CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Division of Cleveland Public Power
Department of Public Utilities
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Frank G. Jackson, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying basic financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, (the Division) as of and for the years ended December 31, 2008 and December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Division'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 reasonably assure 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2008 and December 31, 2007, and the respective 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 respective financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2008 and December 31, 2007, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 25, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's ("City") Department of Public Utilities, Division of Cleveland Public Power ("Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2008 and 2007. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 15.

The Division was created in 1906 and charged with the responsibility of the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-seventh largest in the United States. The Division serves an area that is bound by the City limits and presently serves approximately 77,000 customers.

The Division is one of the very few municipal electric companies in the United States that competes with an investor-owned utility, in this case First Energy Corporation's Cleveland Electric Illuminating Company (CEI).

According to the 2007 census reports, the City's estimated population is approximately 438,000 people. There are approximately 216,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains substantially all of its power and energy requirements through agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections. The balance of the Division's power and energy requirements are satisfied with production from the Division's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, the Division intends to participate in three generation projects through its membership in American Municipal Power-Ohio (AMP-Ohio), a nonprofit corporation comprised of municipal utilities. These plants, if constructed, are expected to be completed and operational in 2012 and 2013.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $205,779,000, $197,178,000 and $186,575,000 at December 31, 2008, 2007 and 2006, respectively. Of these amounts, $72,450,000, $72,648,000 and $72,461,000 are unrestricted net assets at December 31, 2008, 2007 and 2006, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $8,601,000, $10,603,000 and $7,708,000 during 2008, 2007 and 2006, respectively. Operating revenue increased by $2,935,000 or 1.9%. Purchased power increased by $3,327,000 or 4.0% and total operating expenses increased by $4,372,000 or 3.2% for 2008. In addition, investment income decreased by $1,943,000, or 47.8%, whereas interest expense increased by $1,490,000, or 13.5%, and amortization of bond issuance costs and discounts increased by $410,000, or 48.6%, due to the bond refinancing and issuance of new bonds completed in April 2008.

FINANCIAL HIGHLIGHTS (Continued)

- During 2008, the Division had an increase in capital assets, net of accumulated depreciation of $5,527,000 or 1.8%. The principal capital expenditures in 2008 were for acquiring CEI street lights, new service connections, pole replacements, replacing and upgrading distribution feeders, expansion of the Ridge Road substation, building betterments and the continued implementation of automated meters. The automated meters allow for more accurate billing of consumption, more timely reading of meters and a reduction in man-hours associated with meter reading.

- The Division's total long-term bonded debt increased by $65,053,000 and decreased by $8,045,000 for the years ended December 31, 2008 and 2007, respectively. The increase in 2008 is attributed to a combination of $93,713,000 new bonds issued, $20,325,000 bonds refunded and scheduled debt service payments made to bondholders.

- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC). For additional information see Note L. The Division paid SECA charges to Midwest Independent System Operator from December 2004 to March 2006. In 2008, the Division received a SECA refund of $4,000 and has received $5,030,000 as of December 31, 2008.

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's Division of Cleveland Public Power Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Cleveland Public Power. 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.

The Division of Cleveland Public Power Fund is considered an enterprise fund because the operations of the Division are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Division, the economic resources measurement focus and accrual basis of accounting is used. This is similar to businesses in the private sector.

The basic financial statements of the Division can be found on pages 15 – 20 of this report. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 21 - 38 of this report.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2008, 2007 and 2006.

	2008	2007	2006
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 319,393	$ 313,866	$ 309,122
Restricted assets	74,620	3,972	21,079
Unamortized bond issuance costs	3,947	2,330	2,590
Current assets	88,952	89,943	71,135
Total assets	486,912	410,111	403,926
Net Assets and Liabilities:			
Net Assets:			
Invested in capital assets, net of related debt	126,891	121,128	111,156
Restricted for debt service	6,438	3,402	2,958
Unrestricted	72,450	72,648	72,461
Total net assets	205,779	197,178	186,575
Liabilities:			
Long-term obligations	253,481	186,658	192,193
Current liabilities	27,652	26,275	25,158
Total liabilities	281,133	212,933	217,351
Total net assets and liabilities	$ 486,912	$ 410,111	$ 403,926

***Restricted assets**:* The Division's restricted assets increased by $70,648,000 in 2008 as compared to a decrease of $17,107,000 in 2007. The increase in 2008 is primarily due to the issuance of new bonds for system expansion.

Current assets: The Division's current assets decreased by $991,000 in 2008 and increased by $18,808,000 in 2007. The decrease in 2008 is mainly due to the following:

- An increase in current cash and cash equivalents of $28,913,000 resulting from the decrease in investments of $30,017,000 due to the declining investment returns during the year.
- The decrease in net accounts receivable of $390,000 in 2008 is due to increased collection activity and increased allowance for doubtful accounts.
- Unbilled receivables increased by $518,000 due to increased sales.

CONDENSED BALANCE SHEET INFORMATION (Continued)

- Accrued interest receivable also decreased by $394,000 due to a significant decrease in investment.
- Net materials and supplies increased by $564,000 due to the necessity to keep supplies readily available for use.

Capital assets: The Division's investment in capital assets as of December 31, 2008 amounted to $319,393,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $5,527,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2008 is as follows:

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
	(In thousands)			
Land	$ 4,863	$ 12	$	$ 4,875
Land improvements	2,759			2,759
Utility plant	415,531	42,705		458,236
Buildings, structures and improvements	42,278	1,057		43,335
Furniture, fixtures, equipment and vehicles	43,960	4,543	(2,677)	45,826
Construction in progress	35,851	21,936	(44,663)	13,124
Total	545,242	70,253	(47,340)	568,155
Less: Accumulated depreciation	(231,376)	(17,682)	296	(248,762)
Capital assets, net	$ 313,866	$ 52,571	$ (47,044)	$ 319,393

A summary of the activity in the Division's capital assets during the year ended December 31, 2007 is as follows:

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007
	(In thousands)			
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,759			2,759
Utility plant	408,633	7,178	(280)	415,531
Buildings, structures and improvements	42,278			42,278
Furniture, fixtures, equipment and vehicles	42,882	3,653	(2,575)	43,960
Construction in progress	23,720	19,658	(7,527)	35,851
Total	525,135	30,489	(10,382)	545,242
Less: Accumulated depreciation	(216,013)	(17,056)	1,693	(231,376)
Capital assets, net	$ 309,122	$ 13,433	$ (8,689)	$ 313,866

CONDENSED BALANCE SHEET INFORMATION (Continued)

The principal capital expenditures during 2008 included the following:

- Acquisition of 18,000 CEI street lights - $4,000,000
- Related engineering and overhead expense capitalized - $3,756,000
- Euclid Corridor - $2,661,000
- New service connections – $2,020,000
- Meters - $1,979,000
- Distribution Engineering - $1,412,000
- Ridge Road Substation construction - $1,001,000
- Defective pole replacements - $922,000
- Vehicles - $557,000
- Building betterments - $546,000

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Notes B and D to the basic financial statements.

Current liabilities: The increase in current liabilities of $1,377,000 in 2008 is mainly due to the $1,360,000 increase in the accrued interest payable as a result of new bonds issued in the year.

Long-term obligations: The long-term obligation increase of $66,823,000 in 2008 is attributed to the issuance of Series 2008 Bonds.

At December 31, 2008, the Division had total debt outstanding of $285,398,000. All bonds are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in mid-2006 and in April 2008 for system expansion and to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2008 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2008	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2008
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 32,910	$	$	$ (3,905)	$ 29,005
Mortgage Revenue Bonds 1996	3,880			(895)	2,985
Revenue Bonds 1998	27,715			(630)	27,085
Revenue Bonds 2001	27,955			(2,905)	25,050
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2006 B	20,325		(20,325)		-
Revenue Bonds 2008 A		21,105			21,105
Revenue Bonds 2008 B-1		44,705			44,705
Revenue Bonds 2008 B-2		27,903			27,903
Total	$ 220,345	$ 93,713	$ (20,325)	$ (8,335)	$ 285,398

The activity in the Division's debt obligations outstanding during the year ended December 31, 2007 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2007	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2007
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 33,875	$	$	$ (965)	$ 32,910
Mortgage Revenue Bonds 1996	4,730			(850)	3,880
Revenue Bonds 1998	31,145			(3,430)	27,715
Revenue Bonds 2001	30,755			(2,800)	27,955
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2006 B	20,325				20,325
Total	$ 228,390	$ -	$ -	$ (8,045)	$ 220,345

CONDENSED BALANCE SHEET INFORMATION (Continued)

The bond ratings for the Division's outstanding revenue bonds are as follows:

Moody's Investors Service	Standard & Poor's
A2	A-

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2008, 2007 and 2006 was 207%, 223%, and 179%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 24 - 29.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $205,779,000, $197,178,000 and $186,575,000 at December 31, 2008, 2007 and 2006, respectively.

Of the Division's net assets at December 31, 2008, $126,891,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $6,438,000 represents resources subject to external restrictions. The remaining $72,450,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2007, $121,128,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $3,402,000 represents resources subject to external restrictions. The remaining $72,648,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2008 increased its net assets by $8,601,000 as compared to an increase in net assets of $10,603,000 in 2007. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
		(In thousands)	
Operating revenues	$ 158,106	$ 155,171	$ 146,347
Operating expenses	141,843	137,471	131,655
Operating income	16,263	17,700	14,692
Non-Operating Revenue (Expense):			
Investment income	2,118	4,061	2,929
Interest expense	(12,563)	(11,073)	(9,096)
Amortization of bond issuance costs and discount	(1,253)	(843)	(1,775)
Workers' compensation refund	17	15	10
Gain (loss) on disposal of capital assets	(20)	(2)	2
Other	3,936	732	946
Total non-operating revenue (expense), net	(7,765)	(7,110)	(6,984)
Income (loss) before other contributions	8,498	10,590	7,708
Capital and other contributions	103	13	
Increase (Decrease) in net assets	8,601	10,603	7,708
Net assets, beginning of year	197,178	186,575	178,867
Net assets, end of year	$ 205,779	$ 197,178	$ 186,575

- In 2008, operating revenues increased by $2,935,000. The increase is related to the increase in purchased power costs passed through via the energy adjustment charge and the more accurate billing of consumption resulting from the implementation of the automated meters.

- In 2007, operating revenues increased by $8,824,000. The increase is related to a 3% increase in kilowatt hours sold, the increase in purchased power costs passed through via the energy adjustment charge and the more accurate billing of consumption resulting from the implementation of the automated meters.

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

- In 2008, operating expenses increased by $4,372,000. The increase is mainly related to a $3,327,000 increase in purchased power costs.

- In 2007, operating expenses increased $5,816,000. The increase is related to a $3,777,000 increase in purchased power costs associated with the additional kilowatt hours sold, and an increase of $1,313,000 in operations expenses attributed mainly to an increase of approximately $1,000,000 in administrative and other services expense.

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

As a municipally-owned utility, the Division's mission is to improve the quality of life in the City of Cleveland by providing reliable, affordable energy and energy services to the residents and businesses of the City. In December 2006, the Division finalized its 5-year Strategic Business Plan ("SBP"). The SBP was prepared with the assistance of an independent consultant and addressed factors likely to impact the Division over the 2007-2012 period. The Division and the consultant analyzed federal and state regulatory and legislative developments, forecasted power costs, considered competitive factors as affected by the local regional transmission organization developments, and analyzed internal organization structure, strengths, weaknesses, threats and opportunities. The consultant made ten recommendations that are intended to improve the Division's processes and strategically position the Division to address the major competitive factors likely to impact the Division.

Special Project Teams were commissioned to develop strategies to address each of the ten SBP recommendations. Although several recommendations require major capital improvements and will be addressed in subsequent paragraphs, others were directed at internal processes with program initiatives being launched in 2008. A new Work Order Management System, Residential Outreach Campaign, Succession Management Planning and the Division's Municipal School District Apprenticeship Program are examples of program initiatives that will improve the Division's ability to provide service to existing and new residential and commercial customers within Cleveland.

Another of the strategic recommendations from the SBP was to enhance infrastructure to increase customer capacity and improve reliability. As a result, the Division issued the Series 2008 Bonds to fund the Capacity Expansion Program. After issuing the bonds, the Division retained the engineering firm of Middough & Associates to design the system expansion. Present activities include the design of substations and transmission lines, property acquisition, preparation of bidding specifications and the procurement of major equipment.

The Capacity Expansion Program includes three major components. It is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

Fourth Interconnect. The first component is the addition of the fourth 138kV interconnection with the FirstEnergy transmission system. Increased capacity from the new distribution substations and their

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

distribution circuits will allow the Division to transfer load from the existing distribution system to new circuits and provide electric service to future customers.

Southern Project. The second component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the addition of a 138/13.8 kV substation (the "Southern Project"). The proposed extension will complete a continuous transmission ring around the Division's system. The Southern Project also includes the construction of a new distribution substation. It will allow the Division to extend its electric service to serve potential customers in parts of the southern and western areas of the City that are outside the Division's current footprint as well as areas that are within the Division's current footprint but presently lack sufficient capacity.

Lake Road Project. The third component of the Capacity Expansion Program is the expansion of the Lake Road 11.5kV Substation and the 11.5kV system downtown (the "Lake Road Project"). The proposed expansion will allow the Division to serve new customers throughout the downtown areas including the Quadrangle, Flats and Warehouse districts.

Anticipated Cost. The estimated cost of the Capacity Expansion Program is as follows:

Fourth Interconnect in 2009	$ 5.0 million
Southern Project in 2010	26.9 million
Lake Road Project in 2010	34.1 million
Total:	$66.0 million

On April 22, 2008, the Division issued $93,713,000 of Public Power System Revenue Bonds, Series 2008, primarily to fund the aforementioned system expansion. Of this amount, $21,105,000 was used to refund the $20,325,000 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B, and to pay issuance costs. The remaining amount of $72,608,000 will be used to fund the system expansion, to pay capitalized interest and costs of issuance. Of this latter amount, $44,705,000 was issued as current interest bonds and $27,903,000 was issued as capital appreciation bonds.

In conjunction with the bonds issued in April 2008, Standard & Poor's affirmed the Division's A- rating and revised its outlook from negative to stable. Moody's Investors Service affirmed their A2 rating.

The Division is focusing its marketing efforts on those sections of the City that were part of its earlier system expansion to increase the density of customers served. As the Division competes with CEI in these areas, density is measured as the number of the Division's customers on a given street versus the total customers available on that street. New customers can be added with little additional expense.

The Division purchases most of its power requirements via contracts in the power markets. The Division intends to reduce its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power provided by participation in AMP-Ohio's base load coal-fired project, the AMP-Ohio hydroelectric projects and the Prairie State project. The Division will purchase 80 MW from AMP-Ohio's base load coal-fired project that is expected to be in

FACTORS EXPECTED TO IMPACT THE DIVISION'S FUTURE FINANCIAL POSITION OR RESULTS OF OPERATIONS (Continued)

operation in 2013. The Division is currently scheduled to purchase 35 MW from AMP-Ohio's hydroelectric projects that are expected to be in operation in 2011 and 2012. The Division will purchase up to 25 MW from AMP-Ohio's share of the Prairie State project that is projected to be on-line in 2011-2012. The Division is also investigating local opportunities to add alternative energy resources to its portfolio. The actual costs of these power purchases are passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately. These projects will not impact the Division financially unless actual power costs push the Division's billing rates significantly above those of its competition.

In February 2000, Cleveland City Council approved a change in the method of calculating the Energy Adjustment Charge that resulted in an increase to customers of about 4%, the proceeds of which were used for debt reduction and pole replacements from the passage of the charge to November 30, 2005. The increase was scheduled to end December 31, 2008, but was amended by City Council (Ordinance No. 684-08) to end December 31, 2010. The extension will provide the Division with time to evaluate current and future rate requirements, along with alternative and renewable energy supplies. The Division will develop future rates as appropriate, subject to approval by City Council, whom may want to continue this charge either in its present form or as part of base rates. Effective December 1, 2005, the proceeds of the increase, which was $11,346,000 in 2008, are no longer earmarked for a specific purpose, but the Division maintains a fund with about $11,824,000 of historic receipts that remains earmarked by City Council for debt reduction and pole replacements.

The Division owns and operates approximately 64,000 street lights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for a transition period, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid CEI's proposed new street lighting tariff charges, potentially affecting the General Fund and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the state law requires the utility to remit the tax receipts to the municipality's General Fund. Under Ordinance No. 1768-07 passed in late 2007, the General Fund transfers annually 50% of the kWh tax receipts to the Division beginning in 2008. The amount of $2,900,000 received in 2008 was applied towards the acquisition of 18,000 street lights from CEI in 2008.

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

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2008 and 2007

	(In thousands) 2008	2007
ASSETS		
CAPITAL ASSETS		
Land	$ 4,875	$ 4,863
Land improvements	2,759	2,759
Utility plant	458,236	415,531
Buildings, structures and improvements	43,335	42,278
Furniture, fixtures, equipment and vehicles	45,826	43,960
	555,031	509,391
Less: Accumulated depreciation	(248,762)	(231,376)
	306,269	278,015
Construction in progress	13,124	35,851
CAPITAL ASSETS, NET	319,393	313,866
RESTRICTED ASSETS		
Cash and cash equivalents	74,567	2,578
Investments		1,383
Accrued interest receivable	53	11
TOTAL RESTRICTED ASSETS	74,620	3,972
UNAMORTIZED BOND ISSUANCE COSTS	3,947	2,330
CURRENT ASSETS		
Cash and cash equivalents	52,721	23,808
Restricted cash and cash equivalents	723	964
Investments	7,091	37,108
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $3,663,000 in 2008 and $2,169,000 in 2007	15,596	15,986
Unbilled revenue	2,629	2,111
Due from other City of Cleveland departments, divisions or funds	2,621	2,566
Accrued interest receivable	80	474
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2008 and 2007	7,412	6,848
Prepaid expenses	79	78
TOTAL CURRENT ASSETS	88,952	89,943
TOTAL ASSETS	$ 486,912	$ 410,111

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2008 and 2007

	(*In thousands*) 2008	2007
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 126,891	$ 121,128
Restricted for debt service	6,438	3,402
Unrestricted	72,450	72,648
TOTAL NET ASSETS	205,779	197,178
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	252,771	185,925
Accrued wages and benefits	710	733
TOTAL LONG-TERM OBLIGATIONS	253,481	186,658
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	8,530	8,335
Accounts payable	9,339	8,616
Current payable from restricted assets	723	964
Due to other City of Cleveland departments, divisions or funds	949	1,522
Accrued interest payable	2,414	1,054
Current portion of accrued wages and benefits	4,171	4,178
Other accrued expenses	436	438
Customer deposits and other liabilities	1,090	1,168
TOTAL CURRENT LIABILITIES	27,652	26,275
TOTAL LIABILITIES	281,133	212,933
TOTAL NET ASSETS AND LIABILITIES	$ 486,912	$ 410,111

See notes to financial statements. (Concluded)

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2008 and 2007

	(In thousands)	
	2008	**2007**
OPERATING REVENUES		
Charges for services	$ 158,106	$ 155,171
TOTAL OPERATING REVENUES	158,106	155,171
OPERATING EXPENSES		
Purchased power	86,850	83,523
Operations	19,520	19,247
Maintenance	17,791	17,645
Depreciation	17,682	17,056
TOTAL OPERATING EXPENSES	141,843	137,471
OPERATING INCOME	16,263	17,700
NON-OPERATING REVENUE (EXPENSE)		
Investment income	2,118	4,061
Interest expense	(12,563)	(11,073)
Amortization of bond issuance costs and discounts	(1,253)	(843)
Workers' compensation refund	17	15
Gain (loss) on disposal of capital assets	(20)	(2)
Other	3,936	732
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(7,765)	(7,110)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	8,498	10,590
Capital and other contributions	103	13
INCREASE (DECREASE) IN NET ASSETS	8,601	10,603
NET ASSETS, BEGINNING OF YEAR	197,178	186,575
NET ASSETS, END OF YEAR	$ 205,779	$ 197,178

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	(In thousands) 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 162,928	$ 160,224
Cash payments to suppliers for goods or services	(13,524)	(9,526)
Cash payments to employees for services	(24,848)	(22,862)
Cash payments for purchased power	(86,033)	(83,339)
Electric excise tax payments to agency fund	(5,286)	(5,498)
NET CASH PROVIDED BY OPERATING ACTIVITIES	33,237	38,999
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	103	13
Workers compensation refund	17	15
Other	(26)	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	94	28
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds	91,790	
Acquisition and construction of capital assets	(20,174)	(20,827)
Principal paid on long-term debt	(8,335)	(8,045)
Interest paid on long-term debt	(10,148)	(8,966)
Cash paid to escrow agent for refunding	(20,432)	
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	32,701	(37,838)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(31,167)
Proceeds from sale and maturity of investment securities	31,170	34,719
Interest received on investments	3,459	2,992
NET CASH PROVIDED BY INVESTING ACTIVITIES	34,629	6,544
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	100,661	7,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,350	19,617
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 128,011	$ 27,350

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

	(In thousands) 2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 16,263	$ 17,700
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,682	17,056
Changes in assets and liabilities:		
Accounts receivable, net	390	3,796
Unbilled revenue	(518)	(168)
Due from other City of Cleveland departments, divisions or funds	(55)	(34)
Materials and supplies, net	(564)	(439)
Prepaid expenses	(1)	
Accounts payable	723	157
Due to other City of Cleveland departments, divisions or funds	(573)	458
Accrued wages and benefits	(30)	312
Other accrued expenses	(2)	(7)
Customer deposits and other liabilities	(78)	168
TOTAL ADJUSTMENTS	16,974	21,299
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 33,237	$ 38,999

See notes to financial statements. (Concluded)

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Cleveland Public Power ("Division") is reported as an Enterprise Fund of the City of Cleveland's ("City") Department of Public Utilities and is a part of the City's primary government. The Division was created for the purpose of supplying electrical services to customers within the City. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which is effective for the year ended December 31, 2007. The Division has determined that GASB Statement No. 45 has no impact on its financial statements as of December 31, 2007. Effective January 1, 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenue*, which is effective for the year ended December 31, 2007. GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Division; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note B – Long-Term Debt. In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 49 has no impact on its financial statements as of December 31, 2008. In May 2007, GASB issued Statement No. 50, *Pension Disclosure — an amendment of GASB Statements No. 25 and No. 27,* which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 50 has no impact on its financial statements as of December 31, 2008 and the proper disclosures have been made.

The Division's net assets are accounted for in the accompanying balance sheet and the net assets are divided into the following categories:

- Amount invested in capital assets, net of related debt
- Amount restricted for debt service
- Remaining unrestricted amount

In addition, certain additional financial information regarding the Division is included in these footnotes. The implementation of the new GASB statements did not result in a change in the Division's beginning net asset/equity balance as previously reported.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting: The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either; 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The Division has chosen not to apply future FASB standards.

Revenues: Revenues are derived primarily from sales of electricity to residential, commercial and industrial customers based upon actual consumption. Electricity rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the end of the various cycles and the end of the year are recorded as unbilled revenue.

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

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury Bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

Investments: The Division follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair value is based on quoted market prices.

The City has invested funds in STAROhio during fiscal year 2008 and 2007. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2008 and 2007.

Restricted Assets: Proceeds from debt and amounts set aside in various fund accounts for payment of revenue bonds are classified as restricted assets since their use is limited by the bond indentures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost, or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than $5,000 for land, furniture, fixtures, equipment, and vehicles and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant	10 to 50 years
Land improvements	42 to 48 years
Buildings, structures and improvements	10 to 47 years
Furniture, fixtures, equipment, and vehicles	5 to 40 years

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* for its revenue bonds. This statement requires capitalization of interest cost of eligible borrowings less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2008 and 2007 total interest costs incurred amounted to $13,939,000 and $11,631,000 respectively, of which $619,000 and $555,000, respectively, was capitalized, net of interest income of $757,000 in 2008 and $3,000 in 2007.

Bond Issuance Costs, Discounts and Unamortized Losses on Debt Refundings: Bond issuance costs are initially recorded as deferred expenses and unamortized original issuance discounts are netted against long-term debt. Both are amortized over the lives of the related bonds. Unamortized losses on debt refundings are netted against long-term debt and are amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

Compensated Absences: The Division 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 out within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover up to 80 hours of vacation from one year to the next with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2008 and 2007

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2008 and 2007 is as follows:

	Interest Rate	Original Issuance	2008	2007
			(In thousands)	
Revenue Bonds:				
Series 1994 A, due through 2013	Zero Coupon	$ 219,105	$ 29,005	$ 32,910
Series 1996, due through 2011	5.25%-6.00%	123,720	2,985	3,880
Series 1998, due through 2017	4.10%-5.25%	44,840	27,085	27,715
Series 2001, due through 2016	3.90%-5.50%	41,925	25,050	27,955
Series 2006 A-1, due through 2024	4.25%-5.00%	95,265	95,265	95,265
Series 2006 A-2, due through 2017	5.00%	12,295	12,295	12,295
Series 2006 B, due through 2024	5.02%	20,325		20,325
Series 2008 A, due through 2024	4.00%-4.50%	21,105	21,105	
Series 2008 B-1, due through 2038	3.00%-5.00%	44,705	44,705	
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903	
		$ 651,188	285,398	220,345
Less:				
Unamortized discount-zero coupon bonds			(5,377)	(6,299)
Unamortized premium-current interest bonds (net)			3,314	3,810
Unamortized loss on debt refunding			(22,034)	(23,596)
Current portion			(8,530)	(8,335)
Total Long-Term Debt			$ 252,771	$ 185,925

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2008 and 2007

NOTE B - LONG-TERM DEBT (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2008 are as follows:

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 32,910	$	$ (3,905)	$ 29,005	$ 3,910
Series 1996, due through 2011	3,880		(895)	2,985	940
Series 1998, due through 2017	27,715		(630)	27,085	660
Series 2001, due through 2016	27,955		(2,905)	25,050	3,020
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2006 B, due through 2024	20,325		(20,325)		
Series 2008 A, due through 2024		21,105		21,105	
Series 2008 B-1, due through 2038		44,705		44,705	
Series 2008 B-2, due through 2038		27,903		27,903	
Total revenue bonds	220,345	93,713	(28,660)	285,398	8,530
Accrued wages and benefits	4,911	227	(257)	4,881	4,171
Total	$ 225,256	$ 93,940	$ (28,917)	$ 290,279	$ 12,701

Summary: Changes in long-term obligations for the year ended December 31, 2007 are as follows:

	Balance January 1, 2007	Increase	Decrease	Balance December 31, 2007	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 33,875	$	$ (965)	$ 32,910	$ 3,905
Series 1996, due through 2011	4,730		(850)	3,880	895
Series 1998, due through 2017	31,145		(3,430)	27,715	630
Series 2001, due through 2016	30,755		(2,800)	27,955	2,905
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2006 B, due through 2024	20,325			20,325	
Total revenue bonds	228,390	-	(8,045)	220,345	8,335
Accrued wages and benefits	4,599	339	(27)	4,911	4,178
Total	$ 232,989	$ 339	$ (8,072)	$ 225,256	$ 12,513

NOTE B – LONG-TERM DEBT (Continued)

Minimum principal and interest payments on long-term debt are as follows:

	Principal	Interest	Total
	(In thousands)		
2009	$ 8,530	$ 11,095	$ 19,625
2010	8,725	10,895	19,620
2011	11,210	10,675	21,885
2012	12,390	10,457	22,847
2013	12,625	10,226	22,851
2014 - 2018	68,840	43,111	111,951
2019 - 2023	85,955	24,999	110,954
2024 - 2028	36,434	25,112	61,546
2029 - 2033	20,152	29,307	49,459
2034 - 2038	20,537	28,939	49,476
Total	$ 285,398	$ 204,816	$ 490,214

The City has pledged future power system revenues, net of specified operating expenses, to repay $285,398,000 in various Public Power System Revenue Bonds issued in various years since 1994. Proceeds from the bonds provided financing for public power system operations. The bonds are payable from public power system net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 50 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $490,214,000. Principal and interest paid for the current year and total net revenues were $17,389,000 and $36,063,000, respectively.

Effective April 22, 2008, the City issued $93,713,000 Public Power System Revenue Bonds, Series 2008 for Cleveland Public Power. The Division will use $72,608,000 to fund the system expansion, to pay costs of issuance and to pay capitalized interest. Of this latter amount issued as new money, $44,705,000 was issued as current interest bonds and $27,903,000 was issued as capital appreciation bonds.

NOTE B - LONG-TERM DEBT (Continued)

The remaining $21,105,000 Series 2008 Bonds were issued to refund the $20,325,000 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B, and to pay issuance costs. The 2006B Bonds were auction rate securities insured by FGIC. Due to the credit rating downgrades of several municipal bond insurance companies (including FGIC), the Division was incurring greater interest expense on these auction rate securities than was the case prior to the credit rating downgrades. Therefore, in conjunction with the issuance of the Division's new money bonds, the 2006B auction rate securities were refunded as fixed rate bonds insured by MBIA.

On August 17, 2006, the City issued $95,265,000 of Public Power System Refunding Revenue Bonds, Series 2006A-1, $12,295,000 of Public Power System Refunding Revenue Bonds, Series 2006A-2 and $20,325,000 Public Power System Refunding Revenue Variable Rate Bonds, Series 2006B. The Series 2006 A and B Bonds were issued to refund $114,655,000 of Public Power System First Mortgage Revenue Refunding Bonds, Series 1996, Sub- Series 1 and $14,460,000 of Public Power System First Mortgage Revenue Bonds, Series 1994A. Net proceeds of the bonds in the total amount of $131,109,631 will be used to pay the principal, interest and premium on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding to reduce its debt service payments over the next ten years and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately $5.4 million. The Series 2006B Bonds were issued as variable rate debt (auction rate securities). The City entered into a basis swap on a portion of the Series 2006A-1 Bonds at the time of issuance of the bonds.

***Interest Rate Swap Transaction*:**

Terms: Simultaneously with the issuance of the City's $95,265,000 Public Power System Refunding Revenue Bonds, Series 2006A-1, on August 17, 2006, the City entered into a floating-to-floating rate basis swap agreement on an initial notional amount of $70,455,000 which is equal to a portion of the total declining balance of the Series 2006A-1 Bonds. Lehman Brothers Special Financing, Inc. (Lehman Brothers) was the counterparty on the transaction. Under the swap agreement for the Series 2006A-1 Bonds, the City pays the counterparty a floating rate based on the Securities Industry and Financial Markets Association (SIFMA) index. The counterparty is also a floating rate payor, paying the City 67% of one month LIBOR plus a spread of 46.25 basis points. Net payments are exchanged quarterly on each February 15, May 15, August 15 and November 15. The obligation of the City to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the net revenues of the public power system on parity with the pledge and lien securing the payment of debt service on the bonds.

Objective: The City entered into the swap in order to maximize the savings associated with the refunding of the bonds. The actual overall savings to be realized by the Public Power System will depend upon the net payments received under the swap agreement.

NOTE B - LONG-TERM DEBT (Continued)

Basis Risk: By entering into a swap based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. As a result of the turmoil in the financial markets during 2008, the SIFMA/LIBOR ratio was significantly higher than 67% for portions of the year. The payments received from the counterparty may be less than the amount owed to the counterparty resulting in an increase in debt service over the fixed rate on the bonds. A reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, in September 2008, Lehman Brothers filed for Chapter 11 Bankruptcy protection. This event did not trigger an automatic termination which would have required a payment on the part of the City. At the City's option Lehman Brothers and the City are negotiating the assignment of the swap to another highly rated counterparty.

Termination Risk: The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the Division to Lehman Brothers or by Lehman Brothers to the Division, depending upon the prevailing economic circumstances at the time of the termination.

Fair Value: The fair value of the swap at December 31, 2008, as reported by the City's financial advisor, totaled $3,925,000, which would be payable by the City.

The Division has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. As a result of the Series 2006 advance refunding, there was $7,620,000 Series 1994A defeased debt outstanding at December 31, 2008.

Revenue bonds are payable from the revenues derived from operations of the public power system, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues and the special funds described below.

The indenture requires that, at all times, the Division will charge rates and fees for the products and services of the public power system. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and in an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2008 and 2007, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

Revenue Fund**:** All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds.

NOTE B - LONG-TERM DEBT (Continued)

***Debt Service Fund*:** Monthly deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the revenue bonds.

***Debt Service Reserve Fund*:** Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. However, the Division has elected, pursuant to provisions of the indenture governing the Division's bonds, to satisfy the bond reserve requirement with a surety bond in an aggregate amount at least equal to the bond reserve requirement.

***Renewal and Replacement Fund*:** The balance in this fund is maintained at $1,000,000 and is to be applied against the cost of repair or replacement of capital assets in order to maintain the system.

***Construction Fund*:** The proceeds from Series 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000, and $72,607,880, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in trust may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, the amounts are classified as restricted assets in the financial statements.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: At December 31, 2008 and 2007, the Division’s carrying amount of deposits totaled $2,146,000 and $4,682,000, respectively, and the Division’s bank balances totaled $2,465,000 and $5,231,000, respectively. The differences represent normal reconciling items. These amounts were insured or collateralized with securities held by the City or by its agent in the City’s name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division’s deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the banks' commercial or trust department and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect the portfolio value.

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the following table.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

Credit Risk: The Division's investments as of December 31, 2008 and 2007 include U.S. Agency Obligations, U.S. Treasury Bills, repurchase agreements, STAROhio and mutual funds. The Division maintains the highest ratings for its investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's.

Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2008 and 2007, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2008 Fair Value	2008 Cost	2007 Fair Value	2007 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years	Investment Maturities: 5 Years or More
			(In thousands)				
U.S. Agency Obligations	$ 7,091	$ 6,997	$ 37,108	$ 36,783	$	$ 7,091	$
U.S. Treasury Bills			2,768	2,768			
Repurchase Agreements	3,019	3,019	1,173	1,173	3,019		
STAROhio	48,030	48,030	18,314	18,314	48,030		
Investment in Mutual Funds	74,816	74,816	1,796	1,796	74,816		
Total Investments	132,956	132,862	61,159	60,834	125,865	7,091	-
Total Deposits	2,146	2,146	4,682	4,682	2,146		
Total Deposits and Investments	$ 135,102	$ 135,008	$ 65,841	$ 65,516	$ 128,011	$ 7,091	$ -

As of December 31, 2008, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio and mutual funds are approximately 6%, 2%, 36% and 56%, respectively, of the Division's total investments. As of December 31, 2007, the investments in U.S. Agency Obligations, U.S. Treasury Bills and STAROhio are approximately 61%, 5% and 30%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
		(In thousands)		
Capital assets, not being depreciated:				
Land	$ 4,863	$ 12	$	$ 4,875
Construction in progress	35,851	21,936	(44,663)	13,124
Total capital assets, not being depreciated	40,714	21,948	(44,663)	17,999
Capital assets, being depreciated:				
Land improvements	2,759			2,759
Utility plant	415,531	42,705		458,236
Buildings, structures and improvements	42,278	1,057		43,335
Furniture, fixtures, equipment and vehicles	43,960	4,543	(2,677)	45,826
Total capital assets, being depreciated	504,528	48,305	(2,677)	550,156
Less: Accumulated depreciation	(231,376)	(17,682)	296	(248,762)
Total capital assets being depreciated, net	273,152	30,623	(2,381)	301,394
Capital assets, net	$ 313,866	$ 52,571	$ (47,044)	$ 319,393

NOTE D - CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	23,720	19,658	(7,527)	35,851
Total capital assets, not being depreciated	28,583	19,658	(7,527)	40,714
Capital assets, being depreciated:				
Land improvements	2,759			2,759
Utility plant	408,633	7,178	(280)	415,531
Buildings, structures and improvements	42,278			42,278
Furniture, fixtures, equipment and vehicles	42,882	3,653	(2,575)	43,960
Total capital assets, being depreciated	496,552	10,831	(2,855)	504,528
Less: Accumulated depreciation	(216,013)	(17,056)	1,693	(231,376)
Total capital assets being depreciated, net	280,539	(6,225)	(1,162)	273,152
Capital assets, net	$ 309,122	$ 13,433	$ (8,689)	$ 313,866

Commitments: The Division has outstanding commitments of approximately $76,651,000 and $20,256,000 for future capital expenditures at December 31, 2008 and 2007, respectively. It is anticipated that these commitments will be financed from the Division’s cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System: All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1) The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3) The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2008, 9.50% in 2007 and 9.00% in 2006, and employer contribution rates were 14.00% of covered payroll in 2008, 13.85% in 2007 and 13.70% in 2006. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2008, 2007 and 2006 were approximately $1,452,000, $1,571,000 and $1,747,000 each year, respectively. The required payments due in 2008, 2007 and 2006 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System*:** All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2008, 13.85% in 2007 and 13.70% in 2006. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates to fund postemployment health care benefits were 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00% from July 1, 2007 to December 31, 2007 and 4.50% in 2006. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division’s actual contributions for 2008 to OPERS to fund postemployment benefits were approximately $1,452,000.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

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

Risk Management: The Division 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 Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2008 or 2007. There were no significant decreases in any insurance coverage in 2008. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

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's workers' compensation retrospective rating program.

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 Division is reported as part of accounts payable on the balance sheet and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides services to the City, including its various departments and divisions. The usual and customary rates are charged to all City departments and divisions.

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
	(In thousands)	
City Administration	$ 1,131	$ 1,131
Telephone Exchange	515	687
Division of Water	397	463
Utilities Administration and Fiscal Control	1,039	936
Motor Vehicle Maintenance	606	484

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,134,000 and $1,130,000 for the years ended December 31, 2008 and 2007, respectively.

NOTE J - KILOWATT PER HOUR TAX

In May 2001, the Division started billing electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. The Division billed $5,273,000 and $5,486,000 for this tax in 2008 and in 2007 respectively, of which $12,638 and $12,543 was remitted to the State. All except the State of Ohio's portion belongs to the General Fund of the City. In March 2006, City Council passed Ordinance No. 2068-05, which allocates 100% of the City's share of the tax in 2007 to the General Fund of the City. According to City Ordinance No. 1768-07, passed on December 10, 2007, the General Fund transfers annually 50% of the kWh tax receipts to the Division beginning in 2008. The amount of $2,900,000 received in 2008 was applied towards the purchase of 18,000 street lights from CEI in 2008.

NOTE K – INCREMENTAL CHARGES

In 2000, 2002 and 2003, Cleveland City Council passed Ordinances No. 910-98, No. 1886-02 and No. 2088-03, respectively to allow the Division to add an incremental charge for excess fuel, power production and purchased power cost.

NOTE K – INCREMENTAL CHARGES (Continued)

The proceeds of the incremental charges shall be applied to the repayment of any bond obligations of the Division and the replacement of utility poles treated with copper naphthenate in the Division's distribution system.

The incremental charges were scheduled to end December 31, 2008, but on June 2, 2008, City Council passed Ordinance No. 684-08, extending the charge through December 31, 2010. The Division intends, subject to approval by City Council, to continue this charge either in its present form or as part of base rates. Effective December 1, 2005, the proceeds of the incremental charges are no longer earmarked for a specific purpose. The incremental charges billed were $13,450,000 and $13,561,000 in 2008 and 2007, respectively.

NOTE L – SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Between December 2004 and March 2006, the Division was required by the FERC to pay SECA payments amounting to $10,800,000. The payments arose from a transmission restructuring effort aimed at reducing transmission costs by allowing users such as Cleveland Public Power to pay a single rate for transmission across a regional system consisting of multiple utilities. These payments, made subject to refund and the outcome of litigation proceedings, were intended as a temporary replacement for revenues previously received by transmission owners in neighboring regional systems for transmission access across their systems.

Through December 31, 2008, the Division received $5,030,000 as reimbursements for SECA payments. The Division is also pursuing an additional reimbursement of $700,000. The remaining SECA payment of $5,070,000 is eligible for pass through to the customers of the Division in future years.

NOTE M – SUBSEQUENT EVENTS

As a result of the bankruptcy of Lehman Brothers Special Financing, Inc. in September 2008, the City has, at its option, requested that the basis swap associated with the Public Power System Revenue Bonds, Series 2006A, be assigned to another counterparty. Discussions between the City and Lehman Brothers are on-going. As of May 15, 2009, the City is owed $179,000 on the swap. This represents the cumulative amount owed to the City on the swap since the Lehman bankruptcy filing. The payment to the City of this outstanding amount will be included in the agreement to assign the swap to a new highly rated performing counterparty.

Mary Taylor, CPA
Auditor of State

CITY OF CLEVELAND-CLEVELAND PUBLIC POWER

CUYAHOGA 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
SEPTEMBER 24, 2009