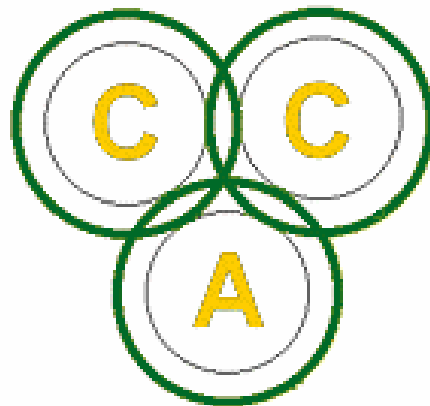


CITY OF CLEVELAND, OHIO

**CENTRAL COLLECTION
AGENCY**



**DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2002 and 2001**

CITY OF CLEVELAND

CENTRAL COLLECTION AGENCY DEPARTMENT OF FINANCE DIVISION OF TAXATION

TABLE OF CONTENTS

	Page
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3-6
Statement of Assets and Liabilities - All Fund Types	8
Statements of Revenues, Expenses and Changes in Net Assets - Internal Service Fund	9
Statements of Cash Flows - Internal Service Fund.....	10
Statement of Changes in Assets and Liabilities – Agency Fund	11
Notes to Financial Statements.....	12-18
Schedule of Cash Receipts and Distribution of Funds.....	19
Schedule of Allocation of Net Operating Expenses	20
Schedule of Income Tax Receivable.....	21

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Central Collection Agency
Division of Taxation
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Jane L. Campbell, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying financial statements of the Central Collection Agency Internal Service and Agency Funds, Division of Taxation, City of Cleveland, Ohio, as of and for the years ended December 31, 2002 and December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the Central Collection Agency's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Central Collection Agency Internal Service and Agency Funds and do not purport to, and do not, present fairly the financial position of the City of Cleveland, as of December 31, 2002 and December 31, 2001, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Collection Agency Internal Service and Agency Funds as of December 31, 2002 and December 31, 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Cash Receipts and Distribution of Funds, the Schedule of Allocation of Net Operating Expenses, and the Schedule of Income Taxes Receivable are presented for purposes of additional analysis and are not a required part of the Central Collection Agency Internal Service and Agency Funds financial statements. Such information has been subjected to the auditing procedures applied in the audits of the Central Collection Agency Internal Service and Agency Funds financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the Central Collection Agency Internal Service and Agency Funds financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 26, 2003

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801

Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361

www.auditor.state.oh.us

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**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the "City") Department of Finance, Division of Taxation (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the fiscal years ended December 31, 2002 and December 31, 2001. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 8.

The Division of Taxation was created in 1966 by the enactment of the City of Cleveland's Income Tax Ordinance providing the City's Income Tax Administrator with the authority to enter into agreements with any other municipal corporation to administer income tax laws and to provide for a central income tax collection facility. The Division began with 14 member communities and currently provides a full range of tax collection services for 44 member communities throughout 14 Ohio counties. The Division employs more than 100 individuals to process more than 1.2 million returns, estimated payments, and tax assessments. In 2002, the Division collected more than \$414 million, which represents over 20% of the total income tax revenues collected for all municipalities within the State of Ohio.

FINANCIAL HIGHLIGHTS

- The assets and the liabilities of the Division equal \$96,453,886 at December 31, 2002.
- The Division's total assets decreased by \$3,950,443 during 2002 primarily due to a decrease in taxes receivable.
- The Division's total cash receipts of \$414 million consisted of \$335 million of employer withholding, \$33 million of business profits, \$40 million of individual payments, and \$6 million of other payments.
- During 2002, the Division's total operational cost was \$6,060,480. This consists of \$4,454,250 of employee's wages and benefits, \$260,281 of allocated charges, and \$1,345,949 of other miscellaneous expenses.
- The Division provides a mechanism for member municipalities to maximize efficiencies, minimize costs and capitalize from economies of scale. Pooling tax collections and investing at current market rates allows the operational costs of the Division to be reduced by interest income. The Division's member municipalities also benefit by printing and mailing large volumes of income tax forms to their taxpayers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City of Cleveland's Division of Taxation Fund, in which the City of Cleveland accounts for the operations of the Department of Finance, Division of Taxation. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The Division of Taxation operates two funds. The operating fund is considered an internal service proprietary fund because the operations of the Division are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities of the Division, the economic resources measurement focus and the accrual basis of accounting is used. This is similar to businesses in the private sector. The second fund is an agency fund, which is used to account for the collection and remittance of income taxes for the member municipalities. For accounting purposes, the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of operations. All financial transactions for the agency fund are reported on the accrual basis of accounting.

The basic financial statements of the Division can be found on pages 8-11 of this report.

The notes to the financial statements and accompanying schedules provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements and accompanying schedules can be found on pages 12-21 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Internal Service and Agency funds of the Division as of December 31, 2002 and 2001:

	2002	2001	Increase/ (Decrease)
Assets:			
Cash and cash equivalents	\$ 12,157,256	\$ 14,090,424	\$ (1,933,168)
Taxes receivable	81,447,294	85,316,896	(3,869,602)
Due from CCA internal service fund	2,507,784		2,507,784
Due from the City of Cleveland	9,004	684,163	(675,159)
Due from member municipalities	<u>332,548</u>	<u>312,846</u>	<u>19,702</u>
Total assets	<u>96,453,886</u>	<u>100,404,329</u>	<u>(3,950,443)</u>
Liabilities:			
Accounts payable	106,643	311,370	(204,727)
Due to CCA agency fund	2,507,784		2,507,784
Due to the City of Cleveland	54,563,022	58,253,076	(3,690,054)
Due to member municipalities	38,701,127	41,190,486	(2,489,359)
Due to other governments	2,741		2,741
Accrued wages and benefits	<u>572,569</u>	<u>649,397</u>	<u>(76,828)</u>
Total liabilities	<u>\$ 96,453,886</u>	<u>\$ 100,404,329</u>	<u>\$ (3,950,443)</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Assets: The Division collects and disburses income tax receipts monthly. Assets primarily consist of cash on hand and anticipated income tax receivable. The decrease in assets is primarily attributable to the Division’s taxes receivable which is substantiated by the overall decrease in income tax collections.

Liabilities: Liabilities primarily consist of amounts owed to member municipalities, therefore, the decline in due to member communities reflects the corresponding decrease in income taxes receivable.

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

	Internal Service Fund		
	2002	2001	Increase/ (Decrease)
Operating Revenues			
Charges for services	\$ 5,798,865	\$ 5,208,438	\$ 590,427
Total operating revenues	5,798,865	5,208,438	590,427
Operating Expenses			
Salaries and wages	3,500,593	3,070,814	429,779
Employee benefits	953,657	849,978	103,679
Postage and office supplies	721,120	735,281	(14,161)
Allocation of City of Cleveland costs	260,281	347,723	(87,442)
Other administrative expenses	<u>624,829</u>	<u>961,299</u>	<u>(336,470)</u>
Total operating expense	<u>6,060,480</u>	<u>5,965,095</u>	<u>95,385</u>
Operating loss	(261,615)	(756,657)	495,042
Interest income	<u>261,615</u>	<u>756,657</u>	<u>(495,042)</u>
Change in net assets	-	-	-
Net assets at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS (Continued)**

The rise in salaries and wages was due to three factors:

- The addition of eight employees in 2002
- The across the board salary increase for all employees of 3.5 percent
- An additional pay period in 2002

These factors contributed to the 14 percent increase over 2001. These same factors correspondingly raised employee benefit costs by 12.2 percent.

The 25.1 percent decrease in the Allocation of City of Cleveland costs was entirely due to eliminating off-site data processing charges. In 2002, the Division was able to keep nearly all computer related charges in-house, which resulted in a cost savings of over \$100,000.

The fluctuation in other administrative expenses was due to accrual expenditures from a prior year period that did not occur in 2001.

Due to steadily declining interest rates, investment income was lower in 2002 by almost \$500,000.

**FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE
FINANCIAL POSITION OR RESULTS OF OPERATION**

The operating budget for the Division that was approved by the Cleveland City Council for 2003 provided for an increase in staffing and personnel expenditures by 5 percent. An increase in staffing in the legal section of the Division is intended to improve compliance with tax laws and in turn increase income tax collections. An increase in income tax revenue should have a positive impact on interest income that will correspondingly have a direct effect on reducing the overall costs to the member municipalities.

Due to the fact that the Division owns the Municipal Income Tax Information Systems (MITIS), computer costs will remain relatively constant.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Division's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City Hall, Room 104, 601 Lakeside Avenue, Cleveland, Ohio 44114.

BASIC FINANCIAL STATEMENTS

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF ASSETS AND LIABILITIES - ALL FUND TYPES
For the Years Ended December 31, 2002 and 2001**

	2002		2001	
	Proprietary Fund Type	Fiduciary Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	Internal Service	Agency	Internal Service	Agency
ASSETS				
Cash and cash equivalents	\$ 3,197,987	\$ 8,959,269	\$ 1,250,255	\$ 12,840,169
Taxes receivable		81,447,294		85,316,896
Due from CCA internal service fund		2,507,784		
Due from the City of Cleveland	9,004		398,258	285,905
Due from member municipalities	9,967	322,581		312,846
TOTAL ASSETS	<u>3,216,958</u>	<u>93,236,928</u>	<u>1,648,513</u>	<u>98,755,816</u>
LIABILITIES				
Accounts payable	106,643		311,370	
Due to CCA agency fund	2,507,784			
Due to the City of Cleveland	27,221	54,535,801	687,746	57,565,330
Due to member municipalities		38,701,127		41,190,486
Due to other governments	2,741			
Accrued wages and benefits	572,569		649,397	
TOTAL LIABILITIES	<u>\$ 3,216,958</u>	<u>\$ 93,236,928</u>	<u>\$ 1,648,513</u>	<u>\$ 98,755,816</u>

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUND
For the Years Ended December 31, 2002 and 2001**

	2002	2001
OPERATING REVENUES		
Charges for services	\$ 5,798,865	\$ 5,208,438
OPERATING EXPENSES		
Salaries and wages	3,500,593	3,070,814
Employee benefits	953,657	849,978
Postage and office supplies	721,120	735,281
Allocation of City of Cleveland costs	260,281	347,723
Other administrative expenses	624,829	961,299
TOTAL OPERATING EXPENSES	6,060,480	5,965,095
OPERATING LOSS	(261,615)	(756,657)
Interest income	261,615	756,657
CHANGE IN NET ASSETS	-	-
NET ASSETS AT BEGINNING OF YEAR	-	-
NET ASSETS AT END OF YEAR	\$ -	\$ -

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUND
For the Years Ended December 31, 2002 and 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member municipalities	\$ 8,552,185	\$ 5,238,747
Cash payments to suppliers of goods and services	(2,337,635)	(2,044,304)
Cash payments for employee services and benefits	(4,528,433)	(3,920,792)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,686,117	(726,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	261,615	756,657
NET CASH PROVIDED BY INVESTING ACTIVITIES	261,615	756,657
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,947,732	30,308
Cash and cash equivalents at beginning of year	1,250,255	1,219,947
Cash and cash equivalents at end of year	\$ 3,197,987	\$ 1,250,255
RECONCILIATION OF OPERATING LOSS TO NET PROVIDED BY OPERATIONS		
Operating loss	\$ (261,615)	\$ (756,657)
Adjustments to reconcile operating loss to net cash used in operations:		
Changes in assets and liabilities:		
Decrease (increase) in due from City of Cleveland	389,254	(194,043)
Decrease (increase) in due from member municipalities	(9,967)	
Increase (decrease) in accounts payable	(204,727)	223,921
Increase (decrease) in due to CCA agency fund	2,507,784	
Increase (decrease) in due to City of Cleveland	(660,525)	(53,365)
Increase (decrease) in due to other governments	2,741	
Increase (decrease) in accrued wages and benefits	(76,828)	53,795
Total Adjustments	1,947,732	30,308
Net Cash Provided by Operating Activities	\$ 1,686,117	\$ (726,349)

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
For the Years Ended December 31, 2002 and 2001**

	Balance 1/1/2002	Additions	Deductions	Balance 12/31/2002
ASSETS				
Cash and cash equivalents	\$ 12,840,169	\$ 414,571,765	\$ (418,452,665)	\$ 8,959,269
Taxes receivable	85,316,896	81,447,294	(85,316,896)	81,447,294
Due from the CCA internal service fund		2,507,784		2,507,784
Due from the City of Cleveland	285,905		(285,905)	
Due from member municipalities	312,846	322,581	(312,846)	322,581
TOTAL ASSETS	\$ 98,755,816	\$ 498,849,424	\$ (504,368,312)	\$ 93,236,928
LIABILITIES				
Due to the City of Cleveland	\$ 57,565,330	\$ 345,343,100	\$ (348,372,629)	\$ 54,535,801
Due to member municipalities	41,190,486	153,506,324	(155,995,683)	38,701,127
TOTAL LIABILITIES	\$ 98,755,816	\$ 498,849,424	\$ (504,368,312)	\$ 93,236,928
	Balance 1/1/2001	Additions	Deductions	Balance 12/31/2001
ASSETS				
Cash and cash equivalents	\$ 19,414,667	\$ 430,351,868	\$ (436,926,366)	\$ 12,840,169
Taxes receivable	51,502,083	85,316,896	(51,502,083)	85,316,896
Due from the City of Cleveland		285,905		285,905
Due from member municipalities	283,898	312,846	(283,898)	312,846
TOTAL ASSETS	\$ 71,200,648	\$ 516,267,515	\$ (488,712,347)	\$ 98,755,816
LIABILITIES				
Due to the City of Cleveland	\$ 45,686,546	\$ 355,323,212	\$ (343,444,428)	\$ 57,565,330
Due to member municipalities	25,514,102	160,944,303	(145,267,919)	41,190,486
TOTAL LIABILITIES	\$ 71,200,648	\$ 516,267,515	\$ (488,712,347)	\$ 98,755,816

See notes to financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE A--DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

The Central Collection Agency, Division of Taxation, City of Cleveland, Ohio (the "Agency") is reported as part of the City of Cleveland's primary government and was created for the purpose of collecting city income taxes and disbursing those funds to the respective member municipalities ("members") after payment of related expenses. Allocations of tax collections to members are based upon information provided by the taxpayers on the returns and supporting data. Such allocations are subject to adjustments in the subsequent year, dependent upon final returns filed by taxpayers and final review by the Agency. Refunds for overpayments are offset against allocated collections as amounts are determined.

Basis of Presentation: The financial statements are presented in accordance with Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) which requires financial statements by fund type. These financial statements present a columnar total for all fund types included in the statement of assets and liabilities.

The following fund types are used by the Agency:

Proprietary Fund Type--Internal Service Fund: This fund is used to account for the services provided to members on a cost-reimbursement basis.

Fiduciary Fund Type--Agency Fund: This fund is used to account for assets held by the Agency as an agent for others.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Model: The accounting policies and financial reporting practices of the Agency comply with accounting principles generally accepted in the United States of America applicable to governmental units. Effective January 1, 2002, the Agency changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These "Reporting Model" statements affect the way the Agency prepares and presents financial information.

Basis of Accounting: All financial transactions for the Agency Fund are reported on the accrual basis of accounting. Under this accounting method, assets and the related liabilities at the end of the year primarily consist of individual income taxes receivable arising from payroll tax withholdings in December and a receivable for quarterly and annual payments of income taxes pertaining to net profits, self-employment and residents taxes earned in the prior years. For accounting purposes, the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of operations. Financial transactions for the Internal Service Fund are reported on the accrual basis of accounting; revenues are recognized when earned and measurable, and expenses are recognized as incurred. For accounting purposes, the operations of the Internal Service Fund are similar to a private-sector business enterprise. Accordingly, in accounting for the operating activities, the economic resources measurement focus is used.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

With respect to proprietary activities, the Agency has adopted GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units that Use Proprietary Accounting*. The Agency 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 or contradict GASB pronouncements.

Supplies: Supplies are expensed when purchased.

Statement of Cash Flows: The Agency utilizes the direct method of reporting for the statement of cash flows as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, for its Internal Service Fund. In a statement of cash flows, cash receipts and cash payments are classified according to operating, non-capital financing, capital and related financing, and investing activities

For purposes of this statement, cash and cash equivalents include highly liquid investments with a maturity of three months or less when purchased and all of the Agency's share of the City of Cleveland's pooled cash account.

Allocation of Expenses: The Agency allocates all operating expenses, net of interest income, to members based upon the arithmetic mean of the percentage of each municipality's transactions to total transactions and the percentage of each municipality's revenue to total revenue.

Allocation of Interest Income: Excess funds are invested on a daily basis and interest income earned on such investments is allocated to members based on the percentage of each municipality's revenue to total revenue. The City of Cleveland receives collections of tax receipts in advance of the regular monthly distribution date, and accordingly, interest income is allocated exclusively to the other members.

Compensated Absences: The Agency accrues for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at current wage rates, with the balance being forfeited.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE C--POOLED AND SEGREGATED CASH AND INVESTMENTS

Cash resources of the City of Cleveland are combined to form a pool of cash and investments which is managed by the Treasurer of the City of Cleveland. Investments in the City of Cleveland Pooled Cash Account, in the amount of \$3,197,987 at December 31, 2002 and \$1,250,255 at December 31, 2001, consist primarily of certificates of deposit, repurchase agreements, U.S. Government securities, the State Treasurer's Asset Reserve Fund (STAROhio) and time deposits and are carried at market value which approximates cost. STAROhio is an investment pool created pursuant to Ohio Statutes and managed by the Treasurer of the State of Ohio. Interest earned on pooled cash and investments is distributed to the appropriate funds utilizing a formula based on weekly average balances of cash and marketable securities of each fund.

Segregated cash amounts of \$8,959,269 for 2002 and \$12,840,169 for 2001 are monies invested by the City Treasurer on behalf of the Agency and are used in daily operations with excess monies invested daily in STAROhio. These investments are carried at market value which approximates cost. Monies due to member agencies are disbursed from these funds on a monthly basis.

The Agency's investments with STAROhio at December 31, 2002 in the amount of \$9,972,669 are not classified by risk categories because these investments do not meet the criteria established by GASB Statement No. 3. At December 31, 2001, the amount was \$10,889,055. The GASB Statement No. 3 disclosure for the amount in the City of Cleveland Pooled Cash Account is included in the Comprehensive Annual Financial Report for the City of Cleveland.

NOTE D--DUE TO AND DUE FROM TRANSACTIONS

During the course of normal operations, the Agency has numerous transactions between its own funds and the municipalities which it serves, including transfers of resources to provide services. Such transactions are generally reflected as due to or due from account balances in the accompanying financial statements.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE D--DUE TO AND DUE FROM TRANSACTIONS (Continued)

Individual fund due to and due from receivables and payables balances as of December 31, 2002 are as follows:

	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Due from CCA internal service fund	\$	\$ 2,507,784	\$ 2,507,784
Due from the City of Cleveland	9,004		9,004
Due from member municipalities	<u>9,967</u>	<u>322,581</u>	<u>332,548</u>
Total Due From	<u>\$ 18,971</u>	<u>\$ 2,830,365</u>	<u>\$ 2,849,336</u>
Due to the CCA agency fund	2,507,784		2,507,784
Due to the City of Cleveland	27,221	54,535,801	54,563,022
Due to other governments	2,741		2,741
Due to member municipalities	<u></u>	<u>38,701,127</u>	<u>38,701,127</u>
Total Due To	<u>\$ 2,537,746</u>	<u>\$ 93,236,928</u>	<u>\$ 95,774,674</u>

Individual fund due to and due from receivables and payables balances as of December 31, 2001 are as follows:

	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Due from the City of Cleveland	\$ 398,258	\$ 285,905	\$ 684,163
Due from member municipalities	<u></u>	<u>312,846</u>	<u>312,846</u>
Total Due From	<u>\$ 398,258</u>	<u>\$ 598,751</u>	<u>\$ 997,009</u>
Due to the City of Cleveland	687,746	57,565,330	58,253,076
Due to member municipalities	<u></u>	<u>41,190,486</u>	<u>41,190,486</u>
Total Due To	<u>\$ 687,746</u>	<u>\$ 98,755,816</u>	<u>\$ 99,443,562</u>

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE E--PENSION AND RETIREMENT PLANS

All full-time employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board (the "Board"). OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Agency was 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Agency's required employer contributions to OPERS for the years ending December 31, 2002, 2001 and 2000 were approximately \$475,000, \$400,000, \$390,000 each year, respectively. The required payments due in 2002, 2001 and 2000 have been made.

NOTE F--OTHER POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postemployment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent in 2002 and 4.30 percent in 2001 was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041 at December 31, 2001. The Agency's actual contributions for 2002 which were used to fund postemployment benefits were approximately \$175,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001 (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial liability were \$16.4 billion and \$4.8 billion, respectively.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE F--OTHER POSTEMPLOYMENT BENEFITS (Continued)

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003 with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NOTE G--RELATED PARTY TRANSACTIONS

The Agency is provided various services by the City of Cleveland. Charges are based on actual use or on a reasonable pro rata basis. The more significant of these costs, as reported in the statement of revenues and expenses of the Internal Service Fund for the years ended December 31, 2002 and 2001, were as follows:

	2002	2001
Data processing	\$ 3,850	\$107,002
City administration	244,190	212,372
Office rent	0	408
Printing services	12,241	27,941
	\$260,281	\$347,723

NOTE H--DUE FROM MEMBER CITIES

The Agency has recorded certain liabilities in the Internal Service Fund related to compensated absences totaling \$322,581 at December 31, 2002 and \$312,846 at December 31, 2001. These amounts are recorded as due from member municipalities receivable in the Agency Fund.

NOTE I--CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Agency for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Agency's financial position, results of operations or cash flows.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DEPARTMENT OF FINANCE
DIVISION OF TAXATION**

**NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001**

NOTE I--CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

Risk Management: The Agency is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2002.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The City participates in the State of Ohio workers' compensation program to provide workers' compensation benefits to its employees.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Agency is immaterial.

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF CASH RECEIPTS AND DISTRIBUTION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Members	Balance Collected and Due Members January 1, 2002		Cash Receipts Net	Total Cash Receipts	Cash Disbursed	Allocation of Net Operating Expenses	Total Disbursements and Expenses	Balance Collected and Due Members December 31, 2002	
	52,538.73	794,199.14						770,061.15	18,614.33
Ada	52,538.73	794,199.14	846,737.87	846,737.87	770,061.15	18,614.33	788,675.48	58,062.39	
Andover	54,249.28	620,200.90	674,450.18	674,450.18	624,205.62	10,197.78	634,403.40	40,046.78	
Bratenahl	64,077.57	1,016,442.06	1,080,519.63	1,080,519.63	944,620.30	18,249.61	962,869.91	117,649.72	
Burton	31,657.43	354,391.35	386,048.78	386,048.78	338,673.42	12,146.16	350,819.58	35,229.20	
Chardon	218,962.80	2,347,943.13	2,566,905.93	2,566,905.93	2,322,130.27	61,938.59	2,384,068.86	182,837.07	
Cleveland	2,977,448.11	282,831,674.29	285,809,122.40	285,809,122.40	279,828,786.16	3,498,226.10	283,327,012.26	2,482,110.14	
Creston	11,698.09	308,172.70	319,870.79	319,870.79	290,433.50	11,417.16	301,850.66	18,020.13	
Dunkirk	3,403.43	61,925.72	65,329.15	65,329.15	57,718.63	3,508.96	61,227.59	4,101.56	
Euclid	2,079,200.92	24,227,545.67	26,306,746.59	26,306,746.59	24,108,286.90	363,090.76	24,471,377.66	1,835,368.93	
Fairport Harbor	46,464.24	586,108.39	632,572.63	632,572.63	577,680.50	16,665.86	594,346.36	38,226.27	
Gates Mills	154,309.54	1,397,480.44	1,551,789.98	1,551,789.98	1,421,354.19	29,130.72	1,450,484.91	101,305.07	
Geneva	57,759.17	1,379,006.12	1,436,765.29	1,436,765.29	1,290,269.36	36,189.81	1,326,459.17	110,306.12	
Geneva-on-the-Lake	3,021.39	89,936.96	92,958.35	92,958.35	85,802.41	5,517.01	91,319.42	1,638.93	
Grand Rapids	9,949.29	197,828.16	207,777.45	207,777.45	189,701.46	8,752.43	198,453.89	9,323.56	
Grand River	20,319.62	297,671.15	317,990.77	317,990.77	292,271.60	5,526.09	297,797.69	20,193.08	
Highland Hills	321,845.59	2,676,999.19	2,998,844.78	2,998,844.78	2,788,870.52	23,986.59	2,812,857.11	185,987.67	
Liberty Center	7,066.57	137,687.69	144,754.26	144,754.26	130,610.20	6,713.88	137,324.08	7,430.18	
Limedale	6,921.29	75,722.51	82,643.80	82,643.80	74,707.43	1,152.29	75,859.72	6,784.08	
Madison	51,054.36	700,807.62	751,861.98	751,861.98	688,394.87	26,252.08	714,646.95	37,215.03	
Marblehead	8,315.18	42,381.45	50,696.63	50,696.63	48,311.83	2,384.81	50,696.64	0.00	
Medina	313,248.42	4,624,132.10	4,937,380.52	4,937,380.52	4,456,555.95	172,704.02	4,629,259.97	308,120.55	
Mentor	2,022,822.69	45,942.82	26,398,195.40	28,421,018.09	25,989,153.07	385,719.54	26,374,872.61	2,046,145.48	
Mentor-on-the-Lake	10,515.32	169,565.39	180,080.71	180,080.71	165,536.00	25,440.39	170,561.52	44,482.65	
Metamora	315,300.67	2,558,640.18	2,873,940.85	2,873,940.85	2,596,474.58	5,025.52	2,628,430.98	245,509.87	
Middlefield	58,210.43	662,836.61	721,047.04	721,047.04	650,365.80	21,776.76	672,142.56	48,904.48	
North Baltimore	43,285.87	536,256.27	579,542.14	579,542.14	527,666.93	14,431.22	542,098.15	37,443.99	
North Perry	53,717.30	857,994.64	911,711.94	911,711.94	846,555.56	10,167.10	856,722.66	54,989.28	
North Randall	117,068.46	1,572,034.46	1,689,102.92	1,689,102.92	1,552,392.69	24,783.11	1,577,175.80	111,927.12	
Village of Oakwood	-	17,856.92	17,856.92	17,856.92	11,379.88	261.71	11,641.59	6,215.33	
Orwell	49,956.78	651,099.21	701,055.99	701,055.99	570,861.48	9,660.51	580,521.99	120,534.00	
Painesville	510,501.17	7,052,563.33	7,563,064.50	7,563,064.50	6,894,051.72	114,296.65	7,008,348.37	554,716.13	
Paulding	25,727.65	415,290.52	441,018.17	441,018.17	402,108.10	17,972.87	420,080.97	20,937.20	
Peninsula	15,419.01	254,462.87	269,881.88	269,881.88	245,518.40	7,478.27	252,996.67	16,885.21	
Perry	49,587.56	415,702.06	465,289.62	465,289.62	421,474.73	12,513.55	433,988.28	31,301.34	
Rock Creek	6,020.58	68,623.92	74,644.50	74,644.50	65,396.43	3,649.07	69,045.50	5,599.00	
Rocky River	702,363.68	7,472,886.64	8,175,250.32	8,175,250.32	7,469,797.29	20,082.15	7,644,704.89	530,545.43	
Seville	50,286.63	676,635.34	726,921.97	726,921.97	659,374.56	29,681.70	679,456.71	47,465.26	
South Russell	73,216.98	986,131.67	1,059,348.65	1,059,348.65	951,227.87	29,681.70	980,909.57	78,439.08	
Timberlake	5,629.35	72,203.38	77,832.73	77,832.73	70,998.27	4,514.24	75,512.51	2,320.22	
Wadsworth	425,317.31	4,888,587.44	5,313,904.75	5,313,904.75	4,794,451.05	124,011.86	4,918,462.91	395,441.84	
Warrensville Heights	632,799.65	9,121,775.87	9,754,575.52	9,754,575.52	8,906,004.07	130,029.97	9,036,034.04	718,541.48	
Willoughby	1,122,305.18	13,955,726.83	15,078,032.01	15,078,032.01	13,857,614.05	219,766.60	14,077,380.65	1,000,651.36	
Willoughby Hills	245,759.43	2,761,244.31	3,007,003.74	3,007,003.74	2,749,096.40	78,372.90	2,827,469.30	179,534.44	
Totals	13,075,265.54	407,028,081.57	420,103,347.11	420,103,347.11	402,396,476.55	5,798,864.73	408,195,341.28	11,908,005.84	

**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTION AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF ALLOCATION OF NET OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2002**

Members	Cost Allocation Percent	Interest Allocation Percent	Cost Allocation Before Interest Income	Interest Income of Municipalities Other Than Cleveland	Allocation of Net Operating Expenses
Ada	0.33474%	0.639470%	\$ 20,287.28	\$ 1,672.95	\$ 18,614.33
Andover	0.189824%	0.499371%	11,504.23	1,306.45	10,197.78
Bratenahl	0.336454%	0.818415%	20,390.71	2,141.10	18,249.61
Burton	0.212733%	0.285348%	12,892.67	746.51	12,146.16
Chardon	1.103616%	1.890508%	66,884.45	4,945.86	61,938.59
Cleveland	57.707206%	0.000000%	3,498,226.10	-	3,498,226.10
Creston	0.199098%	0.248133%	12,066.32	649.16	11,417.16
Dunkirk	0.060051%	0.049861%	3,639.40	130.44	3,508.96
Euclid	6.833209%	19.507445%	414,125.28	51,034.52	363,090.76
Fairport Harbor	0.295364%	0.471921%	17,900.48	1,234.62	16,665.86
Gates Mills	0.529240%	1.125218%	32,074.47	2,943.75	29,130.72
Geneva	0.645075%	1.110343%	39,094.64	2,904.83	36,189.81
Geneva-on-the-Lake	0.094159%	0.072415%	5,706.46	189.45	5,517.01
Grand Rapids	0.151294%	0.159287%	9,169.15	416.72	8,752.43
Grand River	0.101529%	0.239678%	6,153.12	627.03	5,526.09
Highland Hills	0.488833%	2.155456%	29,625.60	5,639.01	23,986.59
Liberty Center	0.115567%	0.110863%	7,003.91	290.03	6,713.88
Lindale	0.025589%	0.060970%	1,311.80	159.51	1,152.29
Madison	0.457527%	0.564274%	27,728.31	1,476.23	26,252.08
Marblehead	0.051601%	0.034125%	2,474.09	89.28	2,384.81
Medina	3.010398%	3.723241%	182,444.60	9,740.58	172,704.02
Mentor	7.282038%	21.255201%	441,326.46	55,606.92	385,719.54
Mentor-on-the-Lake	0.443880%	0.558399%	26,901.25	1,460.86	25,440.39
Metamora	0.08817%	0.136530%	5,382.71	357.19	5,025.52
Middlefield	0.616223%	2.060156%	37,346.09	5,389.69	31,956.40
Northfield	0.382362%	0.533700%	23,173.00	1,396.24	21,776.76
North Baltimore	0.256759%	0.431781%	15,560.83	1,129.61	14,431.22
North Perry	0.190620%	0.645203%	11,974.44	1,807.34	10,167.10
North Randall	0.463570%	1.265765%	28,094.55	3,311.44	24,783.11
Village of Oakwood	0.004939%	0.014378%	299.33	37.62	261.71
Orwell	0.182032%	0.524250%	11,032.03	1,371.52	9,660.51
Painesville	2.131063%	5.678557%	129,152.64	14,855.99	114,296.65
Paulding	0.310957%	0.334382%	18,848.53	875.66	17,972.87
Penninsula	0.132238%	0.204887%	8,014.29	536.02	7,478.27
Perry	0.227925%	0.380347%	13,388.35	874.80	12,513.55
Rock Creek	0.062596%	0.055254%	3,793.62	144.55	3,649.07
Rocky River	3.145774%	6.016991%	190,648.99	15,741.39	174,907.60
Seville	0.354880%	0.544811%	21,507.46	1,425.31	20,082.15
South Russell	0.524034%	0.794010%	31,758.95	2,077.25	29,681.70
Timberlake	0.076996%	0.058136%	4,666.33	152.09	4,514.24
Wadsworth	2.216153%	3.936175%	134,309.51	10,297.65	124,011.86
Warrensville Heights	2.462588%	7.344637%	149,244.69	19,214.72	130,029.97
Willoughby	4.111289%	11.236820%	249,163.87	29,397.27	219,766.60
Willoughby Hills	1.389153%	2.223288%	84,189.37	5,816.47	78,372.90
Totals	100.000000%	100.000000%	\$ 6,060,480.36	\$ 261,615.63	\$ 5,798,864.73

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**CITY OF CLEVELAND, OHIO
CENTRAL COLLECTIONS AGENCY
DIVISION OF TAXATION**

**SCHEDULE OF INCOME TAXES RECEIVABLE
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	Income Taxes Receivable Dec. 31, 2002	Income Taxes Receivable Dec. 31, 2001
Ada	181,121.93	193,853.42
Andover	103,559.73	138,811.99
Bratenahl	361,581.40	432,375.28
Burton	102,802.04	106,624.21
Chardon	615,229.12	680,080.61
Cleveland	52,053,691.14	54,189,623.39
Creston	139,993.45	162,155.50
Dunkirk	20,272.74	16,448.35
Euclid	6,144,724.47	7,013,895.83
Fairport Harbor	153,249.14	150,801.69
Gates Mills	610,579.33	619,416.71
Geneva	429,280.33	293,413.98
Geneva-on-the-Lake	49,415.74	57,197.15
Grand Rapids	94,852.27	103,406.63
Grand River	88,654.71	114,701.22
Highland Hills	347,815.75	320,510.22
Liberty Center	134,639.43	20,426.04
Linndale	10,728.97	13,286.13
Madison	265,800.89	285,920.17
Marblehead	187.82	11,902.12
Medina	1,386,559.57	1,441,233.95
Mentor	5,422,382.82	5,890,487.73
Mentor-on-the-Lake	220,375.00	226,624.03
Metamora	40,431.90	45,978.01
Middlefield	434,570.64	380,647.89
Northfield	177,226.09	194,765.74
North Baltimore	136,364.57	126,823.91
North Perry	95,397.76	100,667.87
North Randall	263,566.66	273,563.73
Village of Oakwood	10,247.76	-
Orwell	103,443.10	114,764.63
Painesville	1,300,142.59	1,283,287.75
Paulding	121,459.39	46,046.65
Peninsula	62,272.23	61,622.23
Perry	75,175.40	113,225.44
Rock Creek	21,426.25	27,005.05
Rocky River	2,244,236.72	2,387,298.96
Seville	207,718.43	204,385.52
South Russell	360,694.59	359,432.94
Timberlake	32,718.67	42,672.41
Wadsworth	1,262,753.24	1,304,657.40
Warrensville Heights	1,970,705.40	1,820,703.73
Willoughby	2,752,231.60	3,001,225.95
Willoughby Hills	837,013.85	944,923.93
	<u>81,447,294.63</u>	<u>85,316,896.09</u>