
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State Auditor - Janice Mueller

Editor of Publications - Jeanne Thieme

Audit Prepared by

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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November 21, 2002

Senator Gary R. George and  
Representative Joseph K. Leibham, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

At the request of the departments of Commerce and Administration, and to meet our audit responsibilities under s. 13.94, 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, 2002, and June 30, 2001. We were able to express our unqualified opinion on the program's Statement of Changes in Program Assets and related notes.

Under the Petroleum Inspection Fee Revenue Obligations Program, the State issues 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. The revenue obligations are to be repaid from the \$0.03 per gallon fee charged suppliers for petroleum products sold in Wisconsin and collected by the Department of Revenue. The obligations are not general obligation debt of the State.

Between January 2000, when the program was created, and June 30, 2002, the State issued \$280.25 million of revenue obligations, which allowed the State to reduce a backlog of approved but unpaid PECFA claims, as well as to pay current-year claims. However, the Department of Commerce continues to receive claims and, as of June 30, 2002, had a backlog of over \$30 million in approved claims awaiting payment and nearly \$50 million in additional claims that had been received but not yet reviewed and approved. In addition, the Department of Commerce estimates that landowners had approximately \$170 million in costs incurred under the program but not yet claimed.

To provide additional funding to pay claims, in August and September 2002 the State issued \$62.3 million of revenue obligations, which exhausted the program's debt issuance authority. Additional revenue obligations cannot be issued unless the Legislature authorizes an increase in the program's bonding authority.

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

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/BN/ss



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

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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, 2002, and June 30, 2001. 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 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 statement. 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 is not intended to present fairly the financial activity of the State of Wisconsin.

As described in Note 2, to provide a meaningful presentation to bondholders and noteholders regarding resources available to pay debt service, 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.

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, 2002, and June 30, 2001, and the program's receipts and disbursements for the fiscal years then ended, on the cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2002, 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, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

November 18, 2002

LEGISLATIVE AUDIT BUREAU  
by   
Bryan Naab  
Audit Director





**State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program**  
**Statement of Changes in Program Assets**  
for the Fiscal Years Ended June 30, 2002, and June 30, 2001

	Fiscal Year 2001-02	Fiscal Year 2000-01
Program Assets, July 1	\$ 7,559,723	\$ 29,826,342
<b>Receipts</b>		
Proceeds from Sale of Bonds (see Note 5)	31,423,050	0
Proceeds from Sale of Extendible Municipal Commercial Paper (see Note 5)	0	20,000,000
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee (see Note 6)	\$ 111,273,965	\$ 114,303,667
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 6)	<u>(88,802,625)</u>	<u>(100,658,894)</u>
Petroleum Inspection Fees Retained by the Trustee	22,471,340	13,644,773
Interest and Investment Income	<u>166,338</u>	<u>538,584</u>
Total Receipts	<u>54,060,728</u>	<u>34,183,357</u>
Total Program Assets Available	<u>61,620,451</u>	<u>64,009,699</u>
<b>Disbursements</b>		
Transfers of Proceeds from Sale of Revenue Obligations and Interest and Investment Income to the State of Wisconsin Petroleum Inspection Fund (see Notes 1 and 8)	29,985,371	43,694,566
Debt Service (see Note 5):		
Senior Debt Service—Bond Principal	0	1,750,000
Senior Debt Service—Bond Interest	9,600,240	8,002,456
Senior Debt Service—Commercial Paper Interest	1,703,726	2,927,628
Junior Subordinate Debt Service—Commercial Paper Principal	<u>0</u>	<u>0</u>
Total Debt Service	11,303,966	12,680,084
Debt Issuance Costs	297,963	12,414
Other Costs	<u>73,622</u>	<u>62,912</u>
Total Disbursements	<u>41,660,922</u>	<u>56,449,976</u>
Program Assets Reserved for Debt Service (see Note 4)	19,957,447	7,557,736
Unreserved Program Assets (see Note 4)	<u>2,082</u>	<u>1,987</u>
Program Assets, June 30	<u>\$ 19,959,529</u>	<u>\$ 7,559,723</u>

The accompanying notes are an integral part of this statement.



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## Notes to the Statement of Changes in Program Assets

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### 1. Description of the Program

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program 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 (the Program Resolution). 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 State of Wisconsin Department of Commerce.

The Program Resolution establishes special trust funds and accounts and fiduciary responsibilities that are to be undertaken by a corporate 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 and paying agent for revenue bonds. U.S. Bank Trust National Association is the issuing and paying agent and registrar for extendible municipal commercial paper.

The table below summarizes the State of Wisconsin's petroleum inspection fee revenue obligations issued through June 30, 2002.

	<u>FY 1999-2000</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>Total</u>
2000 Series A Revenue Bonds	\$170,250,000	\$ 0	\$ 0	\$170,250,000
2000 Extendible Municipal Commercial Paper	60,000,000	20,000,000	0	80,000,000
2001 Series A Revenue Bonds	<u>0</u>	<u>0</u>	<u>30,000,000</u>	<u>30,000,000</u>
Total Revenue Obligations Issued	\$230,250,000	\$20,000,000	\$30,000,000	\$280,250,000

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 \$0.03 per gallon fee charged suppliers for petroleum products received for sale in Wisconsin. These petroleum inspection fees are paid monthly by suppliers to the State of Wisconsin Department of Revenue, which subsequently forwards the fees to the revenue obligations 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.

The financial statement 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 accompanying Statement of Changes in Program Assets of the Petroleum Inspection Fee Revenue Obligations Program 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. 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. 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**

The program's deposit and investment policies are governed by the Program Resolution and Wisconsin Statutes. The program is authorized by 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 statute 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, 2002, the demand deposit accounts with the trustee and the commercial paper issuing and paying agent totaled \$19,558,847. As of June 30, 2001, demand deposit accounts totaled \$7,559,723. Each year, \$200,000 was insured against loss by the Federal Deposit Insurance Corporation and,

therefore, is categorized as risk category 1 deposits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 3. The remaining \$19,358,847 as of June 30, 2002, and \$7,359,723 as of June 30, 2001, was not insured or collateralized and, therefore, is categorized as risk category 3.

As of June 30, 2002, the program held investments, purchased for \$400,682, consisting of U.S. Treasury Bills with a face value of \$404,000. These investments mature on December 12, 2002, and as of June 30, 2002, had a fair value of \$400,853. The investments were registered and held by the program's agent in the program's name. Therefore, the program's investments are categorized as risk category 1 investments in accordance with GASB Statement No. 3. No investments were held by the program as of June 30, 2001.

#### **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 agent 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 to pay PECFA claims, debt issuance costs, or administrative costs of the program. Periodically, the State requests the program's unreserved assets to be remitted to the State to pay for these costs.

As of June 30, 2002, the program's assets totaled \$19,959,529. Of this amount, \$19,957,447, consisting of \$19,556,765 of demand deposits and \$400,682 of investments, was reserved for debt service. The remaining \$2,082, consisting of demand deposits, was unreserved.

As of June 30, 2001, the program's assets totaled \$7,559,723. Of this amount, \$7,557,736, consisting of demand deposits, was reserved for debt service. The remaining \$1,987, 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 of Wisconsin Statutes; 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 all petroleum products received for sale in Wisconsin, as received by the trustee (see note 6). The revenue obligations are not general obligations of the State.

On March 2, 2000, the State issued \$170,250,000 of State of Wisconsin Petroleum Inspection Fee Revenue Bonds, 2000 Series A, which are senior bonds that bore interest at rates from 5.00 percent to 6.00 percent, payable semiannually on July 1 and January 1. During FY 2000-01, \$1,750,000 of the bonds matured.

The remaining \$168,500,000 of bonds mature in annual scheduled installments from July 1, 2002, to July 1, 2012. Prior to their maturity, the bonds are subject to optional redemption on or after July 1, 2005, at prices ranging from 102 to 100 percent of the face value plus accrued interest.

On December 18, 2001, the State issued \$30,000,000 of State of Wisconsin Petroleum Inspection Fee Revenue Bonds, 2001 Series A, which are senior bonds that bore interest at a rate of 5.00 percent, payable semiannually on July 1 and January 1, commencing July 1, 2002. The bonds mature in annual scheduled installments from July 1, 2007, through July 1, 2008. Prior to their maturity, the 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.

As of June 30, 2002, the future debt service for the Petroleum Inspection Fee Revenue Bonds, 2000 Series A and 2001 Series A, was \$265,686,480, consisting of \$198,500,000 in principal and \$67,186,480 in interest. The combined bond redemption and debt service requirements for the Petroleum Inspection Fee Revenue Bonds, 2000 Series A and 2001 Series A, in the years subsequent to June 30, 2002, are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Amount</u>	<u>Total Debt</u> <u>Service on Bonds</u>
2003	\$ 11,440,000	\$10,839,807	\$ 22,279,807
2004	12,070,000	10,139,115	22,209,115
2005	12,735,000	9,425,140	22,160,140
2006	13,495,000	8,638,240	22,133,240
2007	14,305,000	7,829,884	22,134,884
2008	30,115,000	6,616,821	36,731,821
2009	30,980,000	4,979,840	35,959,840
2010	16,885,000	3,696,520	20,581,520
2011	17,800,000	2,743,875	20,543,875
2012	18,790,000	1,700,400	20,490,400
2013	<u>19,885,000</u>	<u>576,838</u>	<u>20,461,838</u>
Totals	\$198,500,000	\$67,186,480	\$265,686,480

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 (roll-over) 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 a 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 roll-over notes, issuance of refunding senior bonds, certain moneys held by the trustee, or other funds made available by the State for this purpose.*

As of June 30, 2002, \$80,000,000 in outstanding extendible municipal commercial paper had interest rates ranging from 1.45 percent to 1.75 percent, and maturities ranging from July 10, 2002, to August 20, 2002.

Additional series of senior bonds may be issued on a 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, 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 State'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 State's outstanding variable rate debt. This certification was required and performed each month during FY 2001-02 and FY 2000-01. Because the State's ability to convert variable rate debt to fixed rate debt was higher than the amount of variable rate debt outstanding each month, the State needed to take no further action. For June 2002, the program's variable rate takeout capacity was calculated to be \$358,999,526, which was \$278,999,526 higher than the variable rate debt exposure of \$80,000,000.

## **6. 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., the \$0.03 per gallon fee is imposed by the State on suppliers for all petroleum products received for sale in Wisconsin. The 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 fees and remits it to the program trustee on a monthly basis. 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.



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

From July 1, 2000, through June 30, 2002, the following amounts of petroleum inspection fees were remitted by the State of 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.

<u>Month</u>	<u>Petroleum Inspection Fees Remitted by the State to the Trustee</u>	<u>Petroleum Inspection Fees Fees Retained by the Trustee</u>	<u>Petroleum Inspection Fees Transferred by the Trustee to the State</u>
July 2001	\$ 8,309,278	\$ 1,941,734	\$ 6,367,544
August	10,548,627	1,928,353	8,620,274
September	9,764,092	1,928,353	7,835,739
October	10,183,431	1,948,353	8,235,078
November	8,632,607	1,829,353	6,803,254
December	9,890,802	1,829,354	8,061,448
January 2002	8,400,417	1,846,853	6,553,564
February	9,699,880	1,836,853	7,863,027
March	9,306,455	1,829,354	7,477,101
April	8,160,396	1,846,354	6,314,042
May	8,908,468	1,823,353	7,085,115
June	<u>9,469,512</u>	<u>1,883,073</u>	<u>7,586,439</u>
Total FY 2001-02	<u>\$111,273,965</u>	<u>\$22,471,340</u>	<u>\$88,802,625</u>
July 2000	\$ 11,017,557	\$ 1,058,020	\$ 9,959,537
August	9,805,668	1,041,020	8,764,648
September	9,581,492	1,041,020	8,540,472
October	10,422,248	994,520	9,427,728
November	8,887,756	992,020	7,895,736
December	9,563,479	1,092,020	8,471,459
January 2001	8,965,158	1,092,020	7,873,138
February	10,047,622	1,117,020	8,930,602
March	9,662,194	1,092,020	8,570,174
April	8,185,362	1,092,020	7,093,342
May	9,311,493	1,103,520	8,207,973
June	<u>8,853,638</u>	<u>1,929,553</u>	<u>6,924,085</u>
Total FY 2000-01	<u>\$114,303,667</u>	<u>\$13,644,773</u>	<u>\$100,658,894</u>

The preceding table presents the inspection fees on the cash basis for FYs 2001-02 and 2000-01. For purposes of additional analysis, the table that follows presents the petroleum inspection fees for FYs 1999-2000, 1998-99, and 1997-98 on the modified accrual basis of accounting as reported in the State's comprehensive annual financial reports. These modified accrual amounts represent the fees earned during each fiscal year, a portion of which may have been collected in cash during the 60-day period after the end of the fiscal year.

<u>Fiscal Year</u>	<u>Fees Earned</u>
1999-2000	\$111,564,000
1998-99	110,742,000
1997-98	103,842,000

## 7. 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 2001-02 and FY 2000-01 are provided below and 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

	<u>Fiscal Year 2001-02</u>	<u>Fiscal Year 2000-01</u>
Fees Remitted to the Trustee	\$111,273,965	\$114,303,667
Senior Debt Service:		
Principal—Bonds	\$ 0	\$1,750,000
Interest—Bonds	9,600,240	8,002,456
Interest—Commercial Paper	<u>1,703,726</u>	<u>2,927,628</u>
Total Senior Debt Service	\$ 11,303,966	\$ 12,680,084
Debt Service Coverage Ratio for Senior Debt	9.84	9.01

Note: A premium was received in conjunction with the sale of the 2000 Series A Bonds issued. This premium was irrevocably deposited with the trustee and used to make the \$1,750,000 principal payment shown for FY 2000-01. If the premium had not been available to make the principal payment, the petroleum inspection fees would have been used.

## 8. Contingencies and Commitments

In addition to the \$280,250,000 in petroleum inspection fee revenue obligations issued through June 30, 2002, Wisconsin Statutes and the State of Wisconsin Building Commission have authorized the program to issue additional revenue obligations of \$62,225,000 plus an additional \$2,025,000 to pay issuance and administrative costs, make any necessary deposits to reserve funds, or pay accrued or capitalized interest. Further, the Building Commission has authorized the program to issue revenue bonds to fund any or all of the outstanding extendible municipal commercial paper and to refund any or all of the outstanding bonds.

The Petroleum Inspection Fee Revenue Obligations Program was established and the program's bonds and extendible municipal commercial paper were issued to reduce a backlog that had accumulated because approved PECFA claims significantly exceeded the petroleum inspection fee revenues available to pay the claims. The bonds and commercial paper sold during FY 1999-2000, along with petroleum inspection fees collected during that year, provided funding to reduce the backlog of approved but unpaid PECFA claims from \$195.5 million to \$15.8 million as of June 30, 2000.

The following table summarizes the activity related to PECFA claims during FY 2000-01 and FY 2001-02.

### Summary of PECFA Claims July 1, 2000 through June 30, 2002 (in millions)

Approved but Unpaid PECFA Claims as of June 30, 2000	\$ 15.8
Claims Approved for Payment July 1, 2000, through June 30, 2001	123.2
Less Claims Paid:	
Paid from proceeds of revenue obligations and interest and investment income	\$43.7
Paid from net petroleum inspection fees	<u>80.7</u>
	<u>124.4</u>
Approved but Unpaid PECFA Claims as of June 30, 2001	14.6
Claims Approved for Payment July 1, 2001 through June 30, 2002	121.1
Less Claims Paid:	
Paid from proceeds of revenue obligations and interest and investment income	30.0
Paid from net petroleum inspection fees	<u>75.0</u>
	<u>105.0</u>
Approved but Unpaid PECFA Claims as of June 30, 2002	\$ 30.7

In addition to the \$30.7 million in approved claims waiting for payment as of June 30, 2002, approximately \$49.6 million of claims submitted to the Department of Commerce had yet to be reviewed and approved. The Department estimates that there were approximately \$170 million of additional claims that had not been submitted as of June 30, 2002, for costs that landowners had already incurred as of that date. In addition, the Department estimates that an additional \$4.6 million in liabilities may exist related to claimants appealing the Department's determinations on previously finalized claims.

## **9. Subsequent Events**

The Department expects new PECFA claims received to continue to exceed the amount of petroleum inspection fees available to pay them. In August and September 2002, the State issued an additional \$62.3 million in extendible municipal commercial paper. With the issuance of this commercial paper, the program has exhausted its current debt issuance authority under s. 101.143(9m), Wis. Stats. Additional revenue obligations may not be issued unless the Legislature authorizes an increase in the program's debt authority.

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# Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards

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We have audited the cash-basis Statement of Changes in Program Assets of the Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2002, and June 30, 2001, and have issued our report thereon dated November 18, 2002. 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.

## Compliance


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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

November 18, 2002

LEGISLATIVE AUDIT BUREAU  
by   
Bryan Naab  
Audit Director