

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS

AUDIT REPORT

For the year ended June 30, 2003

Charles E. Harris & Associates, Inc.

Certified Public Accountants



**Auditor of State
Betty Montgomery**

Board of Directors
Eastgate Regional Council of Governments
5121 Mahoning Avenue
Youngstown, Ohio 44515

We have reviewed the Independent Auditor's Report of the Eastgate Regional Council of Governments, Mahoning County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2002 to June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Eastgate Regional Council of Governments is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 9, 2004

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EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
AUDIT REPORT
For the Year Ended June 30, 2003

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

**Board of Directors
Eastgate Regional Council of Governments
Youngstown, Ohio**

We have audited the financial statements of the Eastgate Regional Council of Governments, Youngstown, Ohio as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Council'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 Eastgate Regional Council of Governments, Youngstown, Ohio, as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund type 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 issued a report dated November 29, 2003, on our consideration of the Eastgate Regional Council of Governments, Youngstown, Ohio's internal control over financial reporting and 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.

Our audit was made for the purpose of forming an opinion on the financial statements of the Eastgate Regional Council of Governments, Youngstown, Ohio taken as a whole. The accompanying schedule of federal awards expenditures 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 financial statements. The supplemental data on pages 19 through 32 (as listed in the Table of Contents) is presented for additional analysis and are not a required part of the financial statements of the Eastgate Regional Council of Governments, Youngstown, Ohio. Such information has been subjected to the auditing procedures 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.

Charles E. Harris & Associates, Inc.
November 29, 2003

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
BALANCE SHEET
JUNE 30, 2003**

ASSETS

Current Assets

Cash	345,605
Accounts Receivable (Net)	299,609
Prepaid Expenses	<u>15,170</u>

Total Assets 660,384

Other Assets

Restricted Dredging Project Escrow Cash	50,502
Deferred Charges	<u>765</u>

Total Other Assets 51,267

Property and Equipment (Note A):

Furniture and Fixtures	16,832
Equipment	173,755
Less: Accumulated Depreciation	<u>(161,313)</u>

Total Property and Equipment 29,274

TOTAL ASSETS **740,925**

LIABILITIES AND RETAINED EARNINGS

Current Liabilities

Accounts Payable	78,431
Payroll Withholding	4,779
Accrued Payroll	32,028
Fringe Benefits (Note D)	117,816
Payroll Taxes	8,273
Deferred Revenue	<u>84,468</u>

Total Current Liabilities 325,795

Non-Current Liabilities

Liability for Dredging Project Escrow	<u>50,502</u>
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Total Non-Current Liabilities 50,502

Total Liabilities 376,297

Retained Earnings 364,628

TOTAL LIABILITIES AND RETAINED EARNINGS **740,925**

The notes to the financial statements are an integral part of these statements.

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

OPERATING REVENUE:

Membership Dues	\$ 168,936
Charges for Services	277,226
Miscellaneous	1,663
Golf Outing	<u>4,285</u>
TOTAL OPERATING REVENUES	<u>452,110</u>

OPERATING EXPENSES:

Salaries	505,223
Other Expenses	265,300
General Administrative and Fiscal Costs	98,559
Computer Updates	9,905
Travel	5,501
Telephone	8,783
Duplicating and Printing	8,307
Machine Rental and Maintenance	8,747
Office Supplies	6,582
Occupancy	88,745
Insurance	1,155
Professional Services	23,415
Postage	4,608
Miscellaneous	696
Depreciation	8,894
Golf Outing	4,390
Paid Leave	114,923
Hospitalization	98,073
Payroll Taxes	<u>107,495</u>
TOTAL OPERATING EXPENSES	<u>1,369,301</u>

Operating Loss	(917,191)
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NON-OPERATING REVENUE:

Federal	862,902
State	81,569
Interest Income	<u>645</u>
TOTAL NON-OPERATING REVENUE	<u>945,116</u>

Net Income	27,925
Retained Earnings - July 1, 2002	<u>336,703</u>
Retained Earnings - June 30, 2003	<u><u>\$ 364,628</u></u>

The notes to the financial statements are an integral part of these statements.

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>June 30, 2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net Income	\$ 27,925
Adjustments to reconcile Increase in Retained Earnings to Net Cash Provided by Operating Activities:	
Depreciation	8,894
(Increase) Decrease in Operating Assets:	
Accounts Receivable	113,719
Prepaid Expenses	(15,170)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	36,923
Accrued Wages and Benefits	11,075
Payroll Withholding	(2,072)
Payroll Taxes	(2,902)
Escrow Liability	<u>50,502</u>
Net Cash Provided by Operating Activities	200,969
Cash Flows from Capital and Related Financing Activities:	
Capital Assets Acquisition	<u>(14,950)</u>
Net Cash Provided by (Used by) Capital and Related Financing Activities	(14,950)
Net Increase (Decrease) in Cash & Cash Equivalents	213,944
Cash & Cash Equivalents, Beginning of Year	<u>182,163</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 396,107</u></u>

The notes to the financial statements are an integral part of these statements.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

General

Eastgate Regional Council of Governments (EASTGATE) was established on January 1, 1973. EASTGATE is a government entity created under the provisions of Chapter 167 of the Ohio Revised Code.

EASTGATE is organized as a voluntary organization of local government subdivisions in Ashtabula, Columbiana, Mahoning, and Trumbull counties. Its purpose is to foster a cooperative effort in regional planning, programming, and the implementation of regional plans and programs. It is a forum for the discussion and study of common problems of a regional nature and for the development of policy and action recommendations relating thereto. EASTGATE is considered a jointly governed organization since each of the participating counties have equal representation and the counties have no financial responsibility.

EASTGATE derives its funds to support its operations from Federal and State grants, dues from local government bodies desiring membership in EASTGATE, and contractual agreements between local government bodies and EASTGATE for the performance of specific studies and surveys. Because EASTGATE derives a majority of its revenues from dues and charges for services, these statements are shown as proprietary activities.

With respect to proprietary activities, EASTGATE has adopted GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*. EASTGATE has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

EASTGATE is governed by a General Policy Board which utilizes an administrative staff headed by a director for daily operations.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of EASTGATE are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from EASTGATE.

Component units are legally separate organizations for which EASTGATE is financially accountable. EASTGATE is financially accountable for an organization if they appoint a voting majority of the organization's governing board and 1) they are able to significantly influence the programs or services performed or provided by the organization; or 2) they are legally entitled to or can otherwise access the organization's resources; they are legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or they are obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent of EASTGATE in that they approve the budget, the issuance of debt, or the levying of taxes.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Based on the above description, there are no component units within EASTGATE.

Method of Accounting

EASTGATE's funds are accounted for using the accrual basis of accounting. Revenues are recognized as earned from grant agencies when the related expenses are recognized. Direct costs are billed to grantor agencies at actual cost; indirect costs are billed at a provisional rate and an adjustment is made annually for differences between amount billed and indirect costs incurred. Local revenue funds are recognized as revenue in the period in which they are assessed. The recognition of local revenue funds received which related to assessments for subsequent events is deferred.

Cash and Cash Equivalents

For purposes of the cash flows statement and for presentation on the balance sheet, EASTGATE considers all liquid debt instruments purchased with temporary cash that have an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. EASTGATE's policy as to depreciation is to amortize the cost of depreciable assets over their estimated useful lives computed by the straight-line method. Furniture and equipment are purchased principally with local funds.

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

State statutes classify monies held by EASTGATE into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in EASTGATE, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that EASTGATE has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit account including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Legislation now permits interim monies to be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-loan money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time, and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purchase of arbitrage, the use of leverage, and short selling are prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of EASTGATE and must be purchased with the expectation that it will be held until maturity.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of EASTGATE's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited within the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

The following information classified deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*.

Deposits

The Governmental Accounting Standards Board has established risk categories for deposits as follows:

- Category 1 -** Insured or collateralized with securities held by EASTGATE or its agent in EASTGATE's name.
- Category 2 -** Collateralized with securities held by the pledging financial institution's trust department or agent in EASTGATE's name.
- Category 3 -** Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in EASTGATE's name.)

All deposits are carried at cost. At year end, the carrying amount of EASTGATE's cash and deposits was \$396,107, and the bank balance was \$490,506. Of the bank balance, \$255,179 was insured by FDIC and \$235,327 was classified as Risk Category 3.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Investments

The Governmental Accounting Standards Board has established risk categories for investments as follows:

- Category 1* - Investments that are insured or registered or for which the securities are held by EASTGATE or its agent in EASTGATE's name.
- Category 2* - Uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in EASTGATE's name.
- Category 3* - Uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent, but not in EASTGATE's name.

EASTGATE had no investments at June 30, 2003.

3. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Pension Benefit Obligation

All employees of EASTGATE participate in the OPERS, a cost-sharing multiple employer defined benefit pension plan. The OPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the OPERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees is 8.5%. The 2002 employer rate (the latest information available) for local government employer units was 13.55% of covered payroll, 8.55% to fund the pension benefit obligation and 5.0% to fund health care. The contribution requirements of plan members and EASTGATE are established and may be amended by the Public Employees Retirement Board. EASTGATE's contributions to the OPERS for the years ending June 30, 2003, 2002, and 2001, were \$96,010, \$99,787, and \$81,823, respectively, which represents 100 percent contributions for all three years.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

3. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS) (continued)

Other Postemployment Benefits

In addition to the pension benefit obligation described above, the OPERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the OPERS is set aside for funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contribution rate (identified above). The portion that was used to fund health care for the year for the year 2003 was 5.0%, which amounted to \$35,428 of covered payroll.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Benefits are advance-funded on an actuarially determined basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2001 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The number of benefit recipients eligible for OPEB at December 31, 2001 was 402,041.

4. ACCUMULATED UNPAID EMPLOYEE BENEFITS

EASTGATE employees generally earn vacation ranging 10 to 25 days per year based on the length of service. The amount accrued for vacation leave was \$79,073. The amount accrued for sick leave was \$38,743 for a total liability for fringe benefits of \$117,816.

5. LEASE

EASTGATE leases its office facility under an operating lease which began December 1, 2001 and is for a five year term expiring November 30, 2006.

Minimum future rental commitments under a non-cancelable operating lease having a remaining term of 4 years are as follows:

July 1, 2003 to June 30, 2004	\$ 64,126
July 1, 2004 to June 30, 2006	128,251
July 1, 2006 to November 30, 2006	<u>28,125</u>
Total Minimum Payments Required	<u>\$ 220,502</u>

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Financial Statements
For the Year Ended June 30, 2003

6. COST ALLOCATION METHOD

EASTGATE annually has a Cost Allocation Plan agreement with the Ohio Department of Transportation (ODOT). This agreement establishes a preliminary fringe benefit rate and an indirect cost rate in advance of the beginning of the agreement year so that a budget can be prepared. However, the approved rates are based on estimates and will be revised by ODOT as an adjustment in future cost allocation plan agreements. Periodic billings are prepared based on the preliminary approved rates.

Costs were distributed to the projects and activities pursuant to a cost allocation plan and/or a method of allocation, as applicable, as required by Office Management and Budget Circular A-87 and Handbook 6042.1 Rev.

7. CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain expenditures may be questioned as not appropriate under terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, will be immaterial.

8. RISK MANAGEMENT

EASTGATE is exposed to various risks of loss related to torts, theft of, damage to, destruction of assets, errors and omissions, injuries to employees and natural disasters. In order to minimize these components of risk, EASTGATE has obtained insurance coverage for risk of loss as follows:

Liability Aggregate Limit	\$	2,000,000
Each Occurrence		1,000,000
Fire Legal Liability		250,000
Medical Expenses		5,000
Business Property		150,000
Contractor's Equipment		8,970
Automobile		1,000,000
Tenants Liability		250,000
Deductible		250

Settled claims have not exceeded commercial coverage in any of the past three years. Also, EASTGATE did not reduce the limits of liability significantly in the current year.

Eastgate Regional Council of Governments

Schedule of Federal Awards Expenditures

For the Year Ended June 30, 2003

Federal Grantor/Pass Through Grantor Program Title	Grant Number	CFDA Number	Receipts Recognized	Program Expenditures
<u>U.S. Department of Transportation</u>				
Passed Through The Ohio Department of Transportation:				
Federal Highway Administration:				
Highway Research	9230	20.205	\$ 460,755	\$ 460,755
Highway Research Carryover	9230	20.205	20,877	20,877
STP	9230	20.205	80,000	80,000
STP Carryover	9230	20.205	5,464	5,464
CMAQ - Ozone Action	8617	20.205	100,000	100,000
CMAQ - Ozone Action Carryover	8617	20.205	8,025	8,025
Rideshare Program	9230	20.205	<u>30,000</u>	<u>30,000</u>
Total Ohio Department of Transportation			705,121	705,121
Passed Through The Western Reserve Transit Authority:				
Federal Transit Administration:				
Section 9				
2003 Program	5307	20.507	<u>19,175</u>	<u>19,175</u>
Total Western Reserve Transit Authority			<u>19,175</u>	<u>19,175</u>
Total U.S. Department of Transportation			<u>724,296</u>	<u>724,296</u>
<u>U.S. Environmental Protection Agency</u>				
Water Quality Planning	604(b)	66.458	<u>50,538</u>	<u>50,538</u>
Total U.S. Environmental Protection Agency			<u>50,538</u>	<u>50,538</u>
<u>U.S. Department of Defense</u>				
Passed Through The Mahoning Valley				
Economic Development Corporation:				
2002 Program	SCAP02-2	12.002	15,890	15,890
Carryover	SCAP02-2	12.002	<u>19,178</u>	<u>19,178</u>
Total U.S. Department of Defense			<u>35,068</u>	<u>35,068</u>
<u>U.S. Department of Commerce</u>				
Passed Through The State and Urban				
Area Economic Development:				
Planning Program	06-83-04590	11.302	<u>53,000</u>	<u>53,000</u>
Total U.S. Department of Commerce			<u>53,000</u>	<u>53,000</u>
Total Federal Financial Assistance			\$ <u>862,902</u>	\$ <u>862,902</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

1. **General**

The accompanying schedule of federal awards expenditures is a summary of the activity of EASTGATE's federal awards programs. The schedule has been prepared on the accrual basis of accounting.

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

Board of Directors
Eastgate Regional Council of Governments
Youngstown, Ohio

We have audited the financial statements of the Eastgate Regional Council of Governments, Youngstown, Ohio as of and for the year ended June 30, 2003, and have issued our report thereon dated November 29, 2003. 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 Eastgate Regional Council of Governments, Youngstown, Ohio'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 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 that are required to be reported under *Government Auditing Standards*.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Eastgate Regional Council of Governments, Youngstown, Ohio'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 over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial 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.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Eastgate Regional Council of Governments, Youngstown, Ohio in a separate letter dated November 29, 2003.

This report is intended for the information of management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
November 29, 2003

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

**Board of Directors
Eastgate Regional Council of Governments
Youngstown, Ohio**

Compliance

We have audited the compliance of the Eastgate Regional Council of Governments, Youngstown, Ohio with the types of compliance requirements described in *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, 2003. The Eastgate Regional Council of Governments, Youngstown, Ohio'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 Council's management. Our responsibility is to express an opinion on the Council'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 Eastgate Regional Council of Governments, Youngstown, Ohio'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 Council's compliance with those requirements.

In our opinion, the Eastgate Regional Council of Governments, Youngstown, Ohio 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, 2003.

Internal Control Over Compliance

The management of the Eastgate Regional Council of Governments, Youngstown, Ohio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council'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.

This report is intended for the information of management and federal awarding agencies and pass - through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
November 29, 2003

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 SCHEDULE OF FRINGE BENEFITS AND
 COMPUTATION OF FRINGE BENEFIT RATES
 FOR THE YEAR ENDED JUNE 30, 2003**

Fringe Benefits	
Sick, Vacation, and Holiday Pay	\$ 114,923
Hospitalization and Life Insurance	98,073
PERS	96,010
Worker's Compensation, Unemployment & Medicare	<u>11,485</u>
TOTAL FRINGE BENEFIT COSTS (A)	<u>320,491</u>
Direct and Administrative Salaries	
Direct Salaries	\$ 505,223
Indirect Salaries - Administrative	<u>98,559</u>
TOTAL DIRECT AND ADMINISTRATIVE SALARIES (B)	<u>603,782</u>
 FRINGE BENEFIT RATE (A/B)	 53.08%

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
SCHEDULE OF INDIRECT COSTS AND
COMPUTATION OF INDIRECT COST RATES
FOR THE YEAR ENDED JUNE 30, 2003**

Indirect Costs	
Administrative and Fiscal Management	\$ 98,559
Fringe Benefits - \$98,559 x 53.08%	52,315
Postage	4,608
Travel	5,501
Telephone	8,783
Machine Rental and Maintenance	8,747
Duplication and Printing	8,307
Office Supplies	6,582
Depreciation	8,894
Occupancy	88,745
Insurance	1,155
Legal and Audit	23,415
Computer Updates	9,905
Golf Outing	4,390
Miscellaneous	<u>695</u>
 TOTAL INDIRECT COSTS (A)	 <u>330,601</u>
 DIRECT SALARIES (B)	 <u>474,242</u>
 INDIRECT COST RATE (A/B)	 69.71%

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 FHWA/ODOT GRANT
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

		<u>ACTUAL</u>
Revenue:		
FHWA Grant Funds	\$	460,755
ODOT Grant Funds		57,594
Local Match		<u>57,594</u>
 Total Revenue		 <u>575,943</u>
 Expenditures:		
Direct Salaries		240,130
Direct Expenditures		40,454
Fringe Benefits		127,461
Indirect Costs		<u>167,395</u>
 Total Expenditures		 <u>575,439</u>
 Revenue Over/Under Expenditures		 <u><u>505</u></u>
 Grant Funds Received	\$	518,349
 90% of Total Expenditures		 <u>517,895</u>
 Amount in Excess of 90%	\$	 <u><u>454</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 FHWA/ODOT CARRYOVER
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
FHWA Grant Funds	\$ 20,877
ODOT Grant Funds	<u>2,610</u>
Total Revenue	<u>23,487</u>
Expenditures:	
Direct Salaries	11,851
Direct Expenditures	2,495
Fringe Benefits	6,290
Indirect Costs	<u>8,261</u>
Total Expenditures	<u>28,897</u>
Revenue Over/Under Expenditures	<u><u>(5,410)</u></u>
Grant Funds Received	\$ 23,487
90% of Total Expenditures	<u>26,007</u>
Amount in Excess of 90%	\$ <u><u>(2,520)</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 ODOT STP - TRC SOFTMATCH
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	ACTUAL
Revenue:	
Grant Funds	\$ 80,000
TRC Soft Match	20,000
Total Revenue	100,000
Expenditures:	
Direct Salaries	42,753
Direct Expenditures	4,728
Fringe Benefits	22,693
Indirect Costs	29,803
Total Expenditures	99,976
Revenue Over/Under Expenditures	24
Grant Funds Received	\$ 90,000
90% of Total Expenditures	89,979
Amount in Excess of 90%	\$ 21

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 ODOT STP - TRC SOFTMATCH CARRYOVER
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ 5,464
TRC Soft Match	<u>1,366</u>
Total Revenue	<u>6,830</u>
Expenditures:	
Direct Salaries	3,326
Fringe Benefits	1,766
Indirect Costs	<u>2,319</u>
Total Expenditures	<u>7,410</u>
Revenue Over/Under Expenditures	<u><u>(580)</u></u>
Grant Funds Received	\$ 6,147
90% of Total Expenditures	<u>6,669</u>
Amount in Excess of 90%	\$ <u><u>(522)</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 ODOT - CMAQ OZONE
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ <u>100,000</u>
Total Revenue	<u>100,000</u>
Expenditures:	
Direct Salaries	4,335
Direct Expenditures	90,352
Fringe Benefits	2,301
Indirect Costs	<u>3,022</u>
Total Expenditures	<u>100,009</u>
Revenue Over/Under Expenditures	<u><u>(9)</u></u>
Grant Funds Received	\$ 100,000
100% of Total Expenditures	<u>100,009</u>
Amount in Excess of 100%	\$ <u><u>(9)</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 ODOT - CMAQ OZONE CARRYOVER
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ <u>8,025</u>
Total Revenue	<u>8,025</u>
Expenditures:	
Direct Salaries	1,436
Fringe Benefits	762
Indirect Costs	<u>1,001</u>
Total Expenditures	<u>3,198</u>
Revenue Over/Under Expenditures	<u><u>4,826</u></u>
Grant Funds Received	\$ 8,025
100% of Total Expenditures	<u>3,198</u>
Amount in Excess of 100%	\$ <u><u>4,826</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 ODOT STP - RIDESHARE
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ <u>30,000</u>
Total Revenue	<u>30,000</u>
Expenditures:	
Direct Salaries	13,025
Direct Expenditures	980
Fringe Benefits	6,914
Indirect Costs	<u>9,080</u>
Total Expenditures	<u>29,999</u>
Revenue Over/Under Expenditures	<u><u>1</u></u>
Grant Funds Received	\$ 27,000
90% of Total Expenditures	<u>26,999</u>
Amount in Excess of 90%	\$ <u><u>1</u></u>

Note:

Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
 FTA SECTION 9
 STATEMENT OF REVENUE AND EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ 19,175
Local Match	3,835
Total Revenue	<u>23,010</u>
Expenditures:	
Direct Salaries	20,895
Direct Expenditures	5,000
Fringe Benefits	11,091
Indirect Costs	14,566
Total Expenditures	<u>51,552</u>
Revenue Over/Under Expenditures	<u>(28,542)</u>
Grant Funds Received	\$ 18,408
80% of Total Expenditures	41,242
Amount in Excess of 80%	\$ (22,834)

Note:

Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
U.S. DEPARTMENT OF COMMERCE (EDA)
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

	<u>ACTUAL</u>
Revenue:	
Grant Funds	\$ 53,000
Local Match	17,667
Total Revenue	70,667
Expenditures:	
Direct Salaries	31,425
Direct Expenditures	1,490
Fringe Benefits	16,680
Indirect Costs	21,906
Total Expenditures	71,502
Revenue Over/Under Expenditures	(835)
Grant Funds Received	\$ 53,000
75% of Total Expenditures	53,626
Amount in Excess of 75%	\$ (626)

Note:
Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
EPA - WATER QUALITY PLANNING - 604(B)
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

		<u>ACTUAL</u>
Revenue:		
Grant Funds	\$	50,538
Local Match		<u>16,846</u>
Total Revenue		<u>67,384</u>
Expenditures:		
Element #1200.01		
Direct Salaries		4,047
Direct Expenditures		500
Fringe Benefits		2,148
Indirect Costs		<u>2,668</u>
Total Expenditures Element #1200.01		<u>9,363</u>
Element #1200.02		
Direct Salaries		1,845
Direct Expenditures		540
Fringe Benefits		979
Indirect Costs		<u>1,216</u>
Total Expenditures Element #1200.02		<u>4,581</u>
Element #1200.03		
Direct Salaries		15,518
Direct Expenditures		3,746
Fringe Benefits		8,237
Indirect Costs		<u>10,818</u>
Total Expenditures Element #1200.03		<u>38,319</u>
Total Expenditures		<u>52,263</u>
Revenue Over/Under Expenditures		<u>15,121</u>
Grant Funds Received	\$	50,538
75% of Total Expenditures		<u>39,197</u>
Amount in Excess of 75%	\$	<u>11,341</u>

Note:

Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits and 64.00% for Indirect Costs. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits and 69.71% for Indirect Costs. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
U.S. DEPARTMENT OF DEFENSE -
PROCUREMENT TECHNICAL ASSISTANCE FOR BUSINESS FIRMS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

		Actual (7/1/02- 12/31/02)
Revenue:		
Grant Funds	\$	15,890
Local Match		<u>5,297</u>
Total Revenue		<u>21,187</u>
Expenditures:		
Direct Salaries		15,092
Fringe Benefits		<u>8,011</u>
Total Expenditures		<u>23,103</u>
Revenue Over/Under Expenditures		<u><u>(1,916)</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
U.S. DEPARTMENT OF DEFENSE -
PROCUREMENT TECHNICAL ASSISTANCE FOR BUSINESS FIRMS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

	Actual (1/1/03 - 6/30/03)
Revenue:	
Grant Funds	\$ 19,178
Local Match	<u>6,393</u>
Total Revenue	<u>25,570</u>
Expenditures:	
Direct Salaries	15,889
Fringe Benefits	<u>8,434</u>
Total Expenditures	<u>24,322</u>
Revenue Over/Under Expenditures	<u><u>1,248</u></u>

Note: Eastgate invoiced using a fixed rate of 59.00% for Fringe Benefits. The result of our audit revealed that the actual rates for the Fiscal Year should be 53.08% for Fringe Benefits. The actual rates are reflected in this statement, but adjustments to the Financial Statements were not made per instructions by Eastgate Oversight Agency.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
MAHONING COUNTY
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Highway Research Planning and Construction CFDA # 20.205
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS
MAHONING COUNTY
JUNE 30, 2003

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2002, included no material citations or recommendations.

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

EASTGATE REGIONAL COUNCIL OF GOVERNMENTS

MAHONING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 22, 2004**