

STATE OF CONNECTICUT

**AUDITORS' REPORT
INTERSTATE ENVIRONMENTAL COMMISSION
FOR THE YEAR ENDED
JUNE 30, 2004**

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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The Board of Commissioners
Interstate Environmental Commission

Governor M. Jodi Rell
Members of the Connecticut General Assembly

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Interstate Environmental Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Interstate Environmental Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Interstate Environmental Commission as of June 30, 2004, and the results of its operation for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also included our report on our consideration of the Interstate Environmental Commission's internal control over financial

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reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 1 for the year ended June 30, 2004, the Interstate Environmental Commission implemented a new financial reporting model as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

The management’s discussion and analysis information and budgetary comparison information on pages 3 through 4 and on page 9, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

October 19, 2005
State Capitol
Hartford, Connecticut

INTERSTATE ENVIRONMENTAL COMMISSION (IEC)

Management's Discussion and Analysis (MDA)

June 30, 2004

Who We Are

The Interstate Environmental Commission is a joint agency of the States of New York, New Jersey, and Connecticut. The IEC was established in 1936 under a Compact between New York and New Jersey and approved by Congress. The State of Connecticut joined the Commission in 1941.

The mandates of the Commission are governed by the Tri-State Compact, Statutes, and the IEC's Water Quality Regulations. Its responsibilities and programs include activities in areas such as air pollution, resource recovery facilities and toxics; however, the IEC's continuing emphasis is on water quality, an area in which the Commission is a regulatory and enforcement agency. Public education and outreach are essential elements that are integrated into IEC's programs.

An Overview of the Financial Statements

New standards issued by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, have changed the format of the basic financial statements. Due to these changes, few comparisons have been made between the current and prior year. In subsequent years, the MDA will focus on year-to-year comparisons.

The discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The following provides an overview and analysis of the Commission's financial performance of its activities for the fiscal year ended June 30, 2004. The reader is encouraged to consider this information in conjunction with the fiscal year end financial statements and footnotes.

Financial Highlights

§ The assets of the Commission exceeded its liabilities, at the close of the 2004 fiscal year by \$1,790,473. Of this amount \$1,694,586 may be used to meet the ongoing obligations of the Commission.

§ The Commission's net assets decreased by \$41,405. This decrease is primarily attributable to the change from the modified approach to the accrual basis. In subsequent years, as the MDA focuses on year-to year comparisons, the government-wide statements will show if Commission's financial position has improved or deteriorated as a result of the year's operations.

INTERSTATE ENVIRONMENTAL COMMISSION (IEC)

Management's Discussion and Analysis (MDA) - Continued

June 30, 2004

§ As of the close of the 2004 fiscal year, the Commission's governmental funds had an ending fund balance of \$1,766,564. The Commission's net change in fund balance decreased by \$4,076.

§ The budgetary comparison schedule shows a favorable net increase in fund balance for the fiscal year ended June 30, 2004, of \$157,957. The increase is mainly attributable to a timing on the purchase of equipment and the hiring of an employee, but also on cost saving measures on outside services, general office supplies and expenses, and communications.

§ The Commission has no debt.

In fiscal 2005 the Commission will continue to pursue grant opportunities and coordinate our activities with our member jurisdictions.

INTERSTATE ENVIRONMENTAL COMMISSION
 Government-wide Statement of Net Assets
 June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents (Notes 1 and 2)	\$ 223,647
Investments (Notes 1 and 2)	1,055,725
Receivables	
State of New York (Note 3)	388,000
Federal-Water Pollution Control Program	122,726
Interest	1,664
Security Deposit (Note 7)	<u>6,390</u>
Total Current Assets	<u>1,798,152</u>
Capital Assets, net of accumulated depreciation:	
Laboratory Equipment	57,138
Office Equipment	24,800
Vehicles & Vessel	<u>13,949</u>
Total Capital Assets, net (Note 4)	<u>95,887</u>
Total Assets	<u>1,894,039</u>
LIABILITIES	
Accounts Payable	31,588
Compensated Absences	<u>71,978</u>
Total Liabilities	<u>103,566</u>
NET ASSETS	
Invested in capital assets, net	95,887
Unrestricted	<u>1,694,586</u>
Total Net Assets	<u>\$ 1,790,473</u>

The Notes to the Financial Statements are an integral part of this statement.

INTERSTATE ENVIRONMENTAL COMMISSION
Government-wide Statement of Activities
For the Year Ended June 30, 2004

Expenses:	
Personal Services	\$ 881,766
Fringe Benefits and Payroll taxes	207,597
Office, Lab and Equipment Rentals	118,078
Travel and Car Expense	85,266
General Office Supplies	69,256
Laboratory Supplies	57,084
Depreciation	44,992
Equipment	26,531
Communications	20,196
Boat Expense	15,916
Printing and Advertising	12,140
Contractual Services	10,526
Utilities	<u>8,972</u>
Total Program Expenses	<u>1,588,320</u>
Program Revenues:	
Operating Grants and Contributions	<u>631,562</u>
Net Program Expense	<u>926,758</u>
General Revenues:	
State of New York	388,000
State of New Jersey	383,000
State of Connecticut	84,956
Interest Income	9,944
Miscellaneous Income	<u>19,453</u>
Total General Revenues	<u>885,353</u>
Change in Net Assets	(41,405)
Net Assets – beginning of the year (as restated)	<u>1,831,878</u>
Net Assets – end of the year	<u>\$ 1,790,473</u>

The Notes to the Financial Statements are an integral part of this statement.

INTERSTATE ENVIRONMENTAL COMMISSION

Balance Sheet
Governmental Fund
June 30, 2004

	General <u>Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 223,647
Investments	1,055,725
Receivables:	
State of New York	388,000
Federal-Water Pollution Control Program	122,726
Interest	1,664
Security Deposit	<u>6,390</u>
Total Assets	<u>\$ 1,798,152</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	31,588
Fund Balance	<u>1,766,564</u>
Total Liabilities and Fund Balance	<u>\$ 1,798,152</u>
Total Fund Balance	\$ 1,766,564
Total net assets reported for governmental activities in the Statement of Net Assets is different because:	
Governmental Funds do not report capital assets, net of accumulated depreciation on the Balance Sheet, which is reported on the Statement of Net Assets of the Government-wide Statements.	95,887
Governmental Funds do not report compensated absences on the Balance Sheet, which is reported on the statement of Net Assets of the Government-wide Statements.	<u>(71,978)</u>
Total Net Assets of Governmental Activities	<u>\$ 1,790,473</u>

The Notes to the Financial Statements are an integral part of this statement.

INTERSTATE ENVIRONMENTAL COMMISSION

Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual – Budgetary Basis
 For the Fiscal Year Ended June 30, 2004

	Original and Final		Variance Favorable (Unfavorable)
Revenues	<u>Budget</u>	<u>Actual</u>	
State of New York	\$ 388,000	\$ 388,000	\$ -
State of New Jersey	383,000	383,000	-
State of Connecticut	84,956	84,956	-
Federal Grants	623,825	554,223	(69,602)
Interest Income	10,000	10,226	226
Miscellaneous Income	<u>-</u>	<u>19,453</u>	<u>19,453</u>
Total Revenues	<u>1,489,781</u>	<u>1,439,858</u>	<u>(49,923)</u>
 Expenditures			
Salaries - Regular	882,229	848,522	33,707
- Part-Time	40,833	39,894	939
- Bonus	-	1,000	(1,000)
Social Security	69,461	67,370	2,091
Health Insurance	138,800	130,679	8,121
Compensation Insurance	6,800	5,833	967
Unemployment Insurance	4,500	4,875	(375)
Retirement Incentive	18,513	16,754	1,759
Computer	3,500	2,363	1,137
Outside Services	19,500	8,572	10,928
Transportation & Subsistence	28,000	26,162	1,838
Costs			
Operating Costs			
Commission Vehicles	62,400	59,353	3,047
Commission's Boat	24,300	16,554	7,746
General Office Supplies & Expenses	106,800	70,134	36,666
Printing & Binding	23,800	12,075	11,725
Communications			
Telephone & Tolls	29,000	15,490	13,510
Postage	10,000	7,222	2,778
Electricity & Water	14,800	8,893	5,907
Lab Supplies & Expenses	60,000	58,764	1,236
Equipment - Add. & Repl.	38,000	869	37,131
Rent - Office	74,300	73,944	356
- Lab	27,000	27,000	-
- Off Premises Storage	9,500	8,054	1,446
- Boat	<u>36,820</u>	<u>10,600</u>	<u>26,220</u>
Total Expenditures	<u>1,728,856</u>	<u>1,520,976</u>	<u>207,880</u>
 Net Increase (Decrease) in Fund Balance for the Year			
	<u>\$ (239,075)</u>	<u>\$ (81,118)</u>	<u>\$ 157,957</u>

The Notes to the Financial Statements are an integral part of this statement.

INTERSTATE ENVIRONMENTAL COMMISSION

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Interstate Environmental Commission (Commission) have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Commission's significant accounting policies are described below.

A. Reporting Entity

On October 27, 2000, the Interstate Environmental Commission, formerly known as the Interstate Sanitation Commission, received Congressional approval for its name change. The official citation for the Federal authorization changing the name is contained in the Congressional Energy and Water Development Appropriations Act, 2001, Public Law #106-377, Title VI, Section 606(a) and (b).

The Commission is a Tri-State agency created by the States of Connecticut, New Jersey and New York through enabling legislation and a Tri-State Compact (Compact). The statutory authorities are contained in Connecticut General Statutes Section 22a-294 et seq.; New Jersey Permanent Statutes, Title 32, 32:18-1 et seq.; New York State Consolidated Laws, Title 5, Section 21-0501 et seq.; Congressional Consent 49 Stat. 932 (1935).

The Commission is responsible for water quality within the established Interstate Environmental District (District), which extends approximately from Sandy Hook on the New Jersey coast to include all of New York Harbor, north on the Hudson River to the northerly boundaries of Westchester and Rockland counties, easterly into Long Island Sound to New Haven Connecticut, to Port Jefferson on the north shore of Long Island, and along the south shore of Long Island extending easterly to the Fire Island Inlet.

The Commission consists of five commissioners from each state who, except for the Attorney General of Connecticut, are Gubernatorial appointments and serve in the individual states.

The Commission formulates rules, regulations, and orders for the abatement of water pollution and may resort to the courts for its enforcement needs. It is the official planning and coordinating agency for the New Jersey-New York-Connecticut Air Quality Control Region.

The Commission also has broad financial responsibilities including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

State funds for the operation of the Commission are appropriated per the Compact formula of contribution: New Jersey (45 percent), New York (45 percent) and Connecticut (10 percent). In addition, the Commission receives yearly grant funding from the United States

Environmental Protection Agency through Section 106 of the Clean Water Act – Water Pollution Control – State and Interstate Program Support Grant.

B. New Governmental Accounting Standards

For its fiscal year ended June 30, 2004, the Commission adopted GASB Statement No. 34 – *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 establishes new standards for external financial reporting, which includes government-wide financial statements and the presentation of Management’s Discussion and Analysis (MD&A). MD&A is considered to be required supplemental information and precedes the financial statements.

The adoption of this statement resulted in a comprehensive modification of the financial reporting required for the Commission. The Statement requires the presentation of Government-wide Financial Statements which had not been previously reported. The Fund Level Statements required are similar to the financial statements that have been previously issued by the Commission.

C. Government-wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities that reports information about the Commission as a whole. The statement of net assets reports all financial and capital resources.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenues include: 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All revenues are considered to be general revenues unless they are required to be program revenues.

Fund financial statements are presented to report additional and detailed information about the Commission. Fund financial statements accompany the government-wide financial statements and present a summary reconciliation to explain differences between the information reported in the governmental funds and the corresponding information reported in the government-wide governmental activities.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period

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or soon enough thereafter to be used to pay liabilities of the current period. The Commission considers revenues as available if they are collected within the next fiscal year. Expenditures generally are recorded when the related fund liability is incurred.

The Governmental Fund is the General Fund: This is the Commission's only operating fund. It is used to account for all financial resources.

E. Budgets/Budgetary Control

In accordance with the requirements of the Tri-State Compact, the Commission annually prepares its operating budget for the forthcoming year. The budget, which is prepared in accordance with GAAP, serves as a formal plan for expenditures and the proposed means for financing them.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and GAAP.

The accounting records of the Commission are maintained on a budgetary basis. The budgetary basis follows a cash basis rather than the modified accrual basis under GAAP. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial statements.

F. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date ranging from within three months to eight months of the date acquired by the Commission. Maturity is determined by the bonds available at the time of purchase. Investments are stated at fair market value.

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

H. Inventories

The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are those acquired for general government purposes with an initial, individual cost equal to or more than \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated assets are recorded at their estimated fair value at the date of donation. Maintenance, repairs and minor renovations are not capitalized.

Capital assets of the Commission are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	5
Laboratory Equipment	3-10
Vessel	10
Office Equipment	5-10

J. Compensated Absences

The Commission employees are allowed to accumulate, with certain restrictions, unused vacation pay up to a maximum of forty (40) days at any time during their working careers and to redeem such unused leave time in cash upon termination, death, or retirement. Amounts of vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources are reported in the Government-wide Statement of Net Assets.

K. Net Assets / Fund Balances

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets and unrestricted fund balance.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation reduces the balance of these assets in this category
- *Unrestricted Net Assets* – This category represents net assets of the Commission, not restricted for any project or other purpose.

L. Use of Estimates

The preparation of financial statements requires management of the Commission to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Bank balances are insured up to \$100,000 in the aggregate by the FDIC for each bank. At June 30, 2004, the book value of the Commission’s deposits was \$223,647 and bank balances of the Commission’s cash and deposits amounted to \$276,208. The Commission’s deposits, which are displayed on the Combined Balance Sheet as “cash”, are categorized as:

Auditors of Public Accounts

Category 1

Insured or collateralized with securities held by the Commission or its agent in the Commission's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name.

Category 3

Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Commission's name.

	<u>Categories</u>			<u>Bank Balance</u>
	(1)	(2)	(3)	
Deposits	<u>\$276,208</u>	<u>\$0</u>	<u>\$0</u>	<u>\$276,208</u>

Investments

At June 30, 2004, the book value of the Commission's investments totaled \$1,055,725 and the bank balance amounted to \$1,055,992. The investments are categorized as follows:

Category 1

Insured or registered, or securities held by the Commission or its agent in the Commission's name.

Category 2

Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.

Category 3

Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Commission's name.

	<u>Categories</u>			<u>Fair Value</u>
	(1)	(2)	(3)	
U. S Treasury Bills	<u>\$1,055,992</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,055,992</u>

NOTE 3 – APPROPRIATIONS RECEIVABLE

The Commission's accounting records are maintained on a fiscal year basis that begins July 1 of each year. The fiscal years for New Jersey and Connecticut also begin on July 1 of each year. The New York fiscal year begins April 1. A New York State appropriation receivable existed June 30, 2004, which represented the New York fiscal year 2005 appropriation to the Commission.

Federal government receivables are composed of amounts established as appropriations based upon grant awards, the expenditure of which is the basis for reimbursement. Federal receivables are reported in accordance with GAAP as defined in NCGA Statement 2 – *Grant Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments*, published by the National Council on Governmental Accounting. Under this basis, encumbrances do not constitute expenditures, and recognition of grants and entitlements as revenue is primarily based on expenditures. Since the amounts due from the Federal government are considered to be collectible, no allowance has been established for doubtful collections.

NOTE 4 – CAPITAL ASSETS

A summary of Capital Asset activity for the year ended June 30, 2004 follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>
Office Equipment	\$ 76,284	\$ -	\$ 2,774	\$ 73,510
Office and Laboratory Furniture	7,725	-	-	7,725
Laboratory Equipment	324,128	-	-	324,128
Automobile and Boat Equipment	<u>149,886</u>	<u>-</u>	<u>-</u>	<u>149,886</u>
 Total Capital Assets	 <u>\$558,023</u>	 <u>\$ -</u>	 <u>\$ 2,774</u>	 558,249
 Less: Accumulated Depreciation				 <u>(459,362)</u>
 Capital Assets, Net				 <u>\$ 95,887</u>

NOTE 5 – COMPENSATED ABSENCES PAYABLE

Commission employees are allowed to accumulate a maximum of forty (40) days of unused vacation time and to redeem such unused leave time in cash, with certain limitations, upon retirement, death, or termination. Amounts of vested or accumulated vacation leave that are expected to be liquidated with expendable available financial resources are reported in the Government-wide Statement of Net Assets. These amounts are accrued as a liability at June 30, 2004 totaling \$71,978.

NOTE 6 – APPROPRIATIONS AND GRANTS

Under the Compact, the signatory States agreed to provide annual appropriations for the salaries, office and other administrative expenses of the Commission in the following percentages of the total State funding:

New York	45 percent
New Jersey	45
Connecticut	<u>10</u>
Total	<u>100 percent</u>

Auditors of Public Accounts

The minimum statutory funding under the Compact for the States of New York and New Jersey is \$15,000 each in any one year. The minimum funding for the State of Connecticut is \$3,333 in any one year.

Appropriations and grants for the fiscal year ending June 30, 2004 were as follows:

New York	\$ 388,000
New Jersey	383,000
Connecticut	<u>84,956</u>
Total Appropriations	<u>\$ 855,956</u>
Grants	
EPA Water Pollution Control	<u>\$ 631,562</u>
Total Appropriations and Grants	<u>\$1,487,518</u>

NOTE 7 – LEASE OBLIGATIONS

The Commission leases office space for administrative functions. The lease is considered for accounting purposes to be an operating lease. The current lease was renewed on April 30, 2000 and extended for five years through April 30, 2005. The commission was required to submit a security deposit of \$6,390. The future minimum lease payment (excluding required escalation costs) for the fiscal year ended June 30, 2005 is \$40,572. This amount reflects the future minimum lease payments based on the current index, which is subject to change.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS

The New Jersey State Public Employees' Retirement System (NJERS) and the New York State and Local Employees' Retirement System (NYERS) cover employees of the Interstate Environmental Commission. The systems are cost-sharing, multiple-employer, contributory defined benefit plans which were established in 1944 and 1961 under New Jersey and New York statutes, respectively. Payroll of the Commission is covered 45 percent under the New Jersey system and 45 percent under the New York system.

The systems' designated purposes are to provide retirement benefits and other benefits to their members. Membership in the systems is mandatory for substantially all full-time employees of the Commission, provided the employee is not required to be a member of another state administered retirement system or other state or local jurisdiction. The systems' Boards of Trustees are responsible for their organization and administration.

Vesting and Benefit Provisions (NJERS)

The vesting and benefit provisions are set by statute (N.J.S.A. 43:15A and 43:3B). The system provides retirement, death and disability benefits. All benefits vest after ten years of service. Retirement benefits for age and service are available at the age of 60 and are generally determined to be 1/55 of final average salary for each year of service credit (as

defined). Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for two percent of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Funding Policy

The contribution policy is set by statutes, and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by the State of New Jersey legislation. NJPERS provides for employee contributions of three percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in NJPERS. The actuarially determined contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Trend Information

Historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due was presented in the State of New Jersey's June 30, 2004 NJPERS financial report. The report may be obtained by writing State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

Vesting and Benefit Provisions (NYERS)

The vesting and benefit provisions are set by statute. The system provides retirement benefits related to years of service and final average salary, death, and disability benefits, vesting of benefits after a set period of credited service, and optional methods of benefit payment.

There are four "tiers" of membership related to date of initial membership. Provisions for each tier differ as to the qualifying age or years of service requirement for service retirement, the benefit formula used in calculating the retirement allowance, the date of membership, and the contributory or noncontributory nature of the plan. Although fully vested with five years of service, members with less than ten years of service may continue to choose to terminate their retirement system membership when they leave covered employment, receive a refund of their contributions, and forego any future benefit for themselves or their beneficiaries.

Funding Policy

The contribution policy is set by statute and requires contributions by active members and the State. Once members are assigned a rate, it is not normally adjusted. However, those employees who joined the NYERS prior to July 27, 1976, or those employees with ten years of membership as discussed above, are not required to make contributions. Employees who became members of the NYERS on July 27, 1976 and thereafter, or do not have ten years of membership, are presently required to contribute three percent of 45 percent of their annual gross wages. The state's contribution on behalf of Commission employees is not included in these statements.

The NYERS Financial Report may be obtained by writing The New York State and Local Retirement Systems, Office of the State Comptroller, A.E. Smith State Office Building, Albany, NY 12244.

NOTE 9 – EARLY RETIREMENT INCENTIVE PROGRAM (NJERIP and NYRIP)

On July 19, 2002 and August 27, 2002, the Commission approved participation in the New Jersey Early Retirement Incentive Program (NJERIP) and the New York Retirement Incentive Program (NYRIP), respectively. Two employees elected to participate in the NJERIP, whereby \$76,931 would be due and payable two years after the retirement date. Both employees have retired; one employee retired effective 1/1/2003. The other employee retired effective 9/1/2003. The costs associated with the retirement of these two individuals will be borne entirely by the State of New Jersey. Therefore, no liability is recorded on the Commission's Financial Statements

NOTE 10 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets, errors and omission, injuries to employees, and natural disasters. The Commission has obtained insurance coverage to guard against these events which will provide minimum exposure to the Commission should they occur.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage in any of the prior three years.

NOTE 11 – CLAIMS AND JUDGEMENTS

The Commission participates in a Federal program that is partially funded by grants received from the Federal Environmental Protection Agency. Expenditures financed by the grant are subject to audit by the appropriate grantor agency. If expenditures were disallowed due to noncompliance with grant program regulations, the Commission would be required to reimburse the grantor government. As of June 30, 2004, significant amounts of grant expenditures had not been audited by the Federal agency, but the Commission believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Commission.

SINGLE AUDIT

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Commissioners
Interstate Environmental Commission

Governor M. Jodi Rell
Members of the Connecticut General Assembly

We have audited the financial statements of the Interstate Environmental Commission, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 19, 2005. We conducted our audit 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.

Compliance:

As part of obtaining reasonable assurance about whether the Interstate Environmental Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which would 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Interstate Environmental Commission's internal control over financial reporting in order to determine our auditing

procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Interstate Environmental Commission's Board of Commissioners, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, and Federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

October 19, 2005
State Capitol
Hartford, Connecticut

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Commissioners
Interstate Environmental Commission

Governor M. Jodi Rell
Members of the Connecticut General Assembly

Compliance:

We have audited the compliance of the Interstate Environmental Commission with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2004. The Interstate Environmental Commission's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of the Interstate Environmental Commission's management. Our responsibility is to express an opinion on the Interstate Environmental Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Interstate Environmental Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Interstate Environmental Commission's compliance with those requirements.

In our opinion, the Interstate Environmental Commission complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2004.

Internal Control Over Compliance:

The management of the Interstate Environmental Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Interstate Environmental Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards:

We have audited the financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated October 19, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements of the Interstate Environmental Commission taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedure applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the Interstate Environmental Commission's Board of Commission, its management, Connecticut's Governor, Members of the General Assembly, the State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, the Office of Policy and Management and those Federal agencies that provided financial assistance. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

October 19, 2005
State Capitol
Hartford, Connecticut

INTERSTATE ENVIRONMENTAL COMMISSION

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

	CFDA #	Grant Number	Grant Period	Award Amount	Balance 7/1/2003	Cash Received	Cash Expended	(Accounts Receivable) June 30, 2004
U.S. Environmental Protection Agency	66.419	1002990-03	10/1/02-9/30/03	\$642,200	(\$45,388)	\$147,200	\$101,812	\$ -
Water Pollution Control Agreement								
U.S. Environmental Protection Agency	66.419	1002990-04	10/1/03-9/30/04	\$617,700	\$ -	\$407,023	\$529,749	(\$122,726)
Water Pollution Control Agreement								
					(\$45,388)	\$554,223	\$631,561	(\$122,726)

INTERSTATE ENVIRONMENTAL COMMISSION
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal award programs of the Commission. The Commission is defined in Note 1 of the Financial Statements. All Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies are included on the schedule of expenditures of Federal awards.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

NOTE 3 – FEDERAL GRANT REVENUE RECOGNITION

Federal grant funds are considered to be earned to the extent of expenditures made under the provision of the grant, and accordingly, when such funds are received they are recorded as deferred revenues until earned.

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related Federal financial reports.

**INTERSTATE ENVIRONMENTAL COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Part I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on financial statements Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ Yes X No

Reportable condition(s) identified that are not considered to be material weakness(es)? ___ Yes X No

Type of auditor’s report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in Accordance with section .510(a) of Circular A-133? ___ Yes X No

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Program or Cluster</u>
66.419	Water Pollution Control - State & Interstate Program Support

Dollar threshold used to distinguish between Type A And Type B programs \$300,000

Auditee qualified as low risk Auditee? X Yes ___ No

Part 2 – Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the general-purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

THERE ARE NONE

Part 3 – Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major Federal programs, as required by OMB Circular A-133.

Current Year Federal Awards

THERE ARE NONE

**INTERSTATE ENVIRONMENTAL COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

This section identifies the status of prior audit findings related to the general-purpose financial statements and Federal awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, and U.S. OMB Circular A-133 (Section .315(a) (b)).

Status of Prior Audit Findings

THERE WERE NONE

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the Interstate Environmental Commission greatly facilitated the conduct of this examination.

Stephanie Novello
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts