State of Wisconsin
Notice of **Material Information** #2010-19
Dated November 30, 2010

The State of Wisconsin is voluntarily making this filing, which provides information that may be material to financial evaluation of one or more obligations of the State of Wisconsin. Neither the preparation nor submission of this document constitutes a Material Event pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009).

Issuer:	State of Wisconsin Petroleum Inspection Fee Revenue Bonds Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper
CUSIP Numbers:	977109 Prefix (All) 97710E Prefix (All)
Type of Information:	Financial/Operating Data Disclosures Audited Financial Statements (Rule 15c2-12) Financial Statement and Independent Auditors' Report for the Year Ended June 30, 2010 Attached is the financial statement and independent auditor's report for the years ended June 30, 2010 and June 30, 2009 for the Petroleum Inspection Fee Revenue Obligations Program.

The State of Wisconsin has filed this notice with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. The filing is also available on the State of Wisconsin Capital Finance office web site at:

www.doa.state.wi.us/capitalfinance

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 material events when notice is required by the State's Master Agreement on Continuing Disclosure (Amended and Restated July 1, 2009), and is authorized to distribute this information publicly.

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Report 10-15
November 2010

An Audit

Petroleum Inspection Fee Revenue Obligations Program

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 East Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.wisconsin.gov. Electronic copies of current reports are available at www.legis.wisconsin.gov/lab.

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STATE OF WISCONSIN
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Janice Mueller
State Auditor

November 30, 2010

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

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, 2010, and June 30, 2009. We have provided our unqualified audit opinion on the Statement of Changes in Program Assets.

Under the program, the State was authorized to issue $386.9 million in revenue bonds and commercial paper to provide financing for payment of claims under the 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 $0.02 per gallon fee charged to suppliers of petroleum products sold in Wisconsin.

During fiscal year 2009-10, the State refinanced the outstanding revenue bonds and a portion of the commercial paper. As of June 30, 2010, a total of $188.7 million in revenue obligations was outstanding, including $117.5 million in revenue bonds and $71.2 million in commercial paper.

By refinancing a portion of the program's revenue obligations, the State was able to reduce total inspection fees needed to make debt service payments during the 2009-11 biennium. However, the refinancing also extends the period of indebtedness.

The State collected $72.5 million in petroleum inspection fees during fiscal year 2009-10. Because of the refinancing, only $11.2 million of the inspection fees was retained by the program for debt service and other costs. The $61.3 million of excess inspection fees was deposited to the Petroleum Inspection Fund, of which $9.5 million was subsequently used to pay PECFA claims. The remaining $51.8 million was used for a variety of purposes, including transfers authorized by the Legislature in 2009 Wisconsin Act 28 of $16.3 million to the Transportation Fund and $12.5 million to the General Fund. In addition, at least $8.0 million was transferred to the General Fund to help the Department of Commerce meet lapse requirements related to 2007 Wisconsin Act 20 and 2009 Wisconsin Acts 2 and 28.

We appreciate the courtesy and cooperation extended to us during our 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, 2010 and 2009. 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 audit 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 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, 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 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, 2010 and 2009, 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 18, 2010, on our consideration of the program's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and 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 audit.

LEGISLATIVE AUDIT BUREAU

November 18, 2010 by Bryan Naab

Bryan Naab
Deputy State Auditor for Financial Audit

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) 2009-10 and 2008-09. 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 reported when received and disbursements are reported 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 refunding obligations and, subject to legislative authorization, additional revenue 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 Mellon Trust Company N.A. 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 were $27.0 million as of June 30, 2008, $27.2 million as of June 30, 2009, and $4.5 million as of June 30, 2010. Program assets are classified as reserved for debt service or unreserved.

Table A

Program Assets

	June 30, 2010	June 30, 2009	Percentage Change, 2009 to 2010	June 30, 2008	Percentage Change, 2008 to 2009
Program Assets Reserved for Debt Service:					
Demand deposits	$4,519,896	$27,244,422	(83.4)%	$ 24,850,272	9.6%
Investments	0	0	0.0	2,160,759	(100.0)
Total	4,519,896	27,244,422	(83.4)	27,011,031	0.9
Unreserved Program Assets:					
Demand deposits	5,474	2,642	107.2	3,017	(12.4)
Total Program Assets	**$4,525,370**	**$27,247,064**	(83.4)	**$27,014,048**	0.9

Program assets reserved for debt service are available to pay principal and interest for revenue obligations. Reserved funds may be invested in direct obligations of the United States or held in demand deposit accounts. From June 30, 2009, to June 30, 2010, total reserved funds showed a net decrease of 83.4 percent. From June 30, 2008, to June 30, 2009, total reserved funds showed a net increase of 0.9 percent. The balances shown as of June 30 are used to pay the debt service payments scheduled for July 1. As discussed in more detail later, in October 2009 the State issued revenue refunding bonds. A portion of the proceeds of the October 2009 issue was used in November 2009 to redeem the program's other outstanding bond issues early. The balance of the program assets reserved for debt service as of June 30, 2010, was significantly lower than the balance as of June 30, 2009, because the debt service payment made on July 1, 2010, for the newly issued revenue refunding bonds was for interest only and, therefore, was lower than the debt service payment made on July 1, 2009.

The program's revenue obligations are issued pursuant to subchapter II of ch. 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 not general obligations of the State of Wisconsin. They are payable from, and primarily secured by, petroleum inspection fees charged to suppliers of petroleum products received for sale in Wisconsin and subsequently transferred to and received by the trustee. The fee amount imposed under s. 168.12(1), Wis. Stats., is currently $0.02 per gallon.

Wisconsin Statutes authorize the program to issue revenue obligations not to exceed $386,924,000 in principal amount, excluding any obligations that have been defeased under a cash optimization program administered by the Building Commission. At this time, all statutorily authorized revenue obligations have been issued in the form of revenue bonds and extendible municipal commercial paper. In addition to this limit on principal amount, the Building Commission may issue an unlimited amount of additional revenue obligations to fund or refund outstanding revenue obligations, pay issuance and administrative costs, make any necessary deposits to reserve funds, or pay accrued or capitalized interest.

A portion of the revenue bonds issued has already been repaid. As of June 30, 2009, revenue obligations outstanding totaled $231.0 million and consisted of $88.7 million in revenue bonds and $142.3 million in extendible municipal commercial paper.

On July 1, 2009, the program made its scheduled debt service payment, which included a revenue bond principal payment of $22.3 million. On October 20, 2009, the State issued 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds in the amount of $117.5 million. On November 9, 2009, some of the proceeds from this issue, which included an original issue premium of $14.3 million, were used, along with other funds on deposit with the program trustee, to redeem early the remaining $19.0 million of outstanding 2004 Series A Petroleum Inspection Fee Revenue Bonds and the remaining $47.4 million of outstanding 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. These bonds were redeemed at 102 percent of their face value, resulting in a total redemption premium of $1,327,800. Accrued interest on the early redemptions totaled $1,089,280. A portion of the proceeds of the 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds was also used to fund $71,150,000 of the $142,300,000 in outstanding extendible municipal commercial paper between October 20, 2009, and December 11, 2009.

As of June 30, 2010, revenue obligations outstanding totaled $188.7 million and consisted of $117.5 million in revenue bonds and $71.2 million in extendible municipal commercial paper.

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, excluding amounts related to bond refundings, was 2.90 in FY 2009-10 and 2.60 in FY 2008-09. The FY 2009-10 debt service coverage ratio was calculated based on $72,540,493 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of $24,982,406. In FY 2008-09, the calculated ratio was based on $73,358,641 in petroleum inspection fees remitted by the State to the trustee, and senior debt service payments of $28,178,211.

Petroleum inspection fees not retained by the trustee for debt service are transferred by the trustee to the State. Petroleum inspection fee revenue, up to the amount authorized by statute, is used to pay PECFA claims, PECFA administrative costs, and other costs and transfers, including optional transfers to the trustee for early redemption of revenue obligations. Petroleum inspection fees transferred to the State were $61.3 million in FY 2009-10, $45.0 million in FY 2008-09, and $47.0 million in FY 2007-08, as shown in Table B. As discussed previously, in October 2009 the State issued revenue refunding bonds for early redemption of the program's other outstanding bond issues. The debt service payment made on July 1, 2010, for the newly issued revenue refunding bonds was for interest only. As a result, fewer petroleum inspection fees needed to be retained by the trustee during FY 2009-10 for debt service costs and, therefore, more funds were transferred to the State.

Table B

Petroleum Inspection Fees

	FY 2009-10	FY 2008-09	Percentage Change, FY 2008-09 to FY 2009-10	FY 2007-08	Percentage Change, FY 2007-08 to FY 2008-09
Petroleum Inspection Fees Remitted by the State to the Trustee	$72,540,493	$73,358,641	(1.1)%	$76,557,606	(4.2)%
Petroleum Inspection Fees Retained by the Trustee	11,196,056	28,341,339	(60.5)	29,561,333	(4.1)
Petroleum Inspection Fees Transferred by the Trustee to the State	**$61,344,437**	**$45,017,302**	36.3	**$46,996,273**	(4.2)

During FY 2009-10, claims totaling $9.5 million were paid from petroleum inspection fees transferred to the State. This amount represents a decrease of 8.7 percent from the $10.4 million in claims paid from fees in FY 2008-09. During FY 2008-09, claims paid from fees decreased 38.1 percent from the $16.8 million paid in FY 2007-08. Both decreases resulted from the identification of fewer new sites needing cleanup and from decreases in the average dollar value of claims. No claims were paid from the proceeds of revenue obligations and any related interest and investment income during FYs 2009-10, 2008-09, and 2007-08.

As of June 30, 2010, approved but unpaid claims totaled $0.1 million, which is $0.7 million less than approved but unpaid claims as of June 30, 2009. In addition, as of June 30, 2010, approximately $1.2 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that approximately $8.3 million in additional claims had not been submitted as of June 30, 2010, for costs that landowners had already incurred as of that date. In addition, the Department of Commerce estimates that an additional $37,000 in liabilities may exist related to claimants appealing its determinations on previously finalized claims.

■ ■ ■ ■

Financial Statement ■

Statement of Changes in Program Assets for the Fiscal Years Ended June 30, 2010 and 2009

	Fiscal Year 2009-10		Fiscal Year 2008-09	
Program Assets, July 1		$ 27,247,064		$ 27,014,048
RECEIPTS				
Net Proceeds from Sale of Revenue Refunding Obligations (see Note 6)		131,238,006		0
Petroleum Inspection Fees Remitted by the State of Wisconsin to the Trustee	$ 72,540,493		$ 73,358,641	
Less: Petroleum Inspection Fees Transferred from the Trustee to the State of Wisconsin Petroleum Inspection Fund (see Note 8)	(61,344,437)		(45,017,302)	
Petroleum Inspection Fees Retained by the Trustee		11,196,056		28,341,339
Interest and Investment Income		8,654		179,148
Total Receipts		**142,442,716**		**28,520,487**
TOTAL PROGRAM ASSETS AVAILABLE		**169,689,780**		**55,534,535**
DISBURSEMENTS				
Transfers of Proceeds from Sale of Revenue Obligations and Interest and Investment Income to the State of Wisconsin Petroleum Inspection Fund		0		0
Debt Service (see Notes 5 and 9):				
Senior debt service—bond principal	88,740,000		21,280,000	
Senior debt service—bond interest	3,179,830		4,685,825	
Senior debt service—commercial paper interest	541,856		2,212,386	
Junior subordinate debt service—commercial paper principal	71,150,000		0	
Total Debt Service		163,611,686		28,178,211
Debt Issuance Costs		137,673		0
Other Costs		1,415,051		109,260
Total Disbursements		**165,164,410**		**28,287,471**
Program Assets Reserved for Debt Service (see Note 4)	4,519,896		27,244,422	
Unreserved Program Assets (see Note 4)	5,474		2,642	
PROGRAM ASSETS, JUNE 30		**$ 4,525,370**		**$ 27,247,064**

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, 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.

Pursuant to the program resolution, 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. As of June 30, 2010, all statutorily authorized revenue obligations have been issued. In addition, the Building Commission may from time to time adopt supplemental resolutions authorizing the issuance of an unlimited amount of 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 Mellon Trust Company N.A. 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 Mellon Trust Company N.A. is also the registrar for the revenue obligations.

The Bank of New York Mellon Trust Company N.A. is the issuing and paying agent for the revenue bonds. U.S. Bank Trust N.A. is the issuing and paying agent for the extendible municipal commercial paper.

When issued, 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 specific amounts be remitted to the State to pay PECFA claims. Petroleum inspection fee revenue obligations are payable from, and primarily secured by, petroleum inspection fees that result from a $0.02 per gallon fee authorized in s. 168.12(1), Wis. Stats., and imposed on suppliers of petroleum products received for sale in Wisconsin. 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 Petroleum Inspection Fee Revenue Obligations Program are initially restricted for the purposes provided by the program resolution under which the revenue obligations are issued. The fees in excess of the amounts needed to meet debt service requirements and pay program administrative costs are transferred by the trustee to the State of Wisconsin Petroleum Inspection Fund. Subject to appropriation, the Department of Commerce uses the transferred fees to pay PECFA claims, PECFA program administrative costs, and other costs and transfers. In addition, an appropriation exists for the optional transfer of excess petroleum inspection fees to the trustee for early redemption of revenue obligations.

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 reported when received and disbursements are reported when paid. The program's assets may include cash, consisting of demand deposits held by the Bank of New York Mellon Trust Company N.A. and U.S. Bank Trust N.A., 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

The program is authorized by Wisconsin Statutes and the program resolution to deposit funds with the trustee and the extendible municipal 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.

Custodial credit risk for deposits is the risk that in the event of the failure of a financial institution, the deposits may not be returned. As of June 30, 2010, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled $4,525,370. As of June 30, 2009, the demand deposit accounts with the trustee and the extendible municipal commercial paper issuing and paying agent totaled $27,247,064. As of June 30, 2010, $376,943 was insured against loss by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of $4,148,427 as of June 30, 2010, was not insured or collateralized. As of June 30, 2009, $500,000 was insured against loss by the FDIC. The remaining balance of $26,747,064 as of June 30, 2009, was not insured or collateralized. The program does not have a specific deposit policy related to custodial credit risk.

Custodial credit risk for investments is the risk that in the event of failure of a counterparty to a transaction, the program will not be able to recover the value of the investments that are in the possession of another party. As of June 30, 2010, and June 30, 2009, the program did not hold any investments and, therefore, it was not exposed to custodial credit risk for investments at the end of either fiscal year.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Under the program resolution, the program is generally permitted to make investments with maturities of one year or less. As of June 30, 2010, and June 30, 2009, the program did not hold any investments and, therefore, it was not subject to interest rate risk at the end of either fiscal year.

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. In addition, the program's unreserved assets are available to pay debt issuance costs or administrative costs of the program.

As of June 30, 2010, the program's assets totaled $4,525,370. Of this amount, $4,519,896, consisting of demand deposits, was reserved for debt service. The remaining $5,474, consisting of demand deposits, was unreserved.

As of June 30, 2009, the program's assets totaled $27,247,064. Of this amount, $27,244,422, consisting of demand deposits, was reserved for debt service. The remaining $2,642, 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 ch. 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 8). The revenue obligations are not general obligations of the State.

The program's revenue obligations may include extendible municipal commercial paper, which may have maturities from 1 to 180 days, is not callable prior to maturity, and bears interest from date of issuance at the rate determined on the date of issuance. The principal of and interest on the extendible municipal commercial paper will be paid at the original maturity date unless the State exercises its option to extend the maturity date. In such an event, the maturity date is extended to a date that is up to 270 days after the original issue date. Interest is then due on the first business day of either the first or second month after the original maturity date and then on a monthly basis and on any redemption date or the extended maturity date. In addition, principal and interest on the extendible municipal commercial paper may be payable from issuance of additional revenue obligations in the form of bonds that have been authorized to refund the commercial paper or any other funds made available by the State for this purpose.

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.

During the fiscal years ended June 30, 2009, and June 30, 2010, the following changes occurred in revenue bonds outstanding:

Change in Revenue Bonds Outstanding

Fiscal Year	Balance July 1	Bonds Issued	Principal Redeemed	Balance June 30
2008-09	$110,020,000	$ 0	$21,280,000	$ 88,740,000
2009-10	88,740,000	117,460,000	88,740,000	117,460,000

In addition to the $22.3 million in scheduled payments during FY 2009-10, on November 9, 2009, the State called the remaining $19.0 million of the 2004 Series A Petroleum Inspection Fee Revenue Bonds and the remaining $47.4 million of the 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds for early redemption. These bonds had maturity dates on or after July 1, 2010, and were called at 102 percent of face value, resulting in a premium payment of $1,327,800. The premium payment is reported in other costs on the financial statement. The bond calls were funded, in part, from a portion of the proceeds of the $117.5 million of 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds issued by the program in October 2009 (see Note 6).

The senior revenue bonds issued by the program and outstanding as of June 30, 2010, were as follows:

Senior Revenue Bonds

Date Issued	Series	Interest Rates	Maturity Through	First Optional Redemption Date	Amount Issued	June 30, 2010 Amount Outstanding
10/20/2009	2009 Series 1	2.5 to 5.0%	7/1/2017	Not Callable	$117,460,000	$117,460,000
			Total Senior Revenue Bonds		$117,460,000	$117,460,000

The 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are not subject to redemption prior to maturity.

The program's future debt service requirements as of June 30, 2010, for principal and interest for the 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds are as shown on the following table.

Future Debt Service on Revenue Bonds

Fiscal Year Ending June 30	Principal Amount	Interest Amount	Total Debt Service on Bonds
2011	$ 0	$ 6,700,374	$ 6,700,374
2012	0	5,596,600	5,596,600
2013	0	5,596,600	5,596,600
2014	24,165,000	5,006,663	29,171,663
2015	25,345,000	3,817,200	29,162,200
2016	26,540,000	2,588,488	29,128,488
2017	27,800,000	1,269,700	29,069,700
2018	13,610,000	290,050	13,900,050
	$117,460,000	$30,865,675	$148,325,675

The following table presents the extendible municipal commercial paper activity for FYs 2008-09 and 2009-10.

Change in Extendible Municipal Commercial Paper Outstanding

Fiscal Year	Balance July 1	Commercial Paper Issued	Principal Repaid	Balance June 30
2008-09	$142,300,000	$0	$ 0	$142,300,000
2009-10	142,300,000	0	71,150,000	71,150,000

As noted previously, in October 2009, the State issued $117.5 million of 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. A portion of this issue was used to fund $71.2 million of the extendible municipal commercial paper.

As of June 30, 2010, the $71,150,000 in outstanding extendible municipal commercial paper had interest rates ranging from 0.38 percent to 0.44 percent, and maturities ranging from July 8 to September 10, 2010. As of June 30, 2009, the $142,300,000 in outstanding extendible municipal commercial paper had interest rates ranging from 0.45 percent to 0.70 percent, and maturities ranging from July 7 to September 1, 2009.

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, additional legislative authorization is provided and 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 take-out capacity" and "variable-rate debt exposure." The "variable-rate take-out 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 2009-10 and FY 2008-09. 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 take-out capacity, the State needed to take no further action. For June 2010, the program's variable-rate take-out capacity was calculated to be $266,513,437, which was $195,363,437 higher than the variable-rate debt exposure of $71,150,000. For June 2009, the program's variable-rate take-out capacity was calculated to be $263,188,549, which was $120,888,549 higher than the variable-rate debt exposure of $142,300,000.

On April 5, 2010, Fitch Ratings changed its rating on the State's petroleum inspection fee revenue bonds from "AA–" to "AA," reflecting a recalibration by Fitch Ratings of certain U.S. public finance credit ratings. On April 16, 2010, Moody's Investors Service changed its rating on the State's petroleum inspection fee revenue bonds from "Aa3" to "Aa2," reflecting a recalibration by Moody's Investors Service of its long-term U.S. municipal ratings to its global rating scale. According to Fitch Ratings, the recalibration should not be interpreted as an improvement in the credit quality of the State's petroleum inspection fee revenue bonds or other securities; rather, the intent of the recalibration is to ensure a greater degree of comparability across Fitch Ratings' global portfolio of credit ratings. According to Moody's Investors Service, the recalibration does not reflect an improvement in credit quality or a change in credit opinion; instead, the recalibration will align municipal ratings with its global-scale equivalent.

6. CURRENT REFUNDING

On October 20, 2009, the program issued $117,460,000 of 2009 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. The net proceeds totaled $131,238,006, including an original issue premium of $14,320,139, less the underwriters' discount of $542,133. A portion of the bond proceeds was used on various dates in October through December 2009, to fund $71,150,000 of previously issued extendible municipal commercial paper. The remaining portion of the bond proceeds, along with other cash already on deposit with the trustee, was used on November 9, 2009, to redeem the remaining $18,960,000 of the program's 2004 Series A Petroleum Inspection Fee Revenue Bonds and the remaining $47,430,000 of the program's 2004 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds at a redemption price of 102 percent plus accrued interest to the date of redemption. As a result of this current refunding, the program effectively increased its aggregate debt service payments by $1.9 million over the life of the refunding bonds and obtained an economic gain of $1.1 million. This analysis does not address or include the bond proceeds used to fund previously issued extendible municipal commercial paper.

7. DEBT AUTHORITY FOR THE PROGRAM

The program's revenue obligations are issued pursuant to subchapter II of ch. 18, Wis. Stats.; s. 101.143(9m), Wis. Stats., and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. Wisconsin Statutes, as amended by 2007 Wisconsin Act 20, authorize the program to issue revenue obligations not to exceed $386,924,000 in principal amount, excluding any obligations that have been defeased under a cash optimization program administered by the Building Commission. To date, the balance of statutorily authorized revenue obligations has been issued. In addition to this limit on principal amount, the Building Commission may issue an unlimited amount of additional revenue obligations to fund or refund outstanding revenue obligations, to pay issuance and administrative costs, to make any necessary deposits to reserve funds, or to pay accrued or capitalized interest.

8. 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 $0.02 per gallon fee is imposed by the State on suppliers of petroleum products received for sale in Wisconsin. The per gallon fees are paid to the State of Wisconsin Department of Revenue by suppliers, along with motor fuel taxes, and are initially deposited into the Transportation Fund. 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. The trustee transfers 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 optional transfers to the trustee to redeem revenue bonds.

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 2009-10, these other petroleum inspection fees totaled $1,861 and were made available to the trustee. In FY 2008-09, the other petroleum inspection fees totaled $23,578 and were made available to the trustee. These fees were not transferred to the trustee in either fiscal year because the trustee indicated that no deficiencies that would require the transfer of the fees existed in any of the program's accounts held by the trustee as of June 30, 2010, or June 30, 2009.

During FY 2009-10 and FY 2008-09, 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 2009	$ 6,166,941	$ 2,299,898	$ 3,867,043
August	7,457,544	2,211,133	5,246,411
September	5,234,794	2,212,351	3,022,443
October	6,267,373	518,100	5,749,273
November	6,246,988	495,259	5,751,729
December	6,166,412	487,759	5,678,653
January 2010	5,856,413	517,759	5,338,654
February	6,467,951	487,760	5,980,191
March	5,506,261	487,759	5,018,502
April	5,558,926	492,759	5,066,167
May	6,506,301	492,759	6,013,542
June	5,104,589	492,760	4,611,829
Total FY 2009-10	$72,540,493	$11,196,056	$61,344,437

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 2008	$ 6,004,354	$ 2,108,107	$ 3,896,247
August	6,427,036	2,396,925	4,030,111
September	7,062,815	2,396,925	4,665,890
October	6,100,228	2,396,925	3,703,303
November	5,793,558	2,513,925	3,279,633
December	7,292,276	2,483,925	4,808,351
January 2009	4,902,036	2,338,894	2,563,142
February	5,855,030	2,378,925	3,476,105
March	6,073,123	2,378,925	3,694,198
April	5,359,027	2,396,685	2,962,342
May	6,687,917	2,276,045	4,411,872
June	5,801,241	2,275,133	3,526,108
Total FY 2008-09	$73,358,641	$28,341,339	$45,017,302

9. 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 2009-10 and FY 2008-09 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, excluding amounts related to bond refundings.

Debt Service Coverage Ratio for Senior Debt

	Fiscal Year 2009-10		Fiscal Year 2008-09	
Fees Remitted to the Trustee		$72,540,493		$73,358,641
Senior Debt Service:				
Principal—bonds	$22,350,000		$21,280,000	
Interest—bonds	2,090,550		4,685,825	
Interest—commercial paper	541,856		2,212,386	
Total Senior Debt Service		$24,982,406		$28,178,211
Debt Service Coverage Ratio for Senior Debt		2.90		2.60

10. 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 them. While the original backlog has been eliminated, PECFA claims continue to be submitted to the Department of Commerce.

The following table summarizes the activity related to PECFA claims during FY 2009-10 and FY 2008-09.

Summary of PECFA Claims
July 1, 2008, through June 30, 2010
(in millions)

	FY 2009-10	FY 2008-09
Approved but Unpaid PECFA Claims as of July 1	$0.8	$ 0.9
Claims Approved for Payment During the Fiscal Year	8.8	10.3
Total Approved PECFA Claims	9.6	11.2
Less Claims Paid:		
Paid from proceeds of revenue obligations and interest and investment income	0.0	0.0
Paid from petroleum inspection fees	9.5	10.4
Total Claims Paid During the Fiscal Year	9.5	10.4
Approved but Unpaid PECFA Claims as of June 30	$0.1	$ 0.8

In addition to the $0.1 million in approved claims awaiting payment as of June 30, 2010, approximately $1.2 million in claims submitted to the Department of Commerce had yet to be both reviewed and approved. The Department of Commerce estimates that additional claims for costs that landowners had incurred but had not submitted as of June 30, 2010, amount to approximately $8.3 million. It also estimates that an additional $37,000 in liabilities may exist related to claimants appealing its determinations on previously finalized claims.

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Report on Internal Control and Compliance ▪

Independent Auditor's 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

We have audited the cash-basis Statement of Changes in Program Assets of the Wisconsin Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2010, and June 30, 2009, and have issued our report thereon dated November 18, 2010. 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 (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the program's internal control. Accordingly, we do not express an opinion on the effectiveness of the program's internal control.

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 to 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 program's financial statement will not be prevented or will not be detected and corrected on a timely basis.

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

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 the program's 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 solely for the information and use of the program's management and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the program's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 18, 2010

by Bryan Naab

Bryan Naab
Deputy State Auditor for Financial Audit