Interstate Environmental Commission

Fiscal Year Ended June 30, 2006
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Interstate Environmental Commission for the period of July 1, 2005 to June 30, 2006. If you would like a personal briefing, please call me at (609) 292-3700.

[Signature]  
Stephen M. Eells  
Assistant State Auditor  
September 30, 2008
INTERSTATE ENVIRONMENTAL COMMISSION
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Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

The Board of Commissioners  
Interstate Environmental Commission

INDEPENDENT AUDITOR’S 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 fiscal year ended June 30, 2006, which collectively comprise the commission’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 respective financial position of the governmental activities and the major fund of the Interstate Environmental Commission as of June 30, 2006, and the respective changes in financial position for the fiscal 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 issued our report dated August 27, 2008 on our consideration of the Interstate Environmental Commission’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management’s discussion and analysis and budgetary comparison schedule are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Interstate Environmental Commission’s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. 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 basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephen M. Eells
Assistant State Auditor
August 27, 2008
Management's Discussion and Analysis
Who We Are

The Interstate Environmental Commission (IEC) 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

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 Commission employs a single government fund (the General Fund) for its operations; as a result, the fund financial statements are presented utilizing the modified accrual basis of accounting. This basis of accounting measures cash and all other financial assets that can be readily converted into cash.

Governmental fund statements offer short-term financial information about the activities and operations of the Commission. These statements are presented in the format prescribed by the Governmental Accounting Standards Board (“GASB”). The Commission also presents an entity-wide statement of net assets and statement of activities in its basic financial statements. In contrast to the governmental fund statements, the entity-wide statements provide long-term financial information about the Commission, including the reporting of capital assets and long-term liabilities such as compensated absences.

The following provides an overview and analysis of the Commission’s financial performance of its activities for the fiscal year ended June 30, 2006. The reader is encouraged to consider this information in conjunction with the fiscal year end financial statements and footnotes.
Financial Highlights

- The Commission’s total net assets decreased $37,769 (2%).
- The balance for the Commission’s General Fund increased slightly by $336 during 2006.
- Program Revenues were $719,273, representing an increase of $113,094 in Federal funding during 2006; General Revenues (including State Appropriations) were $923,949, an increase of $45,711 attributable to increases in appropriations from New York State and interest income.
- Program Expenses were $1,680,991, representing an increase of $185,847 during 2006 attributable to increases in personnel services and fringe benefits, rental expenses, office and lab supplies, and contractual services.

FINANCIAL ANALYSIS OF THE COMMISSION

Net Assets — The following table summarizes the Commission’s Net Assets as of June 30, 2006 and 2005:

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and Other Assets</td>
<td>$1,811,952</td>
<td>$1,767,048</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>70,559</td>
<td>98,540</td>
</tr>
<tr>
<td>Total Assets</td>
<td>1,882,511</td>
<td>1,865,588</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>140,534</td>
<td>85,842</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>140,534</td>
<td>85,842</td>
</tr>
</tbody>
</table>

Net Assets:
- Invested in Capital Assets  70,559     98,540
- Unrestricted               1,671,418  1,681,206
- Total Net Assets           $ 1,741,977 $ 1,779,746

The Commission’s Net Assets decreased $37,769 or 2%.
GENERAL FUND OPERATIONS

The following table summarizes the changes in fund balance of the General Fund for fiscal years 2006 and 2005:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Appropriations</td>
<td>$879,236</td>
<td>$855,956</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>719,273</td>
<td>606,179</td>
</tr>
<tr>
<td>Interest on Investments and Deposits</td>
<td>39,165</td>
<td>18,950</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5,548</td>
<td>3,332</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>1,643,222</td>
<td>1,484,417</td>
</tr>
</tbody>
</table>

|                      |          |          |
| EXPENDITURES         |          |          |
| Personnel Services and Fringe Benefits | 1,141,141 | 1,102,668 |
| Other Expenses       | 501,745  | 386,601  |
| Total Expenditures   | 1,642,886| 1,489,269|

CHANGE IN FUND BALANCE - GENERAL FUND 336 (4,852)

FUND BALANCE, JULY 1, 1,761,711 1,766,563

FUND BALANCE, JUNE 30, 1,762,047 1,761,711

General Fund balance increased $336, or 0.01%, during 2006.
INTERSTATE ENVIRONMENTAL COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets at June 30, 2006 and 2005

General Fund

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>$ 71,661</td>
<td>$ 71,661</td>
</tr>
<tr>
<td>Office and Laboratory Furniture</td>
<td>7,725</td>
<td>7,725</td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>324,128</td>
<td>324,128</td>
</tr>
<tr>
<td>Automobile and Boat Equipment</td>
<td>127,949</td>
<td>127,949</td>
</tr>
<tr>
<td>Room 202</td>
<td>2,295</td>
<td>0</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>533,758</td>
<td>531,463</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(463,199)</td>
<td>(432,923)</td>
</tr>
<tr>
<td>Total Capital Assets, net of depreciation</td>
<td>$ 70,559</td>
<td>$98,540</td>
</tr>
</tbody>
</table>

Additional information on the IEC’s capital assets can be found in the Notes to the Financial Statements.

Capital Debt
The Commission had no debt outstanding as of June 30, 2006 and 2005.

CONTACTING THE COMMISSION’S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Commission’s finances to demonstrate the IEC’s accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the offices of the IEC, 311 West 43rd Street, New York, NY 10036.
Financial Statements
INTERSTATE ENVIRONMENTAL COMMISSION
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

ASSETS

Governmental
Activities

Current Assets
Cash and Cash Equivalents $ 237,233
Investments 628,531
Receivables
State of New York 411,280
Federal 523,713
Interest 4,805
Security Deposit 6,390

Total Current Assets 1,811,952

Capital Assets, net of accumulated depreciation
Laboratory Equipment 29,501
Office Equipment 7,757
Vehicles & Vessels 31,350
Room 202 1,951

Total Capital Assets, Net 70,559

Total Assets 1,882,511

LIABILITIES

Accounts Payable 49,905
Compensated Absences 90,629

Total Liabilities 140,534

NET ASSETS

Invested in Capital Assets 70,559
Unrestricted 1,671,418

Total Net Assets $1,741,977

The Notes to the Financial Statements are an integral part of this statement.
# INTERSTATE ENVIRONMENTAL COMMISSION
## STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED JUNE 30, 2006

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>$ 926,335</td>
</tr>
<tr>
<td>Fringe Benefits and Payroll Taxes</td>
<td>224,929</td>
</tr>
<tr>
<td>Office, Lab and Equipment Rentals</td>
<td>141,571</td>
</tr>
<tr>
<td>Travel and Car Expense</td>
<td>77,089</td>
</tr>
<tr>
<td>General Office Supplies</td>
<td>85,155</td>
</tr>
<tr>
<td>Laboratory Supplies</td>
<td>62,181</td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,277</td>
</tr>
<tr>
<td>Equipment</td>
<td>5,673</td>
</tr>
<tr>
<td>Communications</td>
<td>7,537</td>
</tr>
<tr>
<td>Boat Expense</td>
<td>15,996</td>
</tr>
<tr>
<td>Printing and Advertising</td>
<td>14,807</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>79,540</td>
</tr>
<tr>
<td>Utilities</td>
<td>9,901</td>
</tr>
</tbody>
</table>

Total Program Expenses                         | 1,680,991               |

Program Revenues:

| Operating Grants and Contributions            | 719,273                 |

Net Program Expenses                           | 961,718                 |

General Revenues:

| State of New York                             | 411,280                 |
| State of New Jersey                           | 383,000                 |
| State of Connecticut                          | 84,956                  |
| Interest Income                               | 39,165                  |
| Miscellaneous Income                          | 5,548                   |

Total General Revenues                         | 923,949                 |

Change in Net Assets                           | (37,769)                |

Net Assets, Beginning of the Year              | 1,779,746               |

Net Assets, End of the Year                    | $ 1,741,977             |

The Notes to the Financial Statements are an integral part of this statement.
INTERSTATE ENVIRONMENTAL COMMISSION
GOVERNMENTAL FUND
BALANCE SHEET
AS OF JUNE 30, 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$ 237,233</td>
</tr>
<tr>
<td>Investments</td>
<td>628,531</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
</tr>
<tr>
<td>State of New York</td>
<td>411,280</td>
</tr>
<tr>
<td>Federal</td>
<td>523,713</td>
</tr>
<tr>
<td>Interest</td>
<td>4,805</td>
</tr>
<tr>
<td>Security Deposit</td>
<td>6,390</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$1,811,952</td>
</tr>
</tbody>
</table>

| Liabilities And Fund Balance|              |
| Accounts Payable            | $ 49,905     |
| Fund Balance                | 1,762,047    |
| Total Liabilities and Fund Balance | $ 1,811,952 |

Fund Balance $ 1,762,047

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. The cost of the assets is $533,758 and the accumulated depreciation is $463,199. 70,559

Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as a liability in the fund. (90,629)

Net Assets of governmental activities $ 1,741,977

The Notes to the Financial Statements are an integral part of this statement.
INTERSTATE ENVIRONMENTAL COMMISSION
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

General
Fund

Revenues
State of New York $ 411,280
State of New Jersey 383,000
State of Connecticut 84,956
Federal Grants 719,273
Interest Income 39,165
Miscellaneous Income 5,548
Total Revenues 1,643,222

Expenditures
Personal Services 916,931
Contractual Services 79,540
Fringe Benefits and Payroll Taxes 224,210
Travel and Car Expense 77,089
Boat Expense 15,996
General Office Supplies 65,155
Printing and Advertising 14,807
Communications 7,537
Utilities 9,901
Laboratory Supplies 62,181
Office, Lab and Equipment Rentals 141,571
Equipment 7,968
Total Expenditures 1,642,886

Net Change in Fund Balance 336

Fund Balance, Beginning of Year 1,761,711
Fund Balance, End of Year $1,752,047
Net Change in Fund Balance $ 336

Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful life.

Capital Outlay $ 2,295
Depreciation Expense (30,277) (27,982)

Governmental Funds do not report the change in compensated absences liabilities as an increase or reduction of current year expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance; however, this change is reported on the Statement of Activities of the Government-wide Statements (10,123)

Change in Net Assets of Governmental Activities $ (37,769)

The Notes to the Financial Statements are an integral part of this statement.
INTERSTATE ENVIRONMENTAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Interstate Environmental Commission have been prepared in conformity with accounting principles 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 GASB Codification establishes fund types to be used by governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles (GAAP).

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 Interstate Environmental District 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. The Commission 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 to be appropriated per the Tri-State Compact formula of contribution: New Jersey (45%), New York (45%), and Connecticut (10%). In addition, the Commission receives yearly grant funding from the United States Environmental Protection Agency (EPA) through Section 106 of the Clean Water Act (Water Pollution Control - State and Interstate Program Support Grant). During 2006, the Commission also received EPA funds under Section 319 of the Clean Water Act (Nonpoint Source Implementation Grants) through a sub-grant from the State of Connecticut’s Department of Environmental Protection.
B. 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.

C. 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. The government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. 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 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. Expenditures for compensated absences, claims, and judgments are recorded to the extent they would normally be liquidated with available financial resources. Disbursements for prepaid expenses, inventory items, and fixed assets are recorded when expenditures are 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.

Amounts reported as program revenues in the government-wide statement of activities include operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Similarly, general revenues include all state budget appropriations, investment earnings and miscellaneous revenues.

D. Cash and Investments - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Commission. Investments are stated at fair market value.
E. Receivables - All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

F. 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.

G. 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:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>5</td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>3-10</td>
</tr>
<tr>
<td>Vessel</td>
<td>10</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>5-10</td>
</tr>
</tbody>
</table>

H. Compensated Absences - Under the existing policies of 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 the life of 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 are expected to be liquidated with expendable available financial resources are reported in the Government-wide Statement of Net Assets.

I. 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.

J. Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 Federal Deposit Insurance Corporation (FDIC) for each bank. At June 30, 2006, the book value of the Commission's deposits was $237,233 and bank balances of the Commission's cash and deposits amounted to $294,521. All bank balances were insured by FDIC.

Custodial Credit Risk—Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Commission does not have a formal policy for custodial credit risk. As of June 30, 2006, the Commission's bank balance of $294,521 was not exposed to custodial credit risk since all deposits were insured.

Investments - The Commission is permitted to invest public funds in certain types of securities. Examples of the allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, Local Government investment pools, and agreements for the repurchase of fully collateralized securities, if transacted in accordance with the above policy. At June 30, 2006, the book value of the Commission’s investments, consisting of U.S. Treasury Bills, totaled $628,531. The fair value of these investments was $633,555.

NOTE 3-APPROPRIATIONS RECEIVABLE

The Commission's accounting records are maintained on a fiscal year basis, which begins July 1. The fiscal years for New Jersey and Connecticut also begin on July 1. New York's fiscal year begins on April 1. A New York State appropriation receivable existed at June 30, 2006, which represents its fiscal year 2007 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 generally accepted accounting principles 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 the 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.

Receivables as of year-end for the Commission's major fund, including the applicable allowances for uncollectible accounts, if any, are as follows:

<table>
<thead>
<tr>
<th>Receivables:</th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$ 4,805</td>
</tr>
<tr>
<td>State Appropriations (New York)</td>
<td>411,280</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>523,713</td>
</tr>
<tr>
<td><strong>Gross Receivables</strong></td>
<td>939,798</td>
</tr>
<tr>
<td><strong>Less: Allowance for Uncollectibles</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net Total Receivables</strong></td>
<td>$ 939,798</td>
</tr>
</tbody>
</table>
NOTE 4-CAPITAL ASSETS

The following is a summary of Capital Assets activity for the year ended June 30, 2006.

<table>
<thead>
<tr>
<th></th>
<th>Balance July 1, 2005</th>
<th>Additions</th>
<th>Retirements</th>
<th>Balance June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>$71,661</td>
<td>$ –</td>
<td>$ –</td>
<td>$71,661</td>
</tr>
<tr>
<td>Office and Lab Furniture</td>
<td>7,725</td>
<td>–</td>
<td>–</td>
<td>7,725</td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>324,128</td>
<td>–</td>
<td>–</td>
<td>324,128</td>
</tr>
<tr>
<td>Automobile and Boat Equipment</td>
<td>127,949</td>
<td>–</td>
<td>–</td>
<td>127,949</td>
</tr>
<tr>
<td>Room 202</td>
<td>–</td>
<td>2,295</td>
<td>–</td>
<td>2,295</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>$531,463</td>
<td>$2,295</td>
<td>$ –</td>
<td>533,758</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(463,199)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Assets, Net of Depreciation</td>
<td></td>
<td></td>
<td></td>
<td>$ 70,559</td>
</tr>
</tbody>
</table>

NOTE 5-COMPENSATED ABSENCES PAYABLE

Under the existing policy of the 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, 2006 and amount to $90,629.

NOTE 6-APPROPRIATIONS AND GRANTS

Under the Compact, the signatory States agreed to provide by 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%
- New Jersey: 45
- Connecticut: 10

Total: 100%

The minimum statutory funding under the Compact for the States of New York and New Jersey is $15,000 each in any one year, and for the State of Connecticut the minimum funding is $3,333 in any one year. Appropriations and grants for the fiscal year ending June 30, 2006 are as follows:
Appropriations

New York $411,280
New Jersey 383,000
Connecticut 84,956

Total Appropriations $879,236

Grants

EPA Water Pollution Control $716,273
EPA Nonpoint Source Implementation 3,000

Total Grants $719,273

Total Appropriations and Grants $1,598,509

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, which was renewed on May 1, 2005 and extended for five years through April 30, 2015, requires certain expenditures, such as property taxes and utilities above the base rent. The Commission was also required to submit a security deposit of $6,390. The future minimum lease payments for this lease are as follows (excluding required escalation cost):

Fiscal Year Ending

June 30, 2007 $67,953
June 30, 2008 67,953
June 30, 2009 67,953
June 30, 2010 69,428
June 30, 2011 76,803
2012-2015 294,409

The above amounts reflect the future minimum lease payments based on the current index, which is subject to change.
NOTE 8-EMPLOYEE RETIREMENT SYSTEMS

Employees of the Interstate Environmental Commission are covered by the New Jersey State Public Employees Retirement Systems (NJPERS) and New York State and Local Employees' Retirement System (NYERS). The Systems are cost-sharing multiple-employer contributory defined benefit plans which were established in 1955 and 1961 under New Jersey and New York State statutes, respectively. Payroll of the Commission is covered 45% under the New Jersey system and 45% under the New York system.

New Jersey State Public Employees' Retirement System,
New York State and Local Employees' Retirement System

The Systems' designated purposes are to provide retirement benefits and other benefits to their members. Membership in the Systems are 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 (NJPERS)

NJPERS was established in January 1955 under the provision of N.J.S.A. 43:15A. 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 2% 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 laws of the State of New Jersey, and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. NJPERS provides for employee contributions of 5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in NJPERS. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for NJPERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.
Vesting and Benefit Provisions (NYERS)

The vesting and benefit provisions are set by statutes. 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 non-contributory 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.

Contribution Policy (NYERS) - 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, contributions are not required by either those employees who joined the NYERS prior to July 27, 1976 or those employees with ten years of membership in the system. In addition, eligible Tier 1 and 2 members are provided with one additional month of service credit for each year of credited service they will have acquired by the time they retire, up to a maximum of 24 months of additional service. Employees with less than 10 years of membership are subject to an individual contribution requirement of three percent of 45% 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, 110 State Street, Albany, New York 12244-0001.

NOTE 9-RISK MANAGEMENT

The Commission is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board 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 10-CLAIMS AND JUDGMENTS

The Commission participates in certain federal programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Commission may be required to reimburse the grantor government. As of June 30, 2006, significant amounts of grant expenditures have not been audited by the various grantor agencies 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.
Required Supplementary Information
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, 2006

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance Favorable (Unfavorable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of New York</td>
<td>$388,000</td>
<td>$388,000</td>
<td>0</td>
</tr>
<tr>
<td>State of New Jersey</td>
<td>383,000</td>
<td>383,000</td>
<td>0</td>
</tr>
<tr>
<td>State of Connecticut</td>
<td>84,956</td>
<td>84,956</td>
<td>0</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>723,788</td>
<td>713,788</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Interest Income</td>
<td>12,000</td>
<td>37,931</td>
<td>25,931</td>
</tr>
<tr>
<td>Miscellaneous Income</td>
<td>0</td>
<td>5,548</td>
<td>5,548</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>1,591,744</strong></td>
<td><strong>1,613,223</strong></td>
<td><strong>21,479</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries - Regular</td>
<td>948,001</td>
<td>898,169</td>
<td>49,832</td>
</tr>
<tr>
<td>- Part Time</td>
<td>19,500</td>
<td>18,151</td>
<td>1,349</td>
</tr>
<tr>
<td>Social Security</td>
<td>73,255</td>
<td>69,435</td>
<td>3,820</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>153,182</td>
<td>146,571</td>
<td>6,611</td>
</tr>
<tr>
<td>Compensation Insurance</td>
<td>6,800</td>
<td>5,875</td>
<td>925</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>3,200</td>
<td>2,186</td>
<td>1,014</td>
</tr>
<tr>
<td>Computer</td>
<td>3,000</td>
<td>1,979</td>
<td>1,021</td>
</tr>
<tr>
<td>Outside Services</td>
<td>77,870</td>
<td>37,994</td>
<td>39,876</td>
</tr>
<tr>
<td>Transportation &amp; Subsistence Costs</td>
<td>29,000</td>
<td>27,499</td>
<td>1,501</td>
</tr>
<tr>
<td>Operating Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission Vehicles</td>
<td>57,700</td>
<td>48,453</td>
<td>9,247</td>
</tr>
<tr>
<td>Commission's Boat</td>
<td>25,400</td>
<td>16,290</td>
<td>9,110</td>
</tr>
<tr>
<td>General Office Supplies &amp; Expenses</td>
<td>90,800</td>
<td>83,817</td>
<td>6,983</td>
</tr>
<tr>
<td>Printing &amp; Binding</td>
<td>21,800</td>
<td>16,034</td>
<td>5,766</td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Telephone &amp; Tolls</td>
<td>15,000</td>
<td>6,304</td>
<td>8,696</td>
</tr>
<tr>
<td>- Postage</td>
<td>6,000</td>
<td>999</td>
<td>5,001</td>
</tr>
<tr>
<td>Electricity &amp; Water</td>
<td>15,610</td>
<td>10,293</td>
<td>5,317</td>
</tr>
<tr>
<td>Lab Supplies &amp; Expenses</td>
<td>63,000</td>
<td>58,528</td>
<td>4,472</td>
</tr>
<tr>
<td>Equipment – Additions &amp; Replacements</td>
<td>34,000</td>
<td>8,169</td>
<td>25,831</td>
</tr>
<tr>
<td>Rent - Office</td>
<td>105,098</td>
<td>102,227</td>
<td>2,871</td>
</tr>
<tr>
<td>- Lab</td>
<td>27,000</td>
<td>27,000</td>
<td>0</td>
</tr>
<tr>
<td>- Off Premises Storage</td>
<td>9,800</td>
<td>8,844</td>
<td>956</td>
</tr>
<tr>
<td>- Boat</td>
<td>4,000</td>
<td>3,500</td>
<td>500</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>1,789,016</strong></td>
<td><strong>1,598,317</strong></td>
<td><strong>190,699</strong></td>
</tr>
</tbody>
</table>

Net Increase (Decrease) in Fund

<table>
<thead>
<tr>
<th>Balance for the Year</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($197,272)</td>
<td>$14,906</td>
<td>$212,178</td>
</tr>
</tbody>
</table>

Page 22
**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 accounting principles generally accepted in the United States of America, 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 accounting principles generally accepted in the United States of America.

The accounting records of the Commission are maintained on the budgetary basis. The budgetary basis differs from GAAP in that 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.

The following presents a reconciliation of the Commission’s General Fund from the budgetary basis of accounting as presented in the Statement of General Fund Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Budgetary Basis to the GAAP basis of accounting as presented in the Statement of General Fund Revenues, Expenditures and Changes in Fund Balance.

Net Increase (Decrease) in Fund Balance for the Year - (Budgetary Basis) $ 14,906

Adjustments:
- Less: Accruals for Accounts Receivable for Federal Grants at the end of the prior year (518,228)
- Less: Accruals for Accounts Payable at the end of the current year (49,905)
- Less: Accruals for Accounts Receivable for New York State Appropriations at the end of the prior year (388,000)
- Less: Accruals for Accounts Receivable for Interest Income at the end of the prior year (3,571)
- Add: Accruals for Accounts Receivable for Federal Grants at the end of the current year 523,713
- Add: Accruals for Accounts Payable at the end of the current year 5,336
- Add: Accruals for Accounts Receivable for New York State Appropriations at the end of the current year 411,280
- Add: Accruals for Accounts Receivable for Interest Income at the end of the current year 4,805

Excess (Deficit) of Revenues Over Expenditures - (GAAP Basis) $ 336
Single Audit
The Honorable Jon S. Corzine  
Governor of New Jersey  

The Honorable Richard J. Codey  
President of the Senate  

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

The Board of Commissioners  
Interstate Environmental Commission  

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2006, and have issued our report thereon dated August 27, 2008. 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.
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Interstate Environmental Commission management’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 an opinion 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 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 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.

Compliance and Other Matters

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 grant agreements, 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 report is intended solely for the information and use of the Interstate Environmental Commission’s management, Board of Commissioners, federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen M. Eells
Assistant State Auditor
August 27, 2008
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

The Board of Commissioners  
Interstate Environmental Commission

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

Compliance

We have audited the compliance of the Interstate Environmental Commission with the types of compliance requirements described in the U.S. 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, 2006. 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 are 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, 2006.

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 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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.

This report is intended solely for the information and use of the Interstate Environmental Commission’s management, Board of Commissioners, federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen M. Eells
Assistant State Auditor
August 27, 2008
## INTERSTATE ENVIRONMENTAL COMMISSION
### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
#### FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Grant Number or Identifier</th>
<th>Grant Period</th>
<th>Award Amount</th>
<th>Balance July 1,2005</th>
<th>Cash Received</th>
<th>Expenditures June 30, 2006</th>
<th>Balance (Accounts Receivable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>Water Pollution Control Agreement</td>
<td>66.419</td>
<td>1002900-05</td>
<td>10/01/04- 9/30/06</td>
<td>$713,788</td>
<td>$518,228</td>
<td>$713,788</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>Water Pollution Control Agreement</td>
<td>66.419</td>
<td>1002900-06</td>
<td>10/01/05- 9/30/07</td>
<td>$694,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>Passed Through Connecticut Department Of Environmental Protection</td>
<td>Nonpoint Source Implementation</td>
<td>66.460</td>
<td>12060-DEP43000-20871</td>
<td>3/30/06- 9/30/07</td>
<td>$10,000</td>
<td>0</td>
</tr>
</tbody>
</table>

Total Federal Assistance | $ (518,228) | $713,788 | $719,273 | $ (523,713) |
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 Commission's 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 modified accrual basis of accounting, as described in Note 1 (C) to the Commission’s basic financial statements.

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.

NOTE 4 – RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with the amounts reported in the Commission’s basic financial statements.

NOTE 5 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

NOTE 6 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor’s Results section of the Schedule of Findings and Questioned Costs.
INTERSTATE ENVIRONMENTAL COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Part I Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued on financial statements. Unqualified

Internal control over financial reporting:

1) Material weakness (es) identified? __Yes X No

2) 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 Section

Internal Control over major programs:

1) Material weakness (es) identified? __Yes X No

2) 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:

<table>
<thead>
<tr>
<th>CFDA Numbers(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.419</td>
<td>U. S. Environmental Protection Agency</td>
</tr>
<tr>
<td></td>
<td>Water Pollution Control-State</td>
</tr>
<tr>
<td></td>
<td>And Interstate Program Support</td>
</tr>
</tbody>
</table>

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

Auditee qualified as low-risk auditee? X Yes __ No
INTERSTATE ENVIRONMENTAL COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Part 2 - Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the basic 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, 2006

This section identifies the status of prior audit findings related to the basic 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