



STATE OF WISCONSIN CONTINUING DISCLOSURE ANNUAL REPORT

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH
SECURITIES EXCHANGE COMMISSION RULE 15C2-12

GENERAL OBLIGATIONS

(Base CUSIPs 977053, 977055, 977056, and 97705L)

MASTER LEASE CERTIFICATES OF PARTICIPATION

(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS

(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS

(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS

(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS

(Base CUSIP 977100)

DECEMBER 22, 2006



WISCONSIN DEPARTMENT OF
ADMINISTRATION

JIM DOYLE
GOVERNOR

STEPHEN E. BABLITCH
SECRETARY

Division of Executive Budget and Finance
Capital Finance Office
Post Office Box 7864
Madison, WI 53707-7864

TTY (608) 261-6630
www.doa.state.wi.us/capitalfinance

FRANK R. HOADLEY
CAPITAL FINANCE DIRECTOR
Telephone: (608) 266-2305
Facsimile: (608) 266-7645
frank.hoadley@doa.state.wi.us

December 22, 2006

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2006 (**Annual Report**).

The Annual Report provides information on different securities that the State issues and fulfills the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the Annual Report with each nationally recognized municipal securities information repository using the central post office provided by the Texas Municipal Advisory Council.

Official Statements for securities that the State issues during the next year may incorporate parts of this Annual Report by reference.

Organization of the Annual Report

The Annual Report is divided into eight parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.
- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited basic financial statements for the fiscal year ending June 30, 2006 and the State Auditor's report. This part also includes the results of the 2005-06 fiscal year and budget for the 2006-07 fiscal year.

The remaining parts present information about different types of securities that the State issues.

- **Part III** – General obligations (including bonds, commercial paper, and extendible municipal commercial paper)
- **Part IV** – Master lease certificates of participation
- **Part V** – Transportation revenue obligations (including bonds and commercial paper)
- **Part VI** – Clean water revenue bonds
- **Part VII** – Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)
- **Part VIII** – General fund annual appropriation bonds (including bonds and auction rate certificates)

Please note that certain terms may have different meanings in different parts.

Ratings on the State's Securities

The following chart presents a summary of the long-term ratings currently assigned to different types of securities that the State issues.

Security	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	AA-	Aa3	AA-
Master Lease Certificates of Participation	A+	A1	A+
Transportation Revenue Bonds	AA	Aa3	AA+(¹)
Clean Water Revenue Bonds	AA+	Aa1(²)	AA+
Petroleum Inspection Fee Revenue Bonds	AA-	Aa3	AA(³)
General Fund Annual Appropriation Bonds	A+	A1	A+

(¹) On September 26, 2006, Standard & Poor's Ratings Services upgraded the rating on the State's transportation revenue bonds from "AA-" to "AA+"

(²) On October 11, 2006, Moody's Investors Service, Inc. upgraded the rating on the State's clean water revenue bonds from "Aa2" to "Aa1".

(³) On October 5, 2006, Standard & Poor's Ratings Services upgraded the rating on the State's petroleum inspection fee revenue bonds from "AA-" to "AA"

How to Get Additional Information

If you are interested in information about securities that the State issues, please contact the Capital Finance Office. The Capital Finance Office is the only party authorized to speak on the State's behalf about the State's securities.

December 22, 2006

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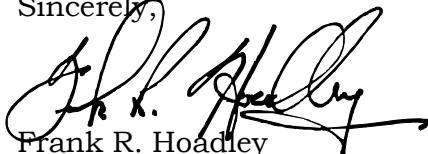
The Capital Finance Office maintains a web site that provides access to both disclosure and non disclosure information.

www.doa.wi.gov/capitalfinance

The Capital Finance Office posts to this web site monthly general fund cash flow reports. The Capital Finance Office also posts to this web site all information and material event filings that it makes with each nationally recognized municipal securities information repository.

We welcome your comments or suggestions about the format and content of the Annual Report. The general telephone number of the Capital Finance Office is (608) 266-2305. The e-mail address is DOACapitalFinanceOffice@wisconsin.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "F. R. Hoadley". The signature is stylized and written over the printed name.

Frank R. Hoadley
Capital Finance Director

**SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS
AS OF DECEMBER 1, 2006**

	<u>Principal Balance 12/15/2005</u>	<u>Principal Issued 12/15/2005 - 12/1/06</u>	<u>Principal Matured, Redeemed, or Defeased 12/15/2005 - 12/1/06</u>	<u>Principal Balance 12/1/2006</u>
	<u>GENERAL OBLIGATIONS^(a)</u>			
Total	\$5,092,347,689	\$1,176,515,915	\$571,554,915	\$5,697,308,689
General Purpose Revenue (GPR)	3,856,325,018	660,761,902	436,568,078	4,080,518,842
Self-Amortizing: Veterans	333,815,000	132,890,000	86,485,000	380,220,000
Self-Amortizing: Other	902,207,671	382,864,013	48,501,837	1,236,569,846
	<u>MASTER LEASE CERTIFICATES OF PARTICIPATION</u>			
Total	\$ 75,184,609	\$98,957,047	\$89,924,883	\$84,216,773
	<u>TRANSPORTATION REVENUE OBLIGATIONS^(a)</u>			
Total	\$1,524,168,000	\$91,290,000	\$78,065,000	\$1,537,393,000
	<u>CLEAN WATER REVENUE BONDS</u>			
Total	\$ 641,435,000	\$180,000,000	\$44,775,000	\$776,660,000
	<u>PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS^(a)</u>			
Total	\$ 300,250,000	—	\$27,660,000	\$272,590,000
	<u>TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS^(a)</u>			
Total	\$1,794,850,000	—	—	\$1,794,850,000

(a) This table includes variable rate obligations that have been issued by the State. Please see the respective part of this Annual Report for more information on the variable rate obligations issued for each credit.

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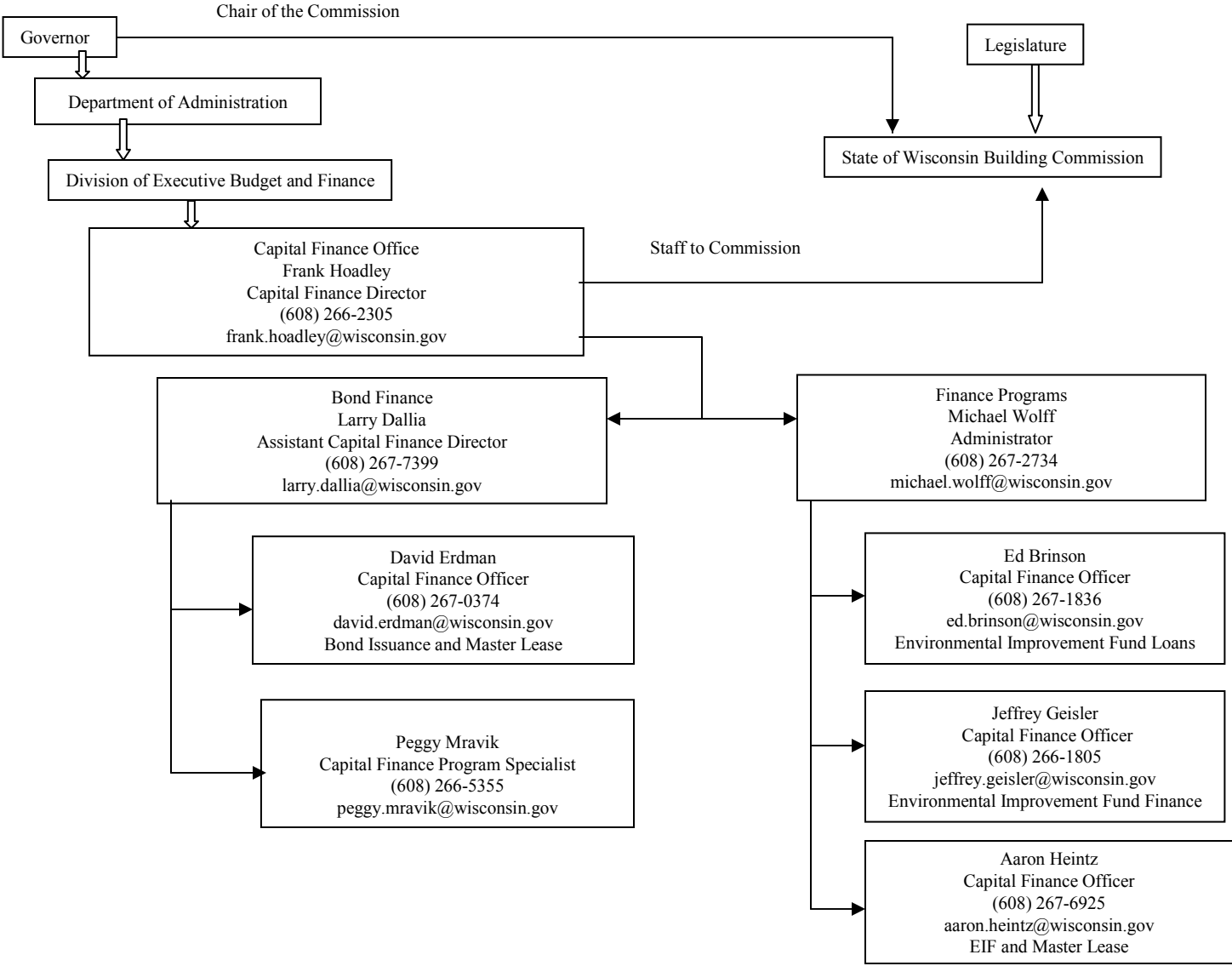
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Capital Finance Office Staff (December 22, 2006)



STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF THE BONDS AND NOTES

BUILDING COMMISSION MEMBERS

(AS OF DECEMBER 22, 2006)

Voting Members

	Term of Office Expires
Governor Jim Doyle, Chairperson	December 31, 2006
Senator Fred A. Risser, Vice-Chairperson	January 5, 2009
Senator Carol Roessler	January 5, 2009
Senator David Zien	January 2, 2007
Representative Jeff Fitzgerald	January 2, 2007
Representative Jennifer Shilling	January 2, 2007
Representative Debi Towns	January 2, 2007
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor

Nonvoting, Advisory Members

Mr. Adel Tabrizi, State Chief Engineer Department of Administration	—
Mr. Dave Haley, State Chief Architect Department of Administration	—

Building Commission Secretary

Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration
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OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	December 31, 2006
Mr. J.B. Van Hollen State Attorney General-Elect	
Mr. Stephen E. Bablitch, Secretary Department of Administration	Resigning Effective December 31, 2006
Mr. Michael L. Morgan, Secretary-Designee Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
P.O. Box 7864
101 E. Wilson Street, 10th Floor
Madison, WI 53707-7864
Telefax (608) 266-7645

DOACapitalFinanceOffice@wisconsin.gov

Mr. Frank R. Hoadley
Capital Finance Director
(608) 266-2305
frank.hoadley@wisconsin.gov

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
larry.dallia@wisconsin.gov

Mr. Michael D. Wolff
Finance Programs Administrator
(608) 267-2734
michael.wolff@wisconsin.gov

Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
david.erdman@wisconsin.gov

PART VII

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS

This part provides information about petroleum inspection fee revenue obligations issued by the State of Wisconsin (**State**).

Total Outstanding Balance (12/1/2006)	\$272,590,000
Amount Outstanding—Fixed Rate Obligations	\$130,290,000
Amount Outstanding—Variable Rate Obligations	\$142,300,000
Percentage of Outstanding Obligations in form of Variable Rate Obligations	52.20%
Bond Ratings (Fitch/Moody's/Standard & Poor's) ^(a)	AA-/Aa3/AA ^(b)
Extendible Municipal Commercial Paper Ratings	F1+/P-1/A-1+
^(a) While some petroleum inspection fee revenue bonds have been insured, the ratings presented are the underlying, or unenhanced, ratings assigned to this credit.	
^(b) On October 5, 2006, Standard & Poor's Ratings Services upgraded the rating on the State's petroleum inspection fee revenue bonds from "AA-" to "AA".	

APPENDIX A to this part of the Annual Report includes the auditor's report and the audited financial statement for the Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2006 and June 30, 2005. The State of Wisconsin Building Commission (**Commission**) has supervision over all matters relating to the issuance by the State of revenue obligations. The Capital Finance Office, which is part of the Department of Administration's Division of Executive Budget and Finance, is responsible for managing the State's borrowing programs.

Petroleum inspection fee revenue obligations are issued pursuant to the Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, adopted by the Commission on January 19, 2000, as amended and restated on May 2, 2000, and further amended on July 30, 2003 (**Program Resolution**). The State has issued petroleum inspection fee revenue obligations in the form of bonds and extendible municipal commercial paper. The Bank of New York serves as Trustee for the petroleum inspection fee revenue obligation program (**Trustee**). The Trustee also serves as registrar and paying agent for the bonds, and U.S. Bank Trust National Association serves as issuing and paying agent for the extendible municipal commercial paper. The law firm of Foley & Lardner LLP provides bond counsel services to the State for the issuance of petroleum inspection fee revenue obligations.

Requests for additional information about petroleum inspection fee revenue obligations may be directed as follows:

Contact: Capital Finance Office
Attn: Capital Finance Director
Phone: (608) 266-2305
Mail: 101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
E-mail: DOACapitalFinanceOffice@wisconsin.gov
Web site: www.doa.wi.gov/capitalfinance

This Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of terms used in this Part VII of the Annual Report may differ from that of terms used in another part. See “DEFINITIONS OF CERTAIN TERMS” for the definition of capitalized terms used in this Part VII of the Annual Report. Any information or resource referred to in this Annual Report is not part of this Annual Report unless expressly included by reference.

OUTSTANDING OBLIGATIONS

The State has issued the petroleum inspection fee revenue obligations shown in Table VII-1. The table also includes the outstanding principal balances as of December 1, 2006.

Table VII-1
OUTSTANDING PETROLEUM INSPECTION FEE REVENUE
OBLIGATIONS BY ISSUE
(As of December 1, 2006)

<u>Financing</u>	<u>Date of Financing</u>	<u>Maturity</u>	<u>Amount of Issuance</u>	<u>Amount Outstanding</u>
<i>Fixed Rate Obligations</i>				
2000, Series A	3/2/00			
Serial Bonds		2000	\$ 1,750,000	-0-
Serial Bonds		2002-12	168,500,000	-0-
2001, Series A	12/18/01	2007-08	30,000,000	-0-
2004, Series A (2004 Series A Bonds)	2/4/04	2005-12	45,000,000	\$ 35,340,000
2004, Series 1 (2004 Series 1 Bonds)	5/20/204	2006-12	<u>95,470,000</u>	<u>94,950,000</u>
<i>Total Fixed Rate Obligations</i>			\$ 340,720,000	\$ 130,290,000
<i>Variable Rate Obligations</i>				
2000, Extend. Municipal Commercial Paper ...	5/9/00		\$ 80,000,000	\$ 80,000,000
2002, Extend. Municipal Commercial Paper ...	8/1/02		<u>62,300,000</u>	<u>62,300,000</u>
<i>Total Variable Rate Obligations</i>			\$ 142,300,000	\$ 142,300,000
<i>Total Petroleum Inspection Fee Revenue Obligations</i>			<u>\$ 483,020,000</u>	<u>\$ 272,590,000</u>

Senior Bonds, as defined in the Program Resolution, include the 2004 Series A Bonds, 2004 Series 1 Bonds, interest payments on all series of Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper (**EMCP** or **Notes**), and any additional parity Bonds that may be issued as such under the Program Resolution. **Junior Subordinate Bonds**, as defined in the Program Resolution, include the principal payments on all series of EMCP and any additional parity Bonds that may be issued as such under the Program Resolution. See “FINANCING THE PECFA PROGRAM”. The term **Bonds** refers to all revenue obligations, without regard to seniority, that are issued under the Program Resolution and are payable in whole or in part from the Petroleum Inspection Fees. See “SECURITY”.

FINANCING THE PECFA PROGRAM

Proceeds of the Bonds are used to fund approved remediation payments under the Petroleum Environmental Cleanup Fund Award (**PECFA**) Program, which is a petroleum storage remediation program. In existence since 1987, the PECFA Program reimburses owners of petroleum storage tanks for 75% to 99% of remediation cost related to soil and groundwater contamination. The State of Wisconsin Department of Commerce (**Department of Commerce**) is responsible for the review and approval of remediation payments.

Prior to the issuance of the Bonds, remediation payments approved under the PECFA Program were paid with Petroleum Inspection Fees, as they were collected; however, the timing of the collections did not permit all remediation payments to be paid at the time they were presented and approved. When the first Bonds were issued in March 2000, the backlog of approved but unpaid claims was about \$200 million. The issuance of the Bonds has allowed the PECFA Program to make payments in a timely matter and has provided economic savings to the State, since the debt service costs on the Bonds have been expected to be less than the interest costs that accrue on the unpaid remediation awards.

As of December 1, 2006, the approved remediation payments to be paid in December, 2006 is approximately \$1.2 million. In addition, approximately \$5.6 million of costs have been submitted and are either in the process of being reviewed or are waiting for review. While \$49 million of legislative bonding authority remains, the current amount of claims being received and approved for payments does not exceed amounts appropriated from the State fund that contains Petroleum Inspection Fees in excess of the amounts required to be held by the Trustee under the provisions of the Program Resolution and any Supplemental Resolution. *In the event the excess amounts are not sufficient to pay all future PECFA claims in a timely manner, the State may issue additional Bonds, provided that certain conditions set forth in the Program Resolution to issue additional bonds are met, and if needed, subject to additional legislative authorization.*

Effective April 1, 2006, the rate of the Petroleum Inspection Fee was reduced from \$0.03 per gallon to \$0.02 per gallon. See “SECURITY” and “PETROLEUM INSPECTION FEES”.

The State makes no representations as to the amount or timing of future remediation payments to be submitted or approved for payment.

SECURITY

Proceeds of the Bonds are applied to purposes that do not generate revenues, and the application of these proceeds *does not* create a source for the payment of the Bonds.

Debt service payments on the Senior Bonds are payable from Petroleum Inspection Fees deposited into the Redemption Fund created for the Senior Bonds. The pledge made for the payment of principal on the EMCP is junior to the pledge made for the Senior Bonds. Principal of the EMCP is payable from proceeds of roll-over EMCP or proceeds of Senior Bonds issued to fund the EMCP, or from Petroleum Inspection Fees deposited into the Junior Subordinate Redemption Fund. At the same time the Commission authorized the EMCP, the Commission also authorized the issuance of Senior Bonds, which may be issued at the State’s discretion, to fund the EMCP. See “PETROLEUM INSPECTION FEES” and “SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION”.

The petroleum inspection fee revenue obligations are revenue obligations of the State. The State is not generally liable for these obligations, and they are not a public debt of the State for any purpose whatsoever.

Reduction in Rate of Petroleum Inspection Fees

At the time the Program Resolution was adopted by the Commission and the first Bonds were issued, the rate of Petroleum Inspection Fee was \$0.03 per gallon; however, effective April 1, 2006, the rate of the Petroleum Inspection Fee was reduced from \$0.03 per gallon to \$0.02 per gallon.

Additional Bonds

Additional Bonds, which may be in various forms, including among others Variable Rate Bonds or Bond Anticipation Notes (such as additional EMCP), may be issued under the Program

Resolution if the additional bonds test is met. When applicable, the additional bonds test requires that the Debt Service Coverage Ratio be not less than 2.0. The **Debt Service Coverage Ratio** is Projected Annual Revenues divided by the Maximum Annual Debt Service.

The additional bonds test must be met prior to the initial issuance of Bond Anticipation Notes (such as EMCP), *but compliance with the additional bonds test is not required with respect to the issuance of Senior Bonds to fund the Bond Anticipation Notes*. In other words, compliance with the additional bonds test would not be required if the State were to issue Senior Bonds to fund the currently outstanding EMCP. Furthermore, if Senior Bonds were issued to fund Bond Anticipation Notes, under certain circumstances, the Projected Annual Revenues at that time might be less than 2.0 times Maximum Annual Debt Service.

Additional Bonds may be designated as Senior Bonds (on a parity with the outstanding Senior Bonds), as Subordinate Bonds, or as Junior Subordinate Bonds (on a parity with the principal payments on the EMCP).

See “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**” and “**DEFINITIONS OF CERTAIN TERMS**” for a complete description of the additional bonds test and a definition of capitalized terms used for the additional bonds test.

Variable Rate Take-Out Capacity Test

Whenever Variable Rate Debt (such as the EMCP) is Outstanding under the Program Resolution, the State will, by the 15th day of each month, provide the Trustee with the results of a Variable Rate Take-Out Capacity Test. Key terms for completing the Variable Rate Take-Out Capacity Test are described in “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**” and “**DEFINITIONS OF CERTAIN TERMS**”.

Using present value calculations, the test estimates the maximum amount of Variable Rate Debt that, if Outstanding, could be refunded by Senior Bonds while maintaining a Debt Service Coverage Ratio of 2.0. This test also compares the Variable Rate Take-Out Capacity with the Variable Rate Debt Exposure. For purposes of this test, any Senior Bonds assumed to refund Variable Rate Debt are assumed to be repaid within 20 years from the date the Variable Rate Take-Out Capacity Test is completed and to bear interest at an annual rate equal to The Bond Buyer Revenue Bond Index plus 3% per annum.

The State is currently required to complete the monthly Variable Rate Takeout Capacity Test. The results of the test for December 15, 2006 shows a Variable Rate Takeout Capacity of \$292,019,707, which is in excess of the Variable Rate Debt Exposure of \$142,300,000.

Meeting the Variable Rate Take-Out Capacity Test is not a condition to issuing any Bonds. If the test shows that the Variable Rate Take-Out Capacity is equal to or exceeds the Variable Rate Debt Exposure, the State is only required to provide the Trustee with the results of the test. However, if the monthly test shows that the Variable Rate Take-Out Capacity is less than the Variable Rate Debt Exposure, then the State is deemed to have failed the Variable Rate Takeout Capacity Test and is required under the Program Resolution to do the following:

- Promptly notify each Rating Agency.
- Submit to the Trustee and each Rating Agency, within 45 days after the test date, a plan to cause the Variable Rate Take-Out Capacity to equal or exceed the Variable Rate Debt Exposure within 90 days following the test date.

If at any subsequent time the State is able to demonstrate that the Variable Rate Take-Out Capacity is equal to or exceeds the Variable Rate Exposure, the above requirements arising from the failure of a previous Variable Rate Takeout Capacity Test no longer apply.

Failure to meet the Variable Rate Take-Out Capacity Test or failure to implement a submitted plan are not Events of Default under the Program Resolution. Accordingly, the Trustee has no enforcement power with respect to such occurrences. Failure to submit the completed test or any required plan to the Trustee does not initially constitute an Event of Default; however, if the failure is not corrected within 30 days of any notice from the Trustee, it then constitutes an Event of Default.

Debt Service on Outstanding Senior Bonds

Table VII-2 provides the annual debt service amounts, as of December 1, 2006, on Outstanding Senior Bonds. Table VII-2 also provides the projected Petroleum Inspection Fees and estimated debt service coverage, which differs from the Debt Service Coverage Ratio provided in the Program Resolution. The estimated debt service coverage in Table VII-2 is determined using current expectations; the Debt Service Coverage Ratio is determined using assumptions about the amortization of Variable Rate Bonds. The projected Petroleum Inspection Fees are based on the average of Petroleum Inspection Fees for the past five years, adjusted to reflect the reduction, effective April 1, 2006, in the rate of the Petroleum Inspection Fee.

Table VII-2
ANNUAL DEBT SERVICE AMOUNTS
OUTSTANDING SENIOR BONDS

Year Ending July 1	Senior Bond Debt Service Amount ^(a)			Projected Petroleum Inspection Fees (Reflects Per Gallon Reduction) ^(c)	Estimated Debt Service Coverage
	Principal	Interest ^(b)	Total Annual Debt Service		
2007	\$ 20,270,000	\$ 13,267,100	\$ 33,537,100	\$ 76,995,823	2.30
2008	21,280,000	12,305,550	33,585,550	76,995,823	2.29
2009	22,350,000	11,296,100	33,646,100	76,995,823	2.29
2010	23,470,000	10,178,600	33,648,600	76,995,823	2.29
2011	24,635,000	9,065,250	33,700,250	76,995,823	2.28
2012	18,285,000	7,896,650	26,181,650	76,995,823	2.94
Totals	\$ 130,290,000	\$ 64,009,250	\$ 194,299,250		

^(a) Does not include any principal payment on Outstanding EMCP.

^(b) Includes interest payments on the \$142,300,000 of Outstanding EMCP. Interest payments on Outstanding EMCP are on parity with the Senior Bonds and calculated at an assumed rate of 5.00% and under the assumption that all EMCP will remain Outstanding until July 1, 2012, which is the last maturity date of Outstanding Senior Bonds having a fixed interest rate. Principal payments on Outstanding EMCP are subordinate to payments made on the Senior Bonds and amortization of the EMCP may occur prior to or after July 1, 2012.

^(c) The projection of Petroleum Inspection Fees is based on the average of Petroleum Inspection Fees for the past five fiscal years, adjusted to reflect the reduction of the Petroleum Inspection Fee from \$0.03 per gallon to \$0.02 per gallon, effective April 1, 2006. The average is based on the amounts actually collected and not on the monthly transfers to the Trustee (which themselves are based on estimates).

Non-Impairment Clause

The State pledges and agrees with the holders of the Bonds that the State will not take any action that would limit or alter the ability of the State to fulfill the terms of its agreements (made in the Program Resolution or with respect to the Bonds) with the holders of Bonds, nor impair the rights and remedies of the holders of the Bonds, while the Bonds are Outstanding.

In the Wisconsin Statutes, the Legislature, recognizing its moral obligation to do so, expresses its expectation and the aspiration that, if the Legislature were to reduce the rate of the Petroleum Inspection Fee and if the Petroleum Inspection Fees were insufficient to pay debt service on the Bonds when due, the Legislature would make an appropriation from the general fund sufficient to pay such debt service. In the opinion of Bond Counsel, this is not a legally enforceable obligation.

PETROLEUM INSPECTION FEES

General

Petroleum Inspection Fees are paid by suppliers on all petroleum products distributed in the State. The current rate of the Petroleum Inspection Fee is \$0.02 per gallon; before April 1, 2006, the rate was \$0.03 per gallon. The petroleum products include:

- Gasoline products, which include gasoline and gasoline-alcohol fuel blends.
- Oil products, which include fuel oil, burner oil, diesel fuel oil, kerosene, and other refined oils.

Non-petroleum products such as natural gas and liquefied propane are not subject to the Petroleum Inspection Fee.

Collection and Deposit

The Petroleum Inspection Fees and other motor fuel taxes paid by suppliers are received by the State of Wisconsin Department of Revenue (**Department of Revenue**) by the 15th of each month, or the next business day if the 15th falls on a weekend or holiday. The payment is for both Petroleum Inspection Fees and motor fuel taxes due from the suppliers for activity during the previous month. At the time the fees are remitted, the Petroleum Inspection Fees are not separated from the other motor fuel taxes. The allocation is not known until the tax returns evidencing the payments are processed, usually within 30 to 35 days after receipt of the fees and taxes.

As an example, by about December 15, suppliers submit the amount of fees and taxes due for petroleum products shipped in the month of November. By the end of December, suppliers submit tax returns delineating the payments previously made. By about the next January 20, the Department of Revenue processes the tax returns.

Due to a period of about 30 to 35 days between receipt of the combined fees and taxes and tabulation of the returns reporting such fees, the Department of Revenue will transfer to the Trustee on the Revenue Payment Date an estimated portion of the current month's collection, adjusted upward or downward to reflect the tabulations from the previous month's returns. Currently, the monthly transfer, before adjustment, is \$8.8 million; however, this amount may be adjusted in the future to reflect the reduction in the rate of the Petroleum Inspection Fee. The amount of this monthly transfer may also be changed from time to time to reflect actual collection experience.

The Legislative Audit Bureau has issued a management letter identifying problems with the financial systems that account for the Petroleum Inspection Fees. The audit report for the Petroleum Inspection Fee Revenue Obligations Program also includes a Report on Control and Compliance that discusses the same matters. While the problems identified in the management letter and the report are not believed to be material to the security of the petroleum inspection fee revenue obligations, adjustments required to address these problems have not been completely determined. This part of the Annual Report includes the amount of Petroleum Inspection Fees

for the 2005-06 fiscal year that is included in the State's Comprehensive Annual Financial Report for the year ended June 30, 2006.

The Department of Revenue has available to it the same enforcement powers relating to the collection of Petroleum Inspection Fees as it has for the collection of motor vehicle fuel taxes, including the ability to revoke suppliers' licenses, impose penalties, assess interest on late payments, and enforce criminal penalties for the failure to report or pay Petroleum Inspection Fees. The Wisconsin Statutes establish the State as a preferred creditor and the fees as preferred claims in any state court action.

History of Petroleum Inspection Fees

Table VII-3 shows the number of gallons of petroleum products that have been inspected and were subject to the Petroleum Inspection Fee for the last ten fiscal years. Table VII-4 shows the number of gallons of gasoline and oil products that have been inspected for the last ten fiscal years.

Table VII-3
TOTAL GALLONS OF PETROLEUM PRODUCTS INSPECTED AND CHARGED
PETROLEUM INSPECTION FEE: 1997 to 2006
(Actual Basis)

<u>Fiscal Year</u>	<u>Total Gallons Inspected</u>	<u>% Increase (Decrease) From Previous Year</u>
1997	3,466,068,221	-
1998	3,563,817,293	2.82
1999	3,673,141,195	3.07
2000	3,728,554,474	1.51
2001	3,741,511,600	0.35
2002	3,677,028,840	(1.72)
2003	3,956,896,084	7.61
2004	4,111,402,392	3.90
2005 ^(a)	3,504,363,225	(14.76)
2006	3,731,539,696	6.48

^(a) Department of Revenue staff indicate that Motor Vehicle Fuel tax filings for June 2005 were low due to a changeover in the method of filing Motor Vehicle Fuel electronic tax returns to the Department of Revenue, and as a result, many of the filings did not get recorded in the Department of Revenue's computer system in a timely manner.

Source: Wisconsin Departments of Commerce and Revenue and Legislative Fiscal Bureau.

Table VII-4
GALLONS INSPECTED PER PETROLEUM PRODUCT AND
CHARGED PETROLEUM INSPECTION FEE
1997 to 2006
(Actual Basis)

<u>Fiscal Year</u>	<u>Total Gallons of Gasoline Products Inspected</u>	<u>% Increase (Decrease) From Previous Year</u>	<u>Total Gallons of Oil Products Inspected</u>	<u>% Increase (Decrease) From Previous Year</u>
1997	2,337,339,029	-	1,128,729,192	-
1998	2,424,076,532	3.71	1,139,740,761	0.98
1999	2,485,279,200	2.52	1,187,861,995	4.22
2000	2,561,717,395	3.08	1,166,837,079	(1.77)
2001	2,523,698,301	(1.48)	1,217,813,299	4.37
2002	2,536,415,636	0.50	1,140,613,204	(6.34)
2003	2,722,238,555	7.33	1,234,657,529	8.25
2004	2,863,465,617	5.19	1,247,936,775	1.08
2005 ^(a)	2,389,609,072	(16.55)	1,114,754,153	(10.67)
2006	2,540,507,533	6.31	1,191,032,163	6.84

(a) Department of Revenue staff indicate that Motor Vehicle Fuel tax filings for June 2005 were low due to a changeover in the method of filing Motor Vehicle Fuel electronic tax returns to the Department of Revenue, and as a result, many of the filings did not get recorded in the Department of Revenue's computer system in a timely manner.

Source: Wisconsin Departments of Commerce and Revenue and Legislative Fiscal Bureau.

The total amount of Petroleum Inspection Fees collected since 1997 is summarized in **Table VII-5**. The annual percentage change in the amount of collected Petroleum Inspection Fees in **Table VII-5** may not correlate to the annual percentage change in the number of gallons inspected in **Table VII-3**. This is due to many reasons, including the following:

- (1) the collected Petroleum Inspection Fees are reported on an accrual basis through fiscal year 1999 and in fiscal year 2006 (and on a cash basis in the other years), while the amount of inspected gallons is reported on an actual basis, and
- (2) adjustments are made to, and refunds provided from, the collected Petroleum Inspection Fees.

Table VII-6 provides the maximum, average, and minimum monthly amount of collected Petroleum Inspection Fees for each year since 1997. The maximum, average, and minimum monthly amounts in **Table VII-6** may not correlate to the annual amount of collected Petroleum Inspection Fees in **Table VII-5**. This is due to the annual amounts being reported on both an accrual and cash basis while the minimum, average, and maximum amounts are reported on a cash basis.

**Table VII-5
TOTAL PETROLEUM INSPECTION FEES
1997 to 2006**

(Amounts in Millions; Accrual Basis through 1999 and in 2006; Cash Basis for other Years)

<u>Fiscal Year</u> <u>(June 30)</u>	<u>Total</u>	<u>% Increase (Decrease)</u> <u>From Previous Year</u>
1997	\$105.8	0.84%
1998	103.8	(1.81)
1999	110.7	6.65
2000	111.6	0.74
2001	114.3	2.46
2002	111.3	(2.65)
2003	117.3	5.39
2004	116.4	(0.60)
2005	115.9	(0.43)
2006 ^(a)	105.4	(9.06)

**Source: Wisconsin Comprehensive Annual Financial Reports, 1997-1999, 2006;
Wisconsin Legislative Audit Bureau, 2000-2005.**

^(a) 2005 Wisconsin Act 25 reduced the rate of the Petroleum Inspection Fee from \$0.03 per gallon to \$0.02 per gallon. This reduction was effective April 1, 2006.

**Table VII-6
MAXIMUM, AVERAGE, AND MINIMUM MONTHLY COLLECTION
PETROLEUM INSPECTION FEES
1997 to 2006
(Amounts in Millions; Cash Basis)**

<u>Fiscal Year</u> <u>(June 30)</u>	<u>Maximum</u> <u>Monthly Amount</u>	<u>Average</u> <u>Monthly Amount</u>	<u>Minimum</u> <u>Monthly Amount</u>
1997	\$ 9.4	\$8.7	\$7.8
1998	9.8	8.9	7.5
1999	10.5	9.2	7.5
2000 ^(a)	13.0	9.2	3.1
2001	11.0	9.5	8.2
2002	10.6	9.3	8.2
2003	13.8	9.8	5.5
2004	12.8	9.7	8.8
2005	13.4	9.7	8.2
2006 ^(b)	16.5	8.8	2.5

Source: Department of Commerce and Department of Revenue.

^(a) Department of Revenue staff has indicated that the maximum and minimum collection amounts for fiscal year ending June 30, 2000 reflect problems with a data reporting system that have been subsequently corrected.

^(b) 2005 Wisconsin Act 25 reduced the rate of the Petroleum Inspection Fee from \$0.03 per gallon to \$0.02 per gallon. This reduction was effective April 1, 2006. These numbers reflect amounts included in the State's CAFR for the year ended June 30, 2006.

Diminished usage of petroleum products would reduce the amount of collected Petroleum Inspection Fees. Diminished usage might occur, for example, due to reduced production of oil, higher prices for petroleum products, usage of alternate fuels, or reduced need for fuels.

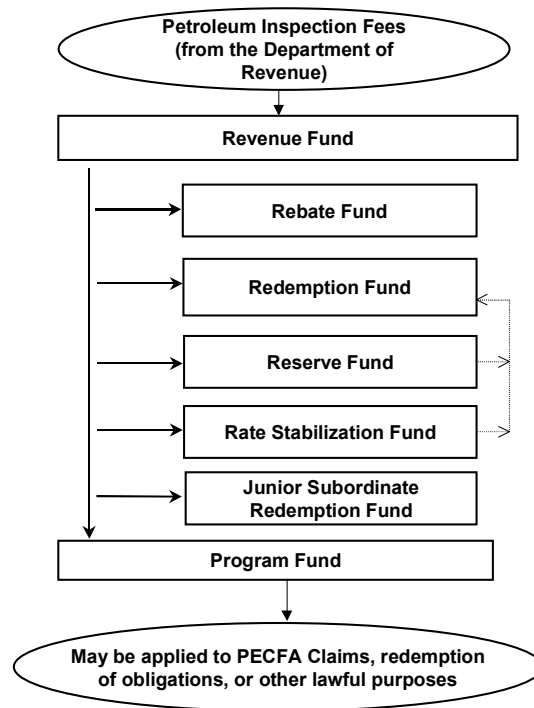
Application of Petroleum Inspection Fees

In accordance with the Program Resolution, Petroleum Inspection Fees received by the Trustee on each Revenue Payment Date in the Revenue Fund are deemed to be revenues of the Trustee and, in general, through deposits in the Funds and Accounts, are applied in the following order:

- To pay arbitrage rebate, if any, due on any Outstanding Bonds.
- To pay interest on all Outstanding Senior Bonds and other parity obligations.
- To pay the principal and redemption price, if any, of all Outstanding Senior Bonds, and other parity obligations, as the same become due.
- To maintain the Debt Service Reserve Requirement, if any, in the Reserve Fund.
- To make any deposits, at the State’s discretion, into the Rate Stabilization Fund.
- To make deposits, at the State’s discretion or if required, into the Junior Subordinate Redemption Fund.
- To pay any expenses payable from the Program Fund.

Figure VII-1 depicts the flow of funds with respect to the Petroleum Inspection Fees.

**Figure VII-1
Application of Petroleum Inspection Fees**



The Program Resolution permits the issuance of Subordinate Bonds, which would have a pledge of Petroleum Inspection Fees that is subordinate to the pledge provided the Senior Bonds yet

senior to the pledge provided the Junior Subordinate Bonds. As of the date of this Annual Report, Senior Bonds and Junior Subordinate Bonds, but no Subordinate Bonds, have been issued.

The pledge of the Petroleum Inspection Fees remains effective until all Bonds issued under the Program Resolution are fully paid in accordance with their terms. All Petroleum Inspection Fees deposited with the Trustee on each Revenue Payment Date in excess of the amounts required above are transferred at the direction of and to the State for deposit in the Petroleum Inspection Fund and become free of the pledge.

See “**SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION**” for further information on the required transfer of Petroleum Inspection Fees to these various Funds and Accounts.

EXTENDIBLE MUNICIPAL COMMERCIAL PAPER

The State has issued EMCP for this credit, in which investors (and not a bank-provided liquidity facility) provide liquidity. The State has appointed, for the EMCP, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated to serve as **Dealers** and U.S. Bank Trust National Association to serve as **Issuing and Paying Agent**. The Depository Trust Company (**DTC**) serves as **Securities Depository** for EMCP.

The State has issued two series of EMCP in the aggregate amount of \$142,300,000, and these two series remain outstanding in that amount as of the date of this Annual Report.

The Commission may adopt additional Supplemental Resolutions authorizing the issuance of additional EMCP.

Description of EMCP

Each EMCP note will be dated the date it is issued. It will be issued as an interest-bearing obligation in a denomination of \$100,000 or increments of \$1,000 above \$100,000. Interest is computed on the basis of a year having 365 or 366 days and the actual number of days elapsed (actual/actual basis). Payment of principal of and interest on each EMCP note will be made to the Depository and then distributed by the Depository.

Each EMCP note will mature on its **Original Maturity Date**, which may range from 1 to 180 days from its original issue date, unless the State exercises its option to extend the maturity date. In that case the EMCP note will mature on the **Extended Maturity Date**, which will be the date that is 270 days after its original issue date.

Each EMCP note will bear interest from its original issue date until the Original Maturity Date at the rate determined on the original issue date, payable on the Original Maturity Date, unless the maturity date is extended, in which case interest will be paid on the date described below. If the State exercises its option to extend the maturity date of an EMCP note, it will bear interest after the Original Maturity Date at the Reset Rate and be payable on the dates described below.

If the maturity date of an EMCP note is extended, accrued but unpaid interest to the Original Maturity Date will not be paid on the Original Maturity Date but will be payable on the following date (or any earlier redemption date):

- (1) if the Original Maturity Date is before the 15th day of the month, interest will next be payable on the first **Business Day** (which is a day on which banks located in Madison, Wisconsin and in each of the cities that the Principal Office of the Issuing and Paying Agent and Dealers are located are not required or authorized by law or executive order to close for business and a day the New York Stock Exchange is not closed) of the next month, or

(2) if the Original Maturity Date is on or after the 15th day of the month, interest will next be payable on the first Business Day of the second succeeding month after the Original Maturity Date.

For example, if the Original Maturity Date is November 14, interest will first be payable on the first Business Day of December, and if the Original Maturity Date is November 15, interest will first be payable on the first Business Day of January.

Each EMCP note will bear interest from the Original Maturity Date at the **Reset Rate** and will be payable first on the date described above and thereafter, on the first Business Day of each month and on any redemption date or the Extended Maturity Date.

The Reset Rate will be a rate of interest per annum determined by the following formula:

$$(1.35 \times BMA) + E$$

As used in the formula, the *BMA* variable will be The Bond Market Association Municipal Swap Index, which is calculated weekly and released each Wednesday afternoon, effective Thursday. The *E* variable will be a fixed percentage rate expressed in basis points that is determined based on the ratings assigned to the EMCP (**Prevailing Ratings**), as follows:

Prevailing Ratings			
<u>Fitch</u>	<u>Moody's Investors Service, Inc.</u>	<u>Standard & Poor's Ratings Services</u>	<i>E</i> Variable (basis points)
F1+	P-1	A-1+	100
F1	–	A-1	150
F2	P-2	A-2	200
F3	P-3	A-3	300
Lower than F3 (or rating discontinued)	Lower than P-3 (or rating discontinued)	Lower than A-3 (or rating discontinued)	400

Pursuant to the Program Resolution, if at any time any rating agency announces that a lower rating is under consideration for the EMCP, then the Prevailing Rating from such rating agency will not be the rating then assigned to the EMCP; rather, it will be the next lower rating of such rating agency. If the Prevailing Ratings would indicate different *E* variables as a result of split ratings assigned to the EMCP, the *E* variable will be the arithmetic average of those indicated by the Prevailing Ratings.

The Reset Rate applicable to EMCP will be determined weekly by the Issuing and Paying Agent based on the *BMA* variable and the Prevailing Ratings as of 11:00 a.m. (New York time) on its Original Maturity Date and each Thursday thereafter and will apply through the following Wednesday.

SUMMARY OF CERTAIN PROVISIONS OF THE PROGRAM RESOLUTION

Certain provisions of the Program Resolution are summarized below. Reference should be made to the complete Program Resolution for a full and complete statement of its provisions. A copy of the Program Resolution may be obtained by contacting the State at the address provided on the [first page of this part of the Annual Report](#).

Additional Senior Bonds

The State may issue additional Senior Bonds, upon compliance with certain conditions, including, in some instances, meeting the additional bonds test and having sufficient amount of legislative authorization. In the case of Bond Anticipation Notes (such as EMCP), the conditions need be met only on the first date of issuance of any of the Bond Anticipation Notes authorized under the Supplemental Resolution providing for such Bond Anticipation Notes. These conditions include the following:

- Immediately after issuance, there cannot be a deficiency in the Reserve Fund.
- The State must certify that it is not in default in the performance of any of its covenants and agreements in the Program Resolution (unless an opinion of Independent Counsel is given that the default does not deprive any Beneficial Owner in any material respect of security given by the Program Resolution).
- Except with respect to the issuance of Senior fixed-rate Refunding Bonds issued to fund Bond Anticipation Notes that are also Bonds, the State must certify that, as of the date of issuance of the Bonds, the Debt Service Coverage Ratio will be at least 2 to 1; *provided*, that in connection with the issuance of Senior Refunding Bonds for an economic refunding, the State may instead certify that the issuance of the Senior Refunding Bonds will not increase Maximum Annual Debt Service.

For this purpose:

“Debt Service” means the aggregate principal payments (whether at stated maturity or pursuant to sinking fund redemption requirements), interest payments, and other payments of the State on all Outstanding Bonds and Other Obligations for any Fiscal Year (including any State Swap Payments, less any Counterparty Swap Payments unless the Swap Counterparty is in default with respect to its payment obligations under the related Swap Agreement, and including any fees with respect to Credit Enhancement Facilities); *provided*, however, that for purposes of calculating such amount:

- Any Variable Rate Bonds shall, for any future period for which the actual interest rate is not known on the date of determination (that is, on the date on which Debt Service is being calculated), be assumed to bear interest at the Projected Interest Rate.
- All Outstanding Bond Anticipation Notes (such as the Notes or EMCP) shall be assumed to be funded at or before the stated maturity thereof, and all Bond Anticipation Notes which have been authorized by a Supplemental Resolution but not yet issued shall be assumed to be issued and immediately funded on the date of determination, in each case by the issuance of Senior Refunding Bonds in the full amount authorized with respect to Bond Anticipation Notes bearing interest at the Projected Interest Rate and maturing according to such amortization schedule as the State may determine; *provided*, that the final maturity must not be later than 20 years from the original issuance of the Bond Anticipation Notes.
- Amounts of principal or interest due on a particular date shall be excluded from the determination of Debt Service to the extent that such amounts are payable from amounts deposited in trust, escrowed, or otherwise set aside for the payment thereof with the Trustee or another Person approved by the Trustee (including, without limitation, amounts in an Escrow Account established in the Redemption Fund or amounts in the Capitalized Interest Account of the Proceeds Fund).
- State Swap Payments, Counterparty Swap Payments, and payments with respect to Credit Enhancement Facilities shall be determined based upon such assumptions as may be set forth in the Supplemental Resolution authorizing the related Swap

Agreement or the Credit Enhancement Facility, as the case may be, or in a State Certificate provided to the Trustee with respect to such Swap Agreement or Credit Enhancement Facility.

- For purposes of applying the additional bonds test in connection with the issuance of Refunding Bonds, the proceeds of such Refunding Bonds shall be assumed to have been applied on their issuance date for the purposes provided in the Supplemental Resolution authorizing such Refunding Bonds.
- Except to the extent provided in a Supplemental Resolution adopted to provide for the issuance of Subordinate or Junior Subordinate Bonds, with respect to the determination of Debt Service for purposes of limitations relating to Subordinate or Junior Subordinate Bonds or Subordinate or Junior Subordinate Other Obligations, debt service payments with respect to Subordinate or Junior Subordinate Bonds and Subordinate or Junior Subordinate Other Obligations shall not be taken into account.

“Debt Service Coverage Ratio” means the ratio of Projected Annual Revenues to Maximum Annual Debt Service.

“Projected Annual Revenues” means the largest amount of Petroleum Inspection Fees collected in any twelve consecutive months during the eighteen most recent months for which such information is available. If legislation changes the rate of the Petroleum Inspection Fee, “Projected Annual Revenues” shall be adjusted to take such change into account.

Variable Rate Take-Out Capacity Test

On each Monthly Reporting Date while any Variable Rate Debt is Outstanding, the State shall provide to the Trustee a State Certificate setting forth the Variable Rate Take-Out Capacity and the Variable Rate Debt Exposure based on the most current available information. If the Variable Rate Take-Out Capacity is less than the Variable Rate Debt Exposure, the State agrees to (1) promptly notify the Rating Agencies of such fact, and (2) submit to the Trustee and each Rating Agency, no later than 45 days after such Monthly Reporting Date, a plan to cause the Variable Rate Take-Out Capacity to exceed the Variable Rate Debt Exposure by the third Monthly Reporting Date following the Monthly Reporting Date that made the notification and plan necessary.

For this purpose:

“Debt Service” shall, except as specifically provided, be calculated consistently with the provisions set forth above with respect to the additional bonds test.

“Monthly Reporting Date” means, in each month, a date on or before the fifteenth day of the month, as selected by an Authorized Commission Representative.

“Projected Monthly Revenues” means the average of the Petroleum Inspection Fees collected in each of the twelve most recent months for which such information is available; *provided*, that if the rate of the Petroleum Inspection Fee that will be in effect for any future month will be higher or lower than the rate of Petroleum Inspection Fee in effect for any corresponding prior month, “Projected Monthly Revenues” shall be adjusted to take such change into account.

“Senior Bond Anticipation Notes” includes all Bond Anticipation Notes for which the funding Bonds have been authorized as Senior Bonds.

“Variable Rate Debt” includes Bonds the interest rate on which is not fixed for their entire remaining term to maturity, all Senior Bond Anticipation Notes, and all Bonds with respect

to which the State has entered into interest rate exchange agreements that have the effect of shifting the State's fixed rate liability to a variable rate liability.

"Variable Rate Take-Out Capacity" means an amount equal to the present value of the net revenue stream that would be available after the collection of 50% of the Projected Monthly Revenues in each of the 240 succeeding months and the payment of Debt Service due in each such month with respect to all Outstanding Senior Bonds which do not constitute Variable Rate Debt (assuming the receipt of revenues and the payment of Debt Service on the first day of the month), discounted (on the basis of a 360-day year consisting of twelve 30-day months, and semi-annual compounding) using a discount rate equal to the Projected Interest Rate.

"Variable Rate Debt Exposure" means the difference, if any, of (1) the actual aggregate Outstanding principal amount of Variable Rate Debt, less (2) the sum of (a) the balance in the Principal Account in the Redemption Fund allocable to Variable Rate Debt, plus (b) the balance of the Rate Stabilization Fund established under the Program Resolution.

Funds and Accounts

The Program Resolution establishes the following Funds and Accounts:

- Proceeds Fund (and within it a Capitalized Interest Account, an Issuance and Administrative Account, and a Claims Account).
- Revenue Fund.
- Rebate Fund.
- Redemption Fund (and within it an Interest Account and a Principal Account).
- Reserve Fund.
- Rate Stabilization Fund.
- Junior Subordinate Redemption Fund (and within it a Junior Subordinate Principal Account).
- Program Fund (and within it a Program Expense Account).

Proceeds Fund

Upon the delivery of any series of Bonds, the Trustee will credit to the Proceeds Fund the amount specified in the resolution authorizing the Bonds. The amounts, if any, so designated in the resolution will be credited to the Capitalized Interest Account and the Issuance and Administrative Account, respectively, and the remainder will be credited to the Claims Account.

Moneys in the Capitalized Interest Account will be applied only for the payment of interest on the Senior Bonds. Moneys in the Issuance and Administrative Account will be applied to the payment of costs of issuance of the Bonds and administrative expenses. Moneys in the Claims Account will be applied to costs of the petroleum storage remedial action program.

Revenue Fund

The Trustee will credit all Petroleum Inspection Fees received from the Department of Revenue to the Revenue Fund. On each Revenue Payment Date, the Trustee will transfer the money so credited, as follows:

- *First*, to the Rebate Fund.
- *Second*, to the Interest Account for the payment of interest on Senior Bonds or Senior Other Obligations payable therefrom.

- *Third*, to the Principal Account for the payment of principal of Senior Bonds or the payment of Senior Other Obligations payable therefrom.
- *Fourth*, to the Reserve Fund, if necessary to increase the balance to the Reserve Fund Requirement.
- *Fifth*, to the Rate Stabilization Fund, if directed by the State.
- *Sixth*, to the Junior Subordinate Principal Account within the Junior Subordinate Redemption Fund for the payment of principal of Junior Subordinate Bonds or the payment of Other Obligations payable therefrom.
- *Seventh*, to the Program Fund. If the Commission creates Funds and Accounts for Subordinate Bonds or Subordinate Other Obligations, it may apply money to Funds and Accounts established for those obligations before applying the money to the Program Fund.

The Program Resolution permits the issuance of Subordinate Bonds, which would have a pledge of Petroleum Inspection Fees that is subordinate to the pledge provided the Senior Bonds yet senior to the pledge provided the Junior Subordinate Bonds. If Subordinate Bonds are issued, a Subordinate Redemption Fund will be created.

Rebate Fund

The State will periodically determine, for each issue of Bonds, the arbitrage rebate liability under federal tax law. The State may specify an amount that should be held in the Rebate Account for arbitrage rebate payments. Any amount not required for arbitrage rebate payments will be transferred to the Interest Account.

If the Trustee is furnished with a written opinion of Bond Counsel to the effect that amounts held in the Rebate Fund are not needed to make arbitrage rebate payments, those amounts will be transferred to the Interest Account.

Redemption Fund

The Redemption Fund will be used only for the payment when due of principal of, and premium, if any, and interest on, the Senior Bonds and Senior Other Obligations.

Interest Account

The Trustee will credit to the Interest Account any premium or accrued interest paid as part of the purchase price for a series of Senior Bonds. The Trustee will also deposit in the Interest Account:

- The portion of the sale proceeds from the State's borrowings to be used to pay interest on the Senior Bonds (unless those proceeds are deposited into an Escrow Account).
- All Counterparty Swap Payments.
- All investment earnings from money in the Redemption Fund (unless they are required to be in an Escrow Account), the Reserve Fund, the Rate Stabilization Fund, and the Junior Subordinate Redemption Fund.
- Amounts transferred, at the State's direction, from the Rate Stabilization Fund.
- Amounts transferred from the Rebate Fund.
- Other amounts required to be transferred thereto from the Funds and Accounts.

The Trustee will make periodic deposits to the credit of the Interest Account, at least 30 days before payment is due, of amounts determined or estimated to aggregate the full amount of each installment of interest which falls due upon Outstanding Senior Bonds on each regularly

scheduled Interest Payment Date, and the reimbursement to all Credit Facility Providers for payments of interest on the Senior Bonds pursuant to Credit Enhancement Facilities.

If money in the Interest Account is insufficient when needed to pay the accrued interest due on the Senior Bonds, all State Swap Payments, and all reimbursements and fees payable to a Credit Facility Provider, or any portion of the purchase price of Senior Bonds to be purchased attributable to accrued interest, the Trustee will immediately deposit to the credit of the Interest Account an amount equal to such deficiency. Each deposit required to pay the foregoing amounts shall be made by transfer from the following Funds and Accounts, in the following order of priority: the Capitalized Interest Account, the Revenue Fund, the Rate Stabilization Fund, the Reserve Fund, and the Principal Account.

If money in the Interest Account is insufficient when needed to pay amounts payable therefrom, the money shall be applied, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries and to be paid from the Interest Account.

Principal Account

With respect to each series of Senior Bonds, the Trustee will deposit to the credit of the Principal Account:

- The portion of the sale proceeds from the State's borrowings to be used to pay principal of the Senior Bonds on a Principal Payment Date (unless those proceeds are deposited into an Escrow Account).
- Amounts transferred, at the State's direction, from the Rate Stabilization Fund or the Program Fund.
- Amounts required to be transferred thereto from the Revenue Fund, the Rate Stabilization Fund, and the Reserve Fund.

To provide for the payment of each installment of principal which falls due upon Senior Serial Bonds (other than certain Bond Anticipation Notes) at the stated maturity thereof or Senior Term Bonds on a Sinking Fund Payment Date therefor, the Trustee will make periodic deposits, to aggregate the full amount of such installment at least 30 days before such payment is due. To provide for the payment of the redemption price of Senior Bonds to be redeemed on any other Redemption Date, the Trustee shall make deposits, as directed by a Supplemental Resolution or the State, to aggregate the full amount of such redemption price at least five days before such redemption price is due.

Money in the Principal Account will be applied to the payment of Senior Bonds on a Principal Payment Date or for the payment of reimbursements for amounts paid under a Senior Credit Enhancement Facility to pay principal of and premium, if any, on Senior Bonds, to such payment when due.

Each deposit required to be made to the credit of the Principal Account shall be made by transfer from the following Funds and Accounts, in the following order of priority: the Revenue Fund, the Rate Stabilization Fund, and the Reserve Fund.

When the balance in the Principal Account is not sufficient to pay all amounts payable therefrom on such date, the amounts in the account will be applied in the following order of priority: *first*, to the Interest Account; and *second*, to the payment of Senior Bonds at their stated maturity or on a Redemption Date or the reimbursement of such payments made by a Senior Credit Facility Provider, *pro rata*, among such obligations based upon such amounts then owing to Beneficiaries.

Money in the Principal Account may also be applied to the purchase of Senior Bonds if no deficiencies exist at such time in the Interest Account, the Principal Account, or the Rebate Fund. Any such purchase will be limited to those Senior Bonds whose stated maturity or Sinking Fund Payment Date is the next succeeding Principal Payment Date.

Reserve Fund

From the proceeds of any series of Bonds or, at the option of the State, from any other available moneys under the Program Resolution, the Trustee will credit to the Reserve Fund the amount, if any, specified in a Supplemental Resolution providing for the issuance of a series of Bonds, such that upon issuance of such Senior Bonds, the balance in the Reserve Fund shall not be less than the Reserve Fund Requirement. There is no Reserve Fund Requirement at this time.

If on any Revenue Payment Date the balance in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee will transfer an amount equal to the deficiency from the Revenue Fund (to the extent not required for credit to the Rebate Fund or the Redemption Fund).

Money in the Reserve Fund will be applied solely for the payment when due of principal of and interest on the Senior Bonds and amounts owing under Senior Other Obligations. It will be so applied by transfer to the Redemption Fund, if the amounts therein and available in the Revenue Fund, the Capitalized Interest Account, and the Rate Stabilization Fund are insufficient to meet the amount required for deposit to the credit of the Redemption Fund at such time. Amounts in the Reserve Fund shall be applied, *first*, to the payment of interest on the Senior Bonds and the payment of Senior Other Obligations payable from the Interest Account, and *second*, to the payment of principal of the Senior Bonds and the payment of Senior Other Obligations payable from the Principal Account. On the stated maturity date or any Redemption Date of any Senior Bonds, amounts in the Reserve Fund shall, upon State Direction, be applied to the payment at maturity or redemption of all Outstanding Senior Bonds of a series, to the extent that such application, and payment of all deposits to be made to the credit of the Rebate Fund required by the Program Resolution upon such redemption, will not reduce the balance of the Reserve Fund below the Reserve Fund Requirement (calculated as though the Senior Bonds to be retired on such stated maturity date or Redemption Date were not Outstanding as of the date of such calculation). At any time when the aggregate of the amounts in the Redemption Fund, the Capitalized Interest Account, the Reserve Fund, and the Rate Stabilization Fund equals an amount sufficient and available to discharge and satisfy the obligations of the State with respect to all of the Outstanding Senior Bonds and Senior Other Obligations and to make all deposits to the credit of the Rebate Fund required by the Program Resolution, all in the manner described in the Program Resolution, such amounts shall, upon State Direction, be so applied. If on any Revenue Payment Date the balance in the Reserve Fund exceeds the Reserve Fund Requirement, such excess shall, upon State Direction, be transferred to the Rate Stabilization Fund or the Program Fund.

Rate Stabilization Fund

The Trustee will credit to the Rate Stabilization Fund such amounts as the State directs, from the Revenue Fund, from the Reserve Fund, or from the Program Fund.

On any date on which the balance in the Redemption Fund (after transfers thereto from the Revenue Fund and the Capitalized Interest Account) is not sufficient to pay all amounts payable therefrom on such date, the Trustee will transfer money in the Rate Stabilization Fund, as follows:

- *First*, to the Interest Account for the payment of interest on Senior Bonds or Other Senior Obligations payable therefrom; and

- *Second*, to the Principal Account for the payment of the principal of Senior Bonds or the payment of Other Senior Obligations payable therefrom.

In addition, the Trustee shall transfer from the Rate Stabilization Fund to the Interest Account or the Principal Account such amounts as the State directs.

Junior Subordinate Redemption Fund

The Trustee, or another Fiduciary if directed by a Supplemental Resolution, shall deposit to the credit of the Junior Subordinate Principal Account that portion of the proceeds from the sale of the State's bonds, notes, or other evidences of indebtedness, if any, to be used to pay principal of the Junior Subordinate Bonds (such as principal on the Notes) on a Principal Payment Date (unless those proceeds are deposited into an Escrow Account) or other funds provided by the State.

To provide for the payment of each installment of principal which falls due upon such series of Junior Subordinate Bonds prior to the due date, the Trustee shall make deposits from the Revenue Fund only as directed by a Supplemental Resolution or State Certificate.

The Notes Supplemental Resolution provides that deposits of Petroleum Inspection Fees into the Junior Subordinate Principal Account are required to be made if there is a default by the State in the payment of principal on any Note on its Extended Maturity Date. The Trustee is required from that time forward to make transfers from the Revenue Fund to the Junior Subordinate Principal Account to aggregate the full amount due to Holders of the Note. The amount of these transfers are limited to the amount of Petroleum Inspection Fees deposited into the Revenue Fund and not transferred to Funds and Accounts that are senior to that of the Junior Subordinate Principal Account. Prior to any default by the State, discretionary deposits of Petroleum Inspection Fees may be made at any time into the Junior Subordinate Principal Account. These deposits may be applied to reduce the outstanding principal balance of the Notes while they are outstanding.

The moneys in the Junior Subordinate Principal Account required for the payment of Junior Subordinate Bonds on the maturity date (after taking into account any authorized extension of maturity or any acceleration of maturity) shall be transferred to the Paying Agent for such series of Junior Subordinate Bonds and applied by the Paying Agent to such payment when due without further authorization or direction.

When the balance in the Junior Subordinate Principal Account is not sufficient to pay all amounts payable therefrom on such date, the Trustee shall make periodic deposits from the Revenue Fund, prior to making any deposits to the Program Fund, to aggregate the full amount due on such maturity date from such date to the date of payment, *pro rata*, among such obligations based upon such amounts then owing to Holders of the Junior Subordinate Bonds.

The Program Resolution may be amended to establish Funds and Accounts that are senior in priority to the Junior Subordinate Principal Account.

Program Fund

Any amount in the Revenue Fund that is not required to be transferred to the Rebate Fund, the Redemption Fund, the Reserve Fund, the Rate Stabilization Fund, or any Fund created with respect to a Subordinate class of Bonds or Other Obligations will be transferred to the Program Fund.

Amounts that the State designates will be deposited in the Program Expense Account and will be disbursed for costs of the program of Bond issuance. Money in the Program Fund may be transferred to the Redemption Fund or the Junior Subordinate Redemption Fund, transferred to

the Rate Stabilization Fund, or used for the purchase of Bonds. Money in the Program Fund may also be applied to any purpose permitted by law.

Investments

Money in any Fund or Account may be invested in Permitted Investments that mature or are redeemable at the option of the holder before the money is needed for the purpose for which it is held.

Pledge and Security Interest

The Commission has pledged the Petroleum Inspection Fees to the payment of the Bonds and Other Obligations. The Wisconsin Statutes create a security interest, for the benefit of the Holders of the Bonds and the Other Beneficiaries, in the Revenue Fund, the Redemption Fund, the Junior Subordinate Redemption Fund, the Reserve Fund, and the Rate Stabilization Fund.

Nonimpairment

The Program Resolution and each Supplemental Resolution will constitute a contract with the Holders of the Bonds and the other Beneficiaries. The State pledges and agrees with the Holders of the Bonds and the Other Beneficiaries that the State will not limit or alter its powers to fulfill the terms of any agreements made with the Holders of the Bonds and the Other Beneficiaries or in any way impair the rights and remedies of the Holders of the Bonds or the Other Beneficiaries until the Bonds, together with interest and all costs and expenses in connection with any action or proceeding by or on behalf of the Holders of the Bonds are fully met and discharged and the Other Obligations are fully discharged or provided for.

Rating

The State covenants that it will, at all times Bonds are Outstanding, request at least one nationally recognized securities rating agency to maintain a rating on the Bonds.

Termination

If the State pays the principal, premium, if any, and interest payable upon any Bond, the Bond will no longer be entitled to any benefit under the Program Resolution. If all Bonds and Other Obligations are paid and all expenses of the Fiduciaries have been paid, or are deemed to be paid, the pledge of the Petroleum Inspection Fees and the security interest in the Funds and Accounts will cease.

Any Outstanding Bond will be deemed to be paid when there shall have been deposited (in an Escrow Account) either moneys in an amount which, or Federal Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide money sufficient to pay when due the principal of and premium, if any, and interest due and to become due on the Bond at or prior to the stated maturity thereof.

Events of Default

If any of the following events occur, it constitutes an Event of Default:

- Default in the due and punctual payment of any interest on any Bond of the most senior class then Outstanding.
- Default in the due and punctual payment of the principal of, or premium, if any, on, any Bond of the most senior class then Outstanding, whether at the stated maturity or a redemption date.
- Default by the State in its obligation to purchase any Bond of the most senior class then Outstanding (or Beneficial Ownership Interests in such a Bond) on a Tender Date.

- Default in the due and punctual payment of any amount owed by the State to any Other Beneficiary under a Swap Agreement or Credit Enhancement Facility.
- Default in the performance of any of the State's obligations to transmit money to be credited to the Revenue Fund, the Rebate Fund, or the redemption fund established for the payment of Bonds of the most senior class then Outstanding as required by the Program Resolution and such default shall have continued for a period of 30 days.
- Default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the State contained in the Program Resolution, or in the Senior Bonds, and such default shall have continued for a period of 30 days after written notice; *provided* that, except with respect to the State's arbitrage rebate covenants, if the default is such that it can be corrected, but not within such 30 days, it shall not constitute an Event of Default if corrective action is instituted by the State within such 30 days and is diligently pursued until the default is corrected.

Acceleration

Whenever any Event of Default has occurred and is continuing, the Trustee may, and upon the written request of the Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be 25% of the aggregate Principal Amount of Outstanding Bonds of the pertinent class), the Trustee shall, by notice in writing delivered to the State, declare the principal of and interest accrued on all Bonds then Outstanding due and payable.

Before a judgment or decree for payment of the money due has been obtained by the Trustee, the Acting Beneficiaries Upon Default may rescind and annul such declaration and its consequences if there has been paid to or deposited with the Trustee by or for the account of the State, or provision satisfactory to the Trustee has been made for the payment of, a sum sufficient to pay:

- All overdue installments of interest on all Bonds of the most senior class Outstanding.
- The principal of (and premium, if any, on) any Bonds of the most senior class Outstanding which have become due otherwise than by such declaration of acceleration, together with interest thereon at the rate or rates borne by such Bonds.
- To the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Bonds of the most senior class Outstanding at the rate or rates borne by such Bonds.
- All Other Obligations on a parity with Bonds of the most senior class Outstanding which have become due other than as a direct result of such declaration of acceleration.
- All other sums required to be paid to satisfy the State's obligations to transmit money to be credited to the Revenue Fund, the Rebate Fund and the redemption fund established for payment of Bonds of the most senior class Outstanding as required by the Program Resolution.
- All sums paid or advanced by the Trustee or any other Fiduciary under the Program Resolution and the reasonable compensation, expenses, disbursements, and advances of the Trustee or other Fiduciaries, their agents, and their counsel.

Similarly, before a judgment or decree for payment of the money due has been obtained by the Trustee, the Acting Beneficiaries Upon Default may rescind and annul such declaration and its consequences if all Events of Default, other than the non-payment of the principal of Bonds of the most senior class Outstanding or Other Obligations on a parity with Bonds of the most senior class Outstanding which have become due solely by, or as a direct result of, such declaration of acceleration, have been cured or waived.

No rescission and annulment will affect any subsequent default or impair any right consequent thereon.

Other Remedies; Rights of Beneficiaries

If an Event of Default has occurred and is continuing, the Trustee may bring legal proceedings to collect money due or to enforce the covenants made by the State.

If an Event of Default has occurred and is continuing, and if it is requested so to do by the Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be a majority of the aggregate Principal Amount of Outstanding Bonds) or any Other Beneficiary and is indemnified, the Trustee will be obliged to exercise such of the rights and powers as the Trustee, being advised by its counsel, deems most expedient in the interests of the Beneficiaries.

If a default occurs under a Swap Agreement or a Credit Enhancement Facility, the Other Beneficiary may exercise such remedies as are provided therein.

Remedies are not exclusive, and delay in acting is not a waiver.

Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken will, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, and advances incurred or made by the Trustee with respect thereto, be applied as follows (except that money received with respect to Credit Enhancement Facilities shall be applied only to the purposes for which such Credit Enhancement Facilities were provided, and shall be so applied prior to the application of other money):

(A) In every case, the Trustee shall apply the amounts to each class in order of priority, namely, Senior Bonds and Senior Other Obligations shall be paid in full before any payment shall be made with respect to Junior Subordinate Bonds and Junior Subordinate Other Obligations.

(B) Unless the principal of all the Outstanding Bonds of a particular class shall have become or shall have been declared due and payable, all such money will be applied to the payment to the Beneficiaries of all installments of principal and interest then due on the Bonds and all Other Obligations, and if the amount available is not sufficient to pay all such amounts in full, then to the payment ratably, in proportion to the amounts due, without regard to due date, to the Holders and to each Other Beneficiary, without any discrimination or preference (being applied first to interest and then to principal).

(C) If the principal of all Outstanding Bonds of a particular class shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded, all such moneys will be applied to the payment to the Beneficiaries of the principal and interest then due and unpaid upon the Bonds and all Other Obligations, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Beneficiary over any Other Beneficiary, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference.

(D) If the principal of all the Outstanding Bonds of a particular class shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled, then (subject to the provisions of paragraph (C) above, in the event that the principal of all the Outstanding Bonds shall later

become or be declared due and payable) the money held by the Trustee hereunder will be applied in accordance with the provisions of paragraph (B) above.

Whenever money is to be applied by the Trustee as described above, the money will be applied by it when the Trustee determines, having due regard to the amount of such money available and the likelihood of additional money becoming available in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposits with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Limitation on Suits by Beneficiaries

Except as may be permitted in a Supplemental Resolution with respect to an Other Beneficiary, no Holder of any Bond or Other Beneficiary shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Program Resolution or for the execution of any trust or for the appointment of a receiver or any other remedy unless all of the following conditions apply:

- An Event of Default shall have occurred and be continuing.
- The Acting Beneficiaries Upon Default (and for this purpose the specified percentage shall be 25% of the aggregate Principal Amount of Outstanding Bonds) shall have made written request to the Trustee.
- Such Beneficiary or Beneficiaries shall have offered to the Trustee indemnity.
- The Trustee shall have thereafter failed for a period of 60 days after the receipt of the request and indemnification or refused to exercise the powers granted under the Program Resolution or to institute such action, suit, or proceeding in its own name.
- No direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by such Acting Beneficiaries Upon Default.

No one or more Holders of the Bonds or any Other Beneficiary shall have any right in any manner whatsoever to affect, disturb, or prejudice the security interest created in the Revenue Fund, the Redemption Fund, the Rate Stabilization Fund, the Reserve Fund, and the Junior Subordinate Redemption Fund or to enforce any right except in the manner provided in the Program Resolution. All proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Program Resolution and for the benefit of the Holders of all Outstanding Senior Bonds and Other Beneficiaries under the Program Resolution as their interests may appear thereunder. The Acting Beneficiaries Upon Default may institute any suit, action, or proceeding permitted under the Program Resolution in their own names for the benefit of the Holders of all Outstanding Senior Bonds and Other Beneficiaries thereunder.

Supplemental Resolutions Without Beneficiary Consent

The Commission may, without the consent of or notice to the Beneficiaries, adopt Supplemental Resolutions as follows:

- To cure any formal defect, omission, inconsistency, or ambiguity in the Program Resolution; *provided*, that no such action shall adversely affect the interests of the Beneficiaries who have not consented thereto.

- To add other covenants or agreements, or to surrender any right or power reserved or conferred upon the State, and which shall not adversely affect the interests of the Beneficiaries who have not consented thereto.
- To issue a particular series of Senior Bonds or enter into a Swap Agreement or obtain a Credit Enhancement Facility and, in connection therewith, to establish provisions for making deposits to the Redemption Fund to provide for the payment of any Senior Bonds, or Other Obligations and to establish assumptions for computing the Debt Service obligations with respect thereto.
- To cause the Program Resolution to comply with the requirements of the Trust Indenture Act of 1939.
- To provide for the removal of a Fiduciary or the Securities Depository, or the appointment of an additional or successor Fiduciary or a successor Securities Depository.
- To make any change in the Program Resolution required by any Rating Agency in order to maintain the current, or restore the previous, rating by such Rating Agency on the Bonds, and which shall not adversely affect the interests of the Beneficiaries who have not consented thereto.
- To provide for the creation of Funds or Accounts, to which amounts in the Revenue Fund may be credited on any Revenue Payment Date prior to transfer of such amounts to the Junior Subordinate Redemption Fund, but only after all transfers therefrom to the Rebate Fund, the Redemption Fund, the Reserve Fund, the Rate Stabilization Fund, or the creation of one or more subordinate classes of Bonds payable solely from Funds and Accounts created under that or another Supplemental Resolution; *provided*, that no such subordinate class of Bonds or Other Obligations may be senior in any respect to any previously created class of Senior Bonds or Other Obligations any of which are then Outstanding, except to the extent specifically authorized or permitted by the Supplemental Resolution authorizing such previously created class or except to the extent consented to by each Beneficiary who would be adversely affected thereby.
- To modify, alter, amend, or supplement the Program Resolution in any other respect which is not materially adverse to the Beneficiaries who have not consented thereto or which is permitted for Bonds of one or more particular series, as provided in the Supplemental Resolution for Bonds of those series and affects only (1) the Holders of such Bonds and (2) any other Beneficiaries who have consented thereto.
- To modify, alter, amend, or supplement the Program Resolution in any other respect so long as each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Bonds will be reduced or withdrawn as a result of such modification, alteration, amendment, or supplement, as evidenced by written confirmations thereof delivered from each Rating Agency.

In connection with the adoption of any Supplemental Resolution without consent of the Holders of the Bonds, the Trustee must be given an opinion of Bond Counsel to the effect that such Supplemental Resolution is authorized or permitted by the Program Resolution and the Revenue Obligations Act, complies with their respective terms, will be valid and binding upon the State in accordance with its terms, and will not adversely affect the exclusion of the interest payable on the Bonds from gross income of the Holders of the Bonds for federal income tax purposes pursuant to the Code.

Supplemental Resolutions With Beneficiary Consent

The Commission may, with the prior written consent of the Holders of a majority of the principal amount of each class of Bonds Outstanding affected by such Supplemental Resolution, and with the prior written consent of the Other Beneficiaries, adopt a Supplemental Resolution to modify,

alter, amend, or supplement the Program Resolution in any respect. No Supplemental Resolution, however, may permit any of the following:

- An extension of the stated maturity or reduction in the principal amount of, a reduction in the rate or extension of the time for paying interest on, a reduction of any premium payable on the redemption of, a reduction in the purchase price payable on a Tender Date for, or a reduction in the amount or extension of the time for any principal payment required for any sinking fund or otherwise applicable to, any of the Bonds without the consent of the Holders of all the Bonds and Other Beneficiaries which would be affected by the action to be taken.
- The creation of any security interest prior to or on a parity with the security interest in the Funds and Accounts for the benefit of the Holders of the Bonds and the Other Beneficiaries without the consent of the Holders of all the Bonds Outstanding and the Other Beneficiaries which would be adversely affected by such creation.
- A reduction in the aggregate principal amount of Bonds the Holders of which are required to consent, or the elimination of a requirement that any Other Beneficiary consent, to any Supplemental Resolution without the consent of the Holders of all Bonds at the time Outstanding, and any Other Beneficiary which would be affected by the action to be taken.
- A modification of the rights, duties, or immunities of the Trustee or any Fiduciary without the written consent of the Trustee or Fiduciary.
- The creation of a privilege or priority of any Obligation of one class over any other Obligation of the same class, or of any other class except as provided in the Program Resolution, or the surrender of a privilege or a priority granted by the Program Resolution, to the detriment of another Beneficiary.

DEFINITIONS OF CERTAIN TERMS

The following definitions apply to capitalized terms used in this part of the Annual Report.

“2004 Series A Bonds” means the \$45,000,000 State of Wisconsin Petroleum Inspection Fee Revenue Bonds, 2004 Series A, issued on February 4, 2004.

“2004 Series 1 Bonds” means the \$95,470,000 State of Wisconsin Petroleum Inspection Fee Revenue Refunding Bonds, 2004 Series 1, issued on May 20, 2004.

“Account” means any of the accounts in the Funds.

“Acting Beneficiaries Upon Default” means:

- for purposes of the provisions of the Program Resolution concerning acceleration of maturity, the Holders of not less than the specified percentage of the aggregate Principal Amount of Senior Bonds Outstanding if Senior Bonds are Outstanding and otherwise the Holders of not less than the specified percentage of the most senior class of Bonds Outstanding, and
- for all other purposes under the Program Resolution, any Senior Other Beneficiary or the Holders of not less than the specified percentage of the aggregate Principal Amount of Senior Bonds Outstanding if Senior Bonds or Senior Other Obligations are Outstanding and otherwise the Holders of not less than the specified percentage of Bonds of the most senior class of any Bonds or Other Obligations of which are Outstanding and any Other Beneficiary of such class.

“Authorized Commission Representative” means any person at the time designated to act on behalf of the State by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the State by the Capital Finance Director, and also includes the Capital Finance Director.

“Authorized Department Representative” means any person at the time designated to act on behalf of the Department by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Department by the Secretary of the Department, and also includes the Secretary.

“Beneficial Owner” means the Person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository, Participant, or Indirect Participant, as the case may be.

“Beneficial Ownership Interest” means the right to receive payments and notices with respect to Bonds which are held by the Securities Depository under a Book-Entry System and for which the Securities Depository does not act on behalf of the Beneficial Owner in connection with the optional or mandatory tender of Bonds on a Tender Date.

“Beneficiary” means any Holder of Bonds, any Swap Counterparty, and any Credit Facility Provider.

“Bond Anticipation Notes” means obligations for the funding of which the Building Commission has authorized the issuance of Bonds in a Supplemental Resolution.

“Bond Counsel” means any Independent Counsel selected by the State and nationally recognized as an attorney or firm of attorneys whose opinions are generally accepted in the municipal bond market and who is familiar with the transactions contemplated under the Program Resolution. Unless specifically otherwise provided, any opinion of Bond Counsel required by the Program Resolution shall be in writing.

“Bonds” means revenue obligations of the State, however designated and whether Senior, Subordinate, or Junior Subordinate, that are issued pursuant to the Program Resolution and payable, in whole or in part, from the Petroleum Inspection Fees and does not include Bond Anticipation Notes that are payable solely from the proceeds of Bonds authorized in a Supplemental Resolution.

“The Bond Buyer Revenue Bond Index” means the 25-Bond Revenue Bond Index as published by *The Bond Buyer*.

“Book-Entry System” means a book-entry system established and operated for the recordation of Beneficial Owners of Bonds.

“Building Commission” or *“Commission”* means the State of Wisconsin Building Commission.

“Business Day” or *“business day”* means, with respect to any series of Bonds, a day on which (a) banks located in the city in which the Principal Office of any Fiduciary with responsibilities for that series of Bonds is located are not required or authorized by law or executive order to close for business, and (b) the New York Stock Exchange is not closed; *provided*, that a Supplemental Resolution may provide for a different meaning with respect to Bonds of any series issued pursuant thereto.

“Capitalized Interest Account” means the Capitalized Interest Account created within the Proceeds Fund.

“Claims Account” means the Claims Account created within the Proceeds Fund.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations in effect or proposed from time to time with respect thereto and applicable to the Bonds or the use of the proceeds thereof.

“Counterparty Swap Payment” means a payment due to or received by the State from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by the State under any related Swap Counterparty Guaranty.

“Credit Enhancement Facility” means, if and to the extent provided for in a Supplemental Resolution, with respect to Bonds of one or more series, (1) an insurance policy insuring, or a letter of credit, surety bond, or other guaranty providing a direct or indirect source of funds for, the payment of principal of and interest on such Bonds (but not necessarily principal due upon acceleration of maturity) or (2) a letter of credit, standby purchase agreement, or similar instrument, providing for the purchase of such Bonds (or the Beneficial Ownership Interests therein) on a Tender Date, and in either case, all agreements entered into by the State or the Trustee and the Credit Facility Provider with respect thereto.

“Credit Facility Provider” means any Person or Persons engaged by the State pursuant to a Credit Enhancement Facility, to provide credit enhancement or liquidity for the payment of the principal of and interest on Bonds or the State’s obligation to purchase Bonds (or the Beneficial Ownership Interests therein) on a Tender Date.

“Debt Service” means the aggregate principal payments (whether at stated maturity or pursuant to sinking fund redemption requirements), interest payments and other payments of the State on all Outstanding Bonds and Other Obligations for any Fiscal Year (including any State Swap Payments, less any Counterparty Swap Payments unless the Swap Counterparty is in default with respect to its payment obligations under the related Swap Agreement, and including any fees with respect to Credit Enhancement Facilities); *provided*, however, that for purposes of calculating such amount:

- Any Variable Rate Bonds shall, for any future period for which the actual interest rate is not known on the date of determination (that is, on the date on which Debt Service is being calculated), be assumed to bear interest at the Projected Interest Rate.
- All Outstanding Bond Anticipation Notes shall be assumed to be funded at or before the stated maturity thereof, and all Bond Anticipation Notes which have been authorized by a Supplemental Resolution but not yet issued shall be assumed to be issued and immediately funded on the date of determination, in each case by the issuance of Senior Refunding Bonds in the full amount authorized with respect to such Bond Anticipation Notes, bearing interest at the Projected Interest Rate, and maturing according to such amortization schedule as the State may determine; *provided* that the final maturity must not be later than 20 years from the original issuance of the Bond Anticipation Notes.
- Amounts of principal or interest due on a particular date shall be excluded from the determination of Debt Service to the extent that such amounts are payable from amounts deposited in trust, escrowed, or otherwise set aside for the payment thereof with the Trustee or another Person approved by the State or the Trustee (including, without limitation, amounts in an Escrow Account established in the Redemption Fund or amounts in the Capitalized Interest Account of the Proceeds Fund).
- State Swap Payments, Counterparty Swap Payments, and payments with respect to Credit Enhancement Facilities shall be determined based upon such assumptions as may

be set forth in the Supplemental Resolution authorizing the related Swap Agreement or the Credit Enhancement Facility, as the case may be, or in a State Certificate provided to the Trustee with respect to such Swap Agreement or Credit Enhancement Facility.

- For purposes of applying the additional bonds test in connection with the issuance of Refunding Bonds, the proceeds of such Refunding Bonds shall be assumed to have been applied on their issuance date for the purposes provided in the Supplemental Resolution authorizing such Refunding Bonds.
- Except to the extent provided in a Supplemental Resolution to provide for a subordinate class of Bonds or other obligations with respect to the determination of Debt Service for purposes of limitations relating to Subordinate or Junior Subordinate Bonds or Subordinate or Junior Subordinate Other Obligations, debt service payments with respect to Subordinate or Junior Subordinate Bonds and Subordinate or Junior Subordinate Other Obligations shall not be taken into account.

“Debt Service Coverage Ratio” means the ratio of Projected Annual Revenues to Maximum Annual Debt Service.

“Department” or *“Department of Commerce”* means the State of Wisconsin Department of Commerce.

“Escrow Account” means a separate and distinct Account created within the Redemption Fund or the Junior Subordinate Redemption Fund in connection with the defeasance of any Bonds.

“EMCP” or *“Notes”* means, collectively, the State of Wisconsin Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper of all series issued pursuant to the Notes Supplemental Resolution.

“Event of Default” means one of the events described as such in the Program Resolution.

“Extended Maturity Date” means, for each Bond designated as EMCP, the date that is 270 days after the original issue date.

“Federal Securities” means noncallable, direct obligations of the United States of America.

“Fiduciary” means each of the Trustee, and any co-trustee, Registrar, Issuing Agent, Paying Agent, or other fiscal agent and includes any agent designated by or on behalf of the Building Commission or a Fiduciary to perform the functions of a Fiduciary. One entity may perform multiple Fiduciary functions, and multiple entities may perform a particular Fiduciary function.

“Fiscal Year” means the annual period beginning on July 1 of each year and ending on June 30 of the following year.

“Fund” means any of the funds created by the Program Resolution.

“Holder” means the registered owner of any Bond (which shall be the Securities Depository Nominee so long as a Book-Entry System is being used), as shown on the registration books of the State maintained by the Registrar, except that to the extent and for the purposes provided in a Supplemental Resolution for a series of Bonds (including, without limitation, for purposes of the definition of “Acting Beneficiaries Upon Default”), a Credit Facility Provider that has delivered a Credit Enhancement Facility with respect to such series of Bonds may instead be treated as the Holder of the Bonds of such series.

“Independent Counsel” means an Independent Person duly admitted to practice law before the highest court of any state of the United States of America or the highest court of the District of Columbia, or with respect to opinions relating to the law of a country other than the United

States of America, an Independent Person duly admitted to the practice of law in such country. Unless specifically otherwise provided, any opinion of Independent Counsel required by the Program Resolution shall be in writing.

“Independent Person” means a Person designated by the State and not an employee of the State.

“Indirect Participant” means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

“Interest Account” means the Interest Account created within the Redemption Fund.

“Interest Payment Date” means any date on which interest is due on any Bond pursuant to the Program Resolution.

“Interest Subaccount” means the Interest Subaccount of the Interest Account of the Redemption Fund, created by the Notes Supplemental Resolution and held by the Issuing and Paying Agent.

“Issuance and Administrative Account” means the Issuance and Administrative Account created within the Proceeds Fund.

“Issuing Agent” means the entity designated by or on behalf of the Building Commission to perform such duties as may be required of the Issuing Agent under the Program Resolution or any Supplemental Resolution.

“Issuing and Paying Agent” means, for purposes of Bonds issued as EMCP, the issuing and paying agent for EMCP as appointed by the Notes Supplemental Resolution.

“Junior Subordinate” means, (1) when used with respect to a Bond, a Bond of a series designated as such pursuant to the Supplemental Resolution pursuant to which such series of Bonds is issued, (2) when used with respect to a Credit Enhancement Facility, a Credit Enhancement Facility designated as such pursuant to the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained by the State, and (3) when used with respect to a Swap Agreement, a Swap Agreement designated as such pursuant to the Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

“Junior Subordinate Principal Account” means the Junior Subordinate Principal Account created within the Junior Subordinate Redemption Fund.

“Junior Subordinate Redemption Fund” means the Junior Subordinate Redemption Fund created under the Program Resolution.

“Master Bond” means one or more Bonds registered in the name of the Securities Depository Nominee, which shall cover all maturities of Bonds identified in the records of the State as being so covered.

“Maximum Annual Debt Service” means, as of the date of determination, the maximum annual Debt Service, as computed for the then current or any future Fiscal Year.

“Note Redemption Accounts” means the Interest Subaccount and the Junior Subordinate Principal Account.

“Notes” or *“EMCP”* means, collectively, the State of Wisconsin Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper of all series issued pursuant to the Notes Supplemental Resolution.

“Notes Supplemental Resolution” means 2000 State of Wisconsin Building Commission Resolution 6, adopted on May 2, 2000.

“*Original Maturity Date*” means, for each Bond designated as EMCP, the date that is from 1 to 180 days from the original issue date, specified as such in the confirmation sent to the Holder of the EMCP.

“*Other Beneficiary*” shall mean a Person who is a Beneficiary of an Other Obligation.

“*Other Obligation*” shall mean the State’s obligations to pay any amounts under any Swap Agreements and any Credit Enhancement Facilities.

“*Outstanding*” means, (1) when used in reference to the Bonds as at any given date, all Bonds which have been duly authenticated and delivered by the Registrar or Issuing Agent under the Program Resolution *except*:

- Bonds which have been canceled by the Registrar at or before such date or which have been delivered to the Registrar at or before such date for cancellation;
- Bonds deemed to be paid because their payment has been provided for;
- Bonds in lieu of which other Bonds have been authenticated;
- Bonds not surrendered for payment when due (unless the State shall default in the payment thereof); and
- Bonds which are otherwise not treated as Outstanding pursuant to the terms of the Supplemental Resolution providing for their issuance; and

(2) when used with respect to Other Obligations, means any Other Obligations, which have become, or may in the future become, due and payable and which have not been paid or otherwise satisfied.

“*Participant*” means a broker-dealer, bank, or other financial institution for which the Securities Depository holds Bonds as a securities depository.

“*Paying Agent*” means an agent of the State designated by or on behalf of the Building Commission to process payments to Holders of the Bonds.

“*PECFA Program*” means the Petroleum Environmental Cleanup Fund Award Program, which is a petroleum storage remediation program provided for in the Wisconsin Statutes.

“*Permitted Investments*” means any of the following:

- Direct obligations of the United States and of agencies of and corporations wholly owned by the United States, and direct obligations of federal land banks, federal home loan banks, central bank for cooperatives and banks for cooperatives, international bank for reconstruction and development, the international finance corporation, inter-American development bank, African development bank and Asian development bank, in each case maturing within one year or less from the date of investment;
- Commercial paper maturing within one year or less from the date of investment and rated prime by the national credit office, if the issuing corporation has one or more long-term senior debt issues outstanding, each of which has one of the three highest ratings issued by Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services, or Fitch, Inc.;
- Certificates of deposit maturing within one year or less from the date of investment, issued by banks, credit unions, savings banks, or savings and loan associations located in the United States and having capital and surplus of at least \$40,000,000; and

- Any other investment permitted by law, so long as each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Unenhanced Bonds will be reduced or withdrawn as a result of such investment, as evidenced by written confirmations thereof delivered from each Rating Agency, or if no Unenhanced Bonds are then Outstanding, but Other Obligations are Outstanding, the Beneficiaries holding such Other Obligations consent to such investment, as evidenced in writing to the Trustee by each such Beneficiary.

“*Person*” means any natural person, firm, association, corporation, company, trust, partnership, public body, or other entity.

“*Petroleum Inspection Fees*” means the fees imposed under Section 168.12 (l), Wisconsin Statutes, the payments under Section 101.143 (4) (h) Im., Wisconsin Statutes, the payments under Section 101.143 (5) (a), Wisconsin Statutes, and the net recoveries under Section 101.143 (5) (c), Wisconsin Statutes.

“*Petroleum Inspection Fund*” means the separate nonlapsible trust fund created under Section 25.47, Wisconsin Statutes, which includes all the funds and accounts created under the Program Resolution and a separate fund held in the state treasury.

“*Principal Account*” means the Principal Account created within the Redemption Fund.

“*Principal Amount*” when used with respect to a Bond, shall mean the then outstanding principal amount of such Bond; *provided*, that to the extent provided in the Supplemental Resolution for Bonds of such series that pay interest less frequently than semiannually, accrued interest or amortized original issue discount with respect to such Bond shall be treated as principal, and to the extent provided in the Supplemental Resolution for Bonds of such series that bear no interest, only the purchase price plus amortized original issue discount shall be treated as principal.

“*Principal Office*” means, with respect to any Fiduciary, the office which may be designated as such, from time to time, by the Fiduciary in writing to the State and (in the case of any Fiduciary which is not the Trustee) to the Trustee.

“*Principal Payment Date*” means the stated maturity date of principal of any Serial Bond, the Sinking Fund Payment Date for any Term Bond, and any other Redemption Date for any Bond.

“*Proceeds Fund*” means the Proceeds Fund created under the Program Resolution.

“*Program Expense Account*” means the Program Expense Account created within the Program Fund.

“*Program Fund*” means the Program Fund created under the Program Resolution.

“*Program Resolution*” means the Program Resolution for State of Wisconsin Petroleum Inspection Fee Revenue Obligations, as adopted by the Building Commission on January 19, 2000, as amended and restated on May 2, 2000, and further amended by a resolution adopted by the Building Commission on July 30, 2003, together with any and all Supplemental Resolutions.

“*Projected Annual Revenues*” means the largest amount of Petroleum Inspection Fees collected in any twelve consecutive months during the eighteen most recent months for which such information is available; *provided*, that if, as a result of legislation enacted prior to the time of determination, the rate of the Petroleum Inspection Fee for any future month will be higher or lower than the rate of Petroleum Inspection Fee in effect for any corresponding prior month, “*Projected Annual Revenues*” shall be adjusted to take such change into account.

“Projected Interest Rate” means the sum of the Bond Buyer Revenue Bond Index, as most recently compiled and published in *The Bond Buyer* as of the date of determination, plus 3% per annum, or if such index is no longer published, *“Projected Interest Rate”* shall mean an interest rate determined in such alternate manner as the State may establish by State Certificate or Supplemental Resolution; *provided*, that each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Unenhanced Bonds will be reduced or withdrawn as a result of the use of such alternate manner of determination, as evidenced by written confirmations thereof delivered from each Rating Agency, or if no Unenhanced Bonds are then Outstanding, but Other Obligations are Outstanding, the Beneficiaries holding such Other Obligations consent to the use of such alternate manner of determination, as evidenced in writing by each such Beneficiary.

“Rate Stabilization Fund” means the Rate Stabilization Fund created under the Program Resolution.

“Rating Agency” means, at any time, any nationally recognized securities rating agency that is then maintaining a rating on the Bonds at the request of the State. *“Rating Agency”* includes the successors and assigns of such agency.

“Rebate Fund” means the Rebate Fund created under the Program Resolution.

“Redemption Date” means the date fixed for redemption of any Bond pursuant to the Program Resolution.

“Redemption Fund” means the Redemption Fund created under the Program Resolution.

“Refunding Bonds” means Bonds issued or to be issued to provide for the payment of principal of (and, to the extent provided by the Supplemental Resolution authorizing the issuance thereof, premium, if any, and interest on) Bonds previously issued under this Resolution or to fund Bond Anticipation Notes.

“Registrar” means the Secretary of Administration or an agent of the State designated by or on behalf of the Secretary of Administration to maintain the registration books for the Bonds.

“Reserve Fund” means the Reserve Fund created under the Program Resolution.

“Reserve Fund Requirement” means, at any time, an amount equal to the greatest amount established as such in any Supplemental Resolution, which may be expressed as a percentage of Outstanding Bonds, as a stated dollar amount, or in any other manner. In calculating the Reserve Fund Requirement, all Bonds to be redeemed or defeased by a series of Refunding Bonds shall be deemed not Outstanding as of the date of calculation.

“Revenue Fund” means the Revenue Fund created under the Program Resolution.

“Revenue Obligations Act” means Subchapter II of Chapter 18, Wisconsin Statutes.

“Revenue Payment Date” shall mean each Business Day on which Petroleum Revenue Fees are received by the Trustee.

“Securities Depository” means the securities depository and any substitute for or successor to such securities depository that shall, at the request of the Building Commission, maintain a Book-Entry System with respect to the Bonds.

“Securities Depository Nominee” means the Securities Depository or the nominee of the Securities Depository in whose name the Bonds are registered during the continuation with such Securities Depository of participation in its Book-Entry System.

“*Senior*” means (1) when used with respect to a Bond, a Bond of a series designated (or deemed to have been designated) as such pursuant to the Supplemental Resolution pursuant to which such series of Bonds is issued, (2) when used with respect to a Credit Enhancement Facility, a Credit Enhancement Facility designated (or deemed to have been designated) as such pursuant to the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained by the State, and (3) when used with respect to a Swap Agreement, a Swap Agreement designated (or deemed to have been designated) as such pursuant to the Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

“*Serial Bonds*” means all Bonds other than Term Bonds.

“*Sinking Fund Payment Date*” means the date on which any Term Bond is to be called for redemption pursuant to the sinking fund requirements of the Supplemental Resolution providing for the issuance thereof or, if not redeemed, the stated maturity date thereof.

“*State*” means the State of Wisconsin.

“*State Certificate*” means a certificate signed by an Authorized Commission Representative and delivered to the Trustee or, if required by the context in which such term is used, to any other Fiduciary.

“*State Direction*” means a direction to the Trustee or, if required by the context in which such term is used, to any other Fiduciary and signed by an Authorized Commission Representative.

“*State Swap Payment*” shall mean a payment due to a Swap Counterparty from the State pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

“*Subordinate*” means, after the adoption of a Supplemental Resolution to provide for the creation of a subordinate class of Bonds or Other Obligations that is subordinate to Senior Bonds and prior to Junior Subordinate Bonds, (1) when used with respect to a Bond, a Bond of a series designated as such pursuant to the Supplemental Resolution pursuant to which such series of Bonds is issued, (2) when used with respect to a Credit Enhancement Facility, a Credit Enhancement Facility designated as such pursuant to the Supplemental Resolution pursuant to which such Credit Enhancement Facility is obtained by the State, and (3) when used with respect to a Swap Agreement, a Swap Agreement designated as such pursuant to the Supplemental Resolution pursuant to which such Swap Agreement is obtained by the State.

“*Supplemental Resolution*” means a resolution adopted by the Building Commission to supplement or amend the Program Resolution.

“*Swap Agreement*” means an interest rate exchange agreement or other interest rate hedge agreement between the State and a Swap Counterparty, as originally executed and as amended or supplemented, for the purpose of (1) converting, in whole or in part, (a) the State’s fixed interest rate liability on all or a portion of any Bonds to a variable interest rate liability, (b) the State’s variable interest rate liability on all or a portion of any Bonds to a fixed interest rate liability, or (c) the State’s variable interest rate liability on all or a portion of any Bonds to a different variable interest rate liability, or (2) providing a maximum or minimum with respect to the State’s variable interest rate liability on all or a portion of any Bonds.

“*Swap Counterparty*” means any Person with whom the State shall, from time to time, enter into a Swap Agreement.

“*Swap Counterparty Guaranty*” means a guaranty in favor of the State given in connection with the execution and delivery of a Swap Agreement under the Program Resolution.

“Tender Date” means, with respect to any Bond or Beneficial Ownership Interest, a date on which such Bond or Beneficial Ownership Interest is required to be tendered for purchase by or on behalf of the State, or has been tendered for purchase by or on behalf of the State pursuant to a right given the Holder or Beneficial Owner of such Bond, in accordance with the provisions in the Supplemental Resolution providing for the issuance thereof.

“Term Bonds” means Bonds that are subject to mandatory redemption on Sinking Fund Payment Dates according to a schedule provided in or pursuant to the Supplemental Resolution providing for the issuance of such Bonds.

“Trustee” means the entity designated by or on behalf of the Building Commission to have custody of the Funds and Accounts and to perform such other duties as may be required of the Trustee under the Program Resolution or any Supplemental Resolution. The Building Commission has designated The Bank of New York to serve as Trustee.

“Unenhanced Bond” means a Bond the payment of the principal of and interest on which is not provided for or secured by a Credit Enhancement Facility.

“Variable Rate Bonds” means Bonds whose interest rate is not fixed for the entire remaining term of such Bonds, but varies on a periodic basis as specified in the Supplemental Resolution providing for the issuance thereof.

“Variable Rate Debt” means (1) all Senior Variable Rate Bonds and Senior Bond Anticipation Notes, and (2) includes any Principal Amount of Bonds with respect to the which the State shall have entered into Senior Swap Agreements that have the effect of shifting the State’s fixed rate liability to a variable rate liability.

“Variable Rate Debt Exposure” means the difference, if any, of (1) the actual aggregate Outstanding Principal Amount of Variable Rate Debt, less (2) the sum of the balance in the Principal Account allocable to Variable Rate Debt plus the balance of the Rate Stabilization Fund.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

This appendix sets forth the auditor's report and audited financial statement for the Petroleum Inspection Fee Revenue Obligations Program for the years ended June 30, 2006 and June 30, 2005.

{This page number is the last sequential page number of the Annual Report to be used in this Part VII of the Annual Report. The following uses page numbers from the auditor's report and financial statements. The sequential page numbers for the Annual Report continue in Part VIII.}

An Audit

Petroleum Inspection Fee Revenue Obligations Program

2005-2006 Joint Legislative Audit Committee Members

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Carol A. Roessler, Co-chairperson
Robert Cowles
Scott Fitzgerald
Mark Miller
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
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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 E. 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 on line at www.legis.wisconsin.gov/lab.

State Auditor - Janice Mueller

Audit Prepared by

Bryan Naab, Director and Contact Person
Erin Scharlau

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STATE OF WISCONSIN

Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

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,

A handwritten signature in cursive script that reads "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.

4 ■ ■ ■ ■ ■ AUDIT OPINION

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.

November 28, 2006

LEGISLATIVE AUDIT BUREAU

by 
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	<u>\$27,642,242</u>	<u>\$26,579,005</u>	(3.8)	<u>\$66,079,609</u>	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.

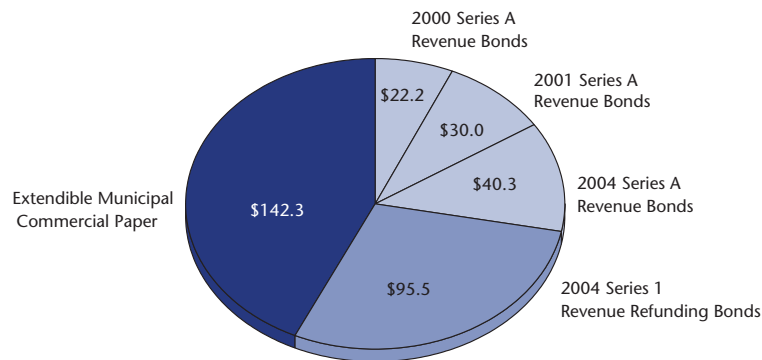
The program's revenue obligations are issued pursuant to Subchapter II of Chapter 18, Wis. Stats.; s. 101.143(9m), Wis. Stats.; and the program resolution and supplemental resolutions adopted by the State of Wisconsin Building Commission. The revenue obligations are payable from, and primarily secured 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	<u>\$ 92,169,743</u>	<u>\$ 86,353,543</u>	(6.3)	<u>\$ 82,669,649</u>	(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)	<u>(82,669,649)</u>	<u>(86,353,543)</u>
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	<u>38,156,504</u>	<u>0</u>
Total Receipts	<u>71,551,484</u>	<u>29,844,441</u>
TOTAL PROGRAM ASSETS AVAILABLE	<u>98,130,489</u>	<u>57,486,683</u>
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	<u>0</u>	<u>0</u>
Total Debt Service	31,933,524	26,290,295
Debt Issuance Costs	0	28,459
Other Costs	<u>117,356</u>	<u>118,148</u>
Total Disbursements	<u>32,050,880</u>	<u>30,907,678</u>
Program Assets Reserved for Debt Service (see Note 4)	66,076,181	26,572,912
Unreserved Program Assets (see Note 4)	<u>3,428</u>	<u>6,093</u>
PROGRAM ASSETS, JUNE 30	<u>\$ 66,079,609</u>	<u>\$ 26,579,005</u>

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

<u>Date Issued</u>	<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Through</u>	<u>First Optional Redemption Date</u>	<u>Amount Issued</u>	<u>June 30, 2006 Amount Outstanding</u>
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	<u>95,470,000</u>	<u>95,470,000</u>
Total Senior Revenue Bonds					<u>\$340,720,000</u>	<u>\$187,950,000</u>

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:

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Bonds Issued</u>	<u>Principal Redeemed</u>	<u>Balance June 30</u>
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

<u>Fiscal Year Ending June 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service on Bonds</u>
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	<u>18,285,000</u>	<u>390,825</u>	<u>18,675,825</u>
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.

<u>Fiscal Year</u>	<u>Balance July 1</u>	<u>Commercial Paper Issued</u>	<u>Principal Repaid</u>	<u>Balance June 30</u>
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.

<u>Month</u>	<u>Petroleum Inspection Fees Remitted by the State to the Trustee</u>	<u>Petroleum Inspection Fees Retained by the Trustee</u>	<u>Petroleum Inspection Fees Transferred by the Trustee to the State</u>
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	<u>6,651,634</u>	<u>2,685,431</u>	<u>3,966,203</u>
Total FY 2005-06	<u>\$114,948,709</u>	<u>\$32,279,060</u>	<u>\$82,669,649</u>
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	<u>9,045,761</u>	<u>2,705,327</u>	<u>6,340,434</u>
Total FY 2004-05	<u>\$115,900,632</u>	<u>\$ 29,547,089</u>	<u>\$86,353,543</u>

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

	<u>Fiscal Year 2005-06</u>	<u>Fiscal Year 2004-05</u>
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	<u>4,146,636</u>	<u>2,368,449</u>
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)**

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

November 28, 2006

LEGISLATIVE AUDIT BUREAU
by 
Bryan Naab
Audit Director