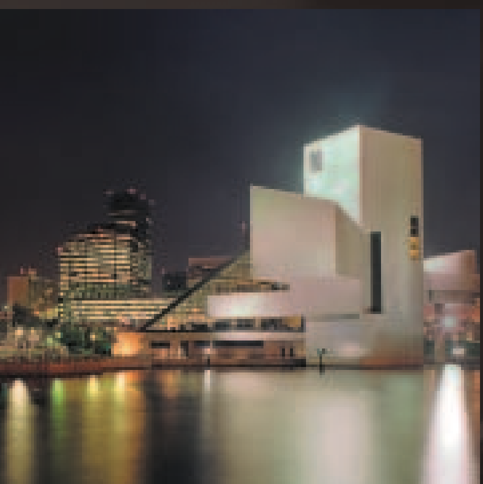
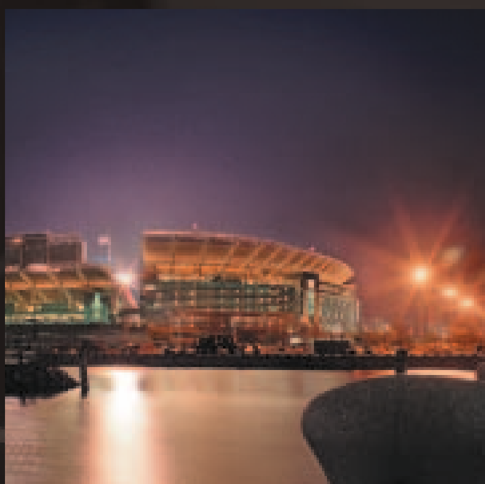
04 Lighting the Center of the City

ANNUAL REPORT





Cleveland Public Power

MISSION STATEMENT

We are committed to improving the quality of life in the City of Cleveland and strengthening our neighborhoods, delivering superior services, embracing the diversity of our citizens, and making Cleveland a desirable, safe city in which to live, work, raise a family, shop, study, play and grow old.

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… FROM THE MAYOR

Dear Fellow Clevelanders,

At Cleveland Public Power we are working to illuminate the City of Cleveland! This past year has been a banner year for the connection of new commercial and industrial accounts!

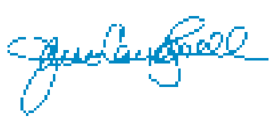
At the heart of much of this development has been Cleveland's central city, an area that had suffered over the last several years but with the commitment and hard work of city staffers and Cleveland Public Power electric technicians lights are shining on new developments at Arbor Park, Loftworks and Foote Printing.

The Arbor Park Development represents a mixture of low and moderate income housing as well as a new shopping center complete with a Dave's Supermarket.

As part of my commitment to the artistic community within Cleveland, Loftworks has emerged as one of the first live-work developments that helped to bring new life to warehouses long abandoned but now shining brightly with the hard work of Cleveland Public Power employees.

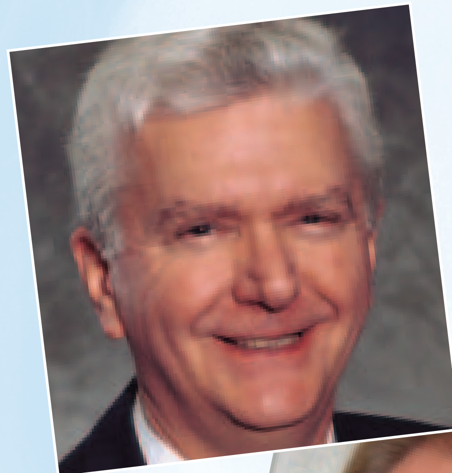
A city's success is measured by the diversity in not only population, but business as well, and in Cleveland we are proud to have strong small businesses adding to the growth of our community. Foote Printing is just such a business. This small but efficient company is helping to shed light on the many successes in the City of Cleveland!

Sincerely,



Mayor Jane Campbell

… FROM THE DIRECTOR & COMMISSIONER



Dear Fellow Clevelanders,

The history of Cleveland Public Power centers to the east and west of the City of Cleveland's center, but this year the utility's focus has been on *Lighting the Center of the City.*

Central to the success of a City is the ability to provide clean, safe and secure housing and the City of Cleveland with the support of Cleveland Public Power has done just that at Arbor Park. The street light bureau at Cleveland Public Power worked diligently with developers to present a streetscape reminiscent of those seen in suburban developments right in the heart of Cleveland.

Complimenting the new housing was the development of the Arbor Park Shopping Plaza complete with a Dave's Supermarket giving residents a viable option to shop for groceries. Cleveland Public Power was proud to join with Dave's in developing their sixth supermarket in the City of Cleveland furthering our commitment to being a good neighbor and providing strong, safe and reliable power to the citizens of Cleveland.

As Cleveland Public Power approaches its centennial, a commitment has been made to researching new initiatives and relationships which spawn growth. The addition of Loftworks to our customer base fits this new initiative. This unique enterprise combines living and working space in one facility and helps to foster the cultural talents of Cleveland residents.

With these developments and many others - Cleveland Public Power has played a role in *Lighting the Center of the City* and furthering our commitment to providing safe, secure and reliable power to our rate payers!

Sincerely,

Michael G. Konicek [Top]
Director, Department of Public Utilities

James F. Majer [Bottom]
Commissioner, Division of Cleveland Public Power

… FROM THE CITY COUNCIL PRESIDENT & CHAIRMAN

Dear Fellow Clevelanders,

Cleveland City Council applauds the growth that Cleveland Public Power has achieved this year. Through your hard work, you achieved exponential growth by connecting more than 300 commercial companies. This represents a 300% increase over the average 100 companies connected in previous years.

We are pleased to be your partner in this diligent effort and pledge to continue to assist you in your service to the Cleveland community.

Please accept our congratulations on this landmark achievement.

Sincerely,

Frank G. Jackson
Council President
Cleveland City Council

Roosevelt Coats
Chairman, Public Utilities Committee
Cleveland City Council

Cleveland Public Power 2004 Annual Report | COMMERCIAL & RESIDENTIAL GROWTH


As Advertised
As Advertised

DAVE'S SUPERMARKET

EAST 40TH STREET

Dave's Supermarkets has a long history of keeping its customers and their families happy and healthy. For over 70 years, Dave's has been the neighborhood full-service supermarket around Cleveland, with over 800 employees and seven stores in the city, plus one each in Euclid and Akron.

Locally owned and operated, the supermarket pays attention to its customers' needs. Dan Saltzman, co-owner of Dave's, thinks it is important that they cater store offerings to what customers want. Which is exactly why Mr. Saltzman is so pleased with Cleveland Public Power's service to his stores.

"We sat down with Cleveland Public Power and told them what our power requirements were. They then turned around and crafted a program that worked for us," said Mr. Saltzman. "As our business grew and expanded, CPP expanded their radius and capacity to service our needs." Indeed, with refrigeration, heating, cooling, baking, cooking and lighting needs, the supermarkets need quite a bit of energy to keep open.

Mr. Saltzman very much appreciates the priority CPP puts on his business staying open and running. "Cleveland Public Power is always sensitive to our power needs. If there is ever a break in power, they make sure the lines of communication are open to us, from management down to the guys on the street. I know safety is always the first priority with Cleveland Public Power, but we feel we are right up there near the top of the list. "

"As our business grew and expanded, CPP expanded their radius and capacity to service our needs."

CLEVELAND PUBLIC LIBRARY (MAIN BRANCH)

SUPERIOR AVENUE

The business of Cleveland Public Library is illuminating minds, just as Cleveland Public Power's job is illuminating library facilities for their patrons. From the aisles of books, to the microfiche, to computers ready to help visitors, CPP provides constant power for the downtown building.

Library patrons can read over 160 national and international newspapers. They can also borrow or view 2.5 million books, 67,000 CDs and 48,700 videos and DVDs.

In addition to the usual library amenities, Cleveland Public Library also boasts a collection of 1.3 million historic photographs. These images include pictures into Cleveland's past, famous Clevelanders and an African-American family history that spans over 100 years.

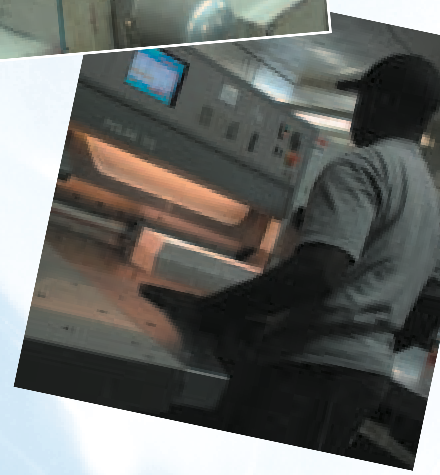
Patrons who view these images include genealogists, history buffs and book researchers. Keeping these images intact for generations to come requires the temperature and humidity to be monitored 24 hours a day with a hydrometer.

Says library director Andrew Venable, "Cleveland Public Power keeps Cleveland's Main Library open, lit and running, so that we can go about our business of enlightening minds."

"Cleveland Public Power keeps Cleveland's Main Library open, lit and running, so that we can go about our business of enlightening minds."

FOOTE PRINTING

EAST 55TH STREET



Foote Printing is a full-service printer located on Cleveland's near east side. With printers, typesetting, binding and folding machines, the shop has plenty of work to do each day, starting at 7 am, straight through to the day's end past 4 pm.

Foote specializes in 4-color process work, and does a great deal of corporate printing and direct mailers. A day's typical printing schedule might include envelopes, folders, booklets, pads and stationery. As a union printer, Foote often does a great deal of political printing around election time.

"From the moment we walk in the door, our printers and machines are humming," said Karl Heinz-Duhr, president of Foote Printing. "We need reliable energy service so that we can provide our customers with dependable service every time. Thanks to Cleveland Public Power, we know we can get our work done right, and on time."

"We need reliable energy service so that we can provide our customers with dependable service every time."

ARBOR PARK

WOODLAND AVENUE

The Arbor Park Development represents the revitalization of Cleveland's center city. Perched minutes from downtown Cleveland and with instant access to the interstates, Arbor Park is a prime example of affordable city living.

The development also reflects the composition of the City of Cleveland in that it offers both above market and below market rates to provide a good mix of families working to make Cleveland a better place to live.

Cleveland Public Power is proud to be a part of this project, which helps to light the path of many futures. The streetscape design created by the Street Lighting Bureau gives the feel of suburbia while you are in the heart of the city. Not only is the lighting attractive, but good lighting adds to the safety of a neighborhood.

> *“Cleveland Public Power is proud to be a part of this project, which helps to light the path of many futures.”*

LOFTWORKS

EAST 40TH STREET

It's Monday evening and five students each sit at their halogen-lit workstations, using soddering tools and small drills called flexshafts to carefully work silver, copper or brass into wearable art.

Welcome to TAP Studios, located in the LoftWorks, a live/work building located at 1667 E. 40th Street and a Cleveland Public Power customer. As the name suggests, the building's tenants work and live in the same place.

TAP Studio owner and LoftWorks resident Todd Pownell offers studio-based jewelry instruction three times a week for all levels of jewelry hobbyists. His students also include bead-stringers looking to expand their techniques, as well as people interested in small-scale metalworking, such as knobs or models. Students rely very heavily on lighting and their fine tools to ensure the details to their jewelry creations meet their expectations.

In addition to hosting jewelry classes and hosting occasional wearable art exhibitions, Mr. Pownell is also a resident, enjoying his loft in his downtime.

He couldn't be happier with the quality of service he can rely on from Cleveland Public Power. "I love them. The power is clear and reliable, and I like that they are local."

Thanks, Todd, Cleveland Public Power likes being local, too.

"I love them. The power is clear and reliable, and I like that they are local."

CAROL LADE

BROADALE AVENUE

Cleveland resident and Cleveland Public Power customer Carol Lade might spend an evening enjoying a favorite television program, looking up information on her computer, or simply sitting down and knitting something special for a loved one.

A resident and customer for over 80 years, Ms. Lade can appreciate how technology and appliances have changed and improved her life. "I have lived in the same house since 1925, and while some things haven't changed, there are so many appliances that help us do things easier, like washers and dryers." She marvels how many young adults aren't even familiar with clotheslines.

She notes the entertainment benefits of technology. "Televisions, radios and computers— they have changed the way we spend our free time." She especially enjoys the electric afghan that warms her lap on chilly evenings and the microwave that warms her tea.

Ms. Lade also believes that conserving energy is important. "We are very lucky to have access to all the energy we need with the mere touch of a switch. We should always take care to turn things off when we aren't using them."

"I have lived in the same house since 1925, and while some things haven't changed, there are so many appliances that help us do things easier, like washers and dryers."

Cleveland Public Power 2004 Annual Report | FINANCIALS

GENERAL

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-fifth largest in the United States. The Division serves an area that is bound by the city limits of the City of Cleveland and presently serves over 80,000 customers.

The Division is one of 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 Co. (CEI).

According to the 2000 census reports, the City's population is approximately 478,000 people with approximately 224,000 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 most of its power and energy requirements through short and long-term agreements with various regional utilities and other power suppliers through CEI interconnections. The balance of the Division's energy power and energy requirements are satisfied from combustion turbine generating units and various arrangements for the exchange of short-term power and energy. The Division anticipates that it will continue to rely on wholesale purchases of power and energy to meet its customer's needs for the foreseeable future.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- *The assets of the Division exceeded its liabilities at December 31, 2004 by $179,981,000 (net assets). Of this amount, $84,716,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.*

- *The Division's total net assets increased by $5,313,000 during 2004. Charges for services increased by 1.1% mainly due to increase in Kilowatt hour's sales by 0.7% and total operating expenses increased 3.2%.*

- *The Division received reimbursements in the amount of $68,000, from FEMA for damage resulted from rainstorms in May and June of 2004. The Federal portion was $58,000 and the state portion was $10,000.*

- *During 2004, the Division had an increase in capital assets, net of accumulated depreciation, of $7,715,000. This increase is attributable to net capital asset additions of $16,861,000, the addition to net construction in progress of $5,929,000 which was offset by an addition of accumulated depreciation of $15,075,000. The principal capital expenditures during the year were for defective pole replacements, Ridge Road substation, vehicles, transformers and meters.*

- *The Division's total long-term debt decreased by $9,410,000. The total decrease is attributed to scheduled debt service payments to bondholders during 2004.*

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Divisioní s basic financial statements. The accompanying financial statements present financial information for the City of Cleveland'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 17 - 22 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 23 - 35 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2004 and 2003.

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 296,094	$ 288,379	$ 7,715
Restricted assets	37,787	19,122	18,665
Unamortized bond issuance costs	1,952	2,181	(229)
Current assets	75,234	101,324	(26,090)
Total assets	$ 411,067	$ 411,006	$ 61
Net Assets and Liabilities:			
Net assets:			
nvested in capital assets, net of related debt	$ 89,388	$ 77,927	$ 11,461
Restricted for debt service	5,877	5,771	106
Unrestricted	84,716	90,970	(6,254)
Total net assets	179,981	174,668	5,313
Liabilities:			
Long-term obligations	205,812	212,640	(6,828)
Payable from restricted assets	505	116	389
Current liabilities	24,769	23,582	1 187
Total liabilities	231,086	236,338	(5,252)
Total net assets and liabilities	$ 411,067	$ 411,006	$ 61

Restricted assets

The Division's restricted assets increased by $18,665,000 primarily due to the increase in restricted cash and cash equivalent and investments due to the transfer of $16,633,000 from the Division's operating fund to the Division's incremental charges fund that is utilized for capital projects or debt reduction.

CONDENSED BALANCE SHEET INFORMATION [continued]

Current assets
The Division's current assets decreased by $26,090,000 mainly due to the following:

- The decrease of cash and investments of $23,304,000, which is mainly attributed to the above referenced cash and cash equivalent transfer of $16,633,000.
- Decrease in customer accounts receivable of $2,154,000 due to the increased collection efforts of the Division and a $443,000 increase in Allowance for doubtful accounts.
- Materials and supplies decreased by $901,000 due to utilization of prior year inventory and the Division's cost containment efforts as compared to 2003.
- Current liabilities increased by $1,187,000 in 2004 due to the $300,000 increase in the current portion of long-term debt and a $507,000 increase in accounts payables. In addition, there was a $627,000 increase in due to other City Divisions, which is primarily due to the addition in the reserve for workers compensation expense as compared to the prior year.

Capital assets
The Division's investment in capital assets as of December 31, 2004 amounted to $296,094,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current fiscal year was $7,715,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2004 is as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
		(In thousands)		
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,313	206		2,519
Utility plant	349,610	12,291		361,901
Buildings, structures and improvements	41,336	416		41,752
Furniture, fixtures, vehicles and equipment	37,077	4,161	(213)	41,025
Construction in progress	22,247	22,465	(16,536)	28,176
Total	457,446	39,539	(16,749)	480,236
Less: Accumulated depreciation	(169,067)	(15,287)	212	(184,142)
Capital assets, net	$ 288,379	$ 24,252	$ (16,537)	$ 296,094

The principal capital expenditures during the year are as follows:

- *Pole replacements - $7,518,000*
- *Transformers and meters replacement - $1,058,000*
- *Longwood Estates underground electric feed and lighting - $278,000*
- *Distribution Feeders - $1,143,000*
- *Vehicles purchased - $1,377,000*
- *Ridge Road Substation construction - $2,472,000*
- *Related engineering and overhead expense capitalized - $4,074,000*

CONDENSED BALANCE SHEET INFORMATION [continued]

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

Liabilities

Long-term debt

At December 31, 2004 the Division had total debt outstanding of $250,355,000. All bonds and notes 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. This debt is being retired in an orderly manner with repayment schedules through 2024.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2004 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings).

	Balance January 1, 2004	Debt Issued	Debt Refunded	Debt Retired	Balance December 31 2004
			(In thousands)		
Cleveland Public Power Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335	$	$	$	$ 48,335
Mortgage Revenue Bonds 1994 B	5,950			(5,950)	
Mortgage Revenue Bonds 1996	121,685			(730)	120,955
Mortgage Revenue Bonds 1998	44,760				44,760
Mortgage Revenue Bonds 2001	39,035			(2,730)	36,305
Total	$ 259,765	$	$	$ (9,410)	$ 250,355

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 Divisioní s debt position to management, customers and creditors. The Division's revenue bond coverage for 2004, 2003, and 2002 was 166%, 193%, and 220%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 26 - 28.

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 $179,981,000 at the close of the most recent fiscal year.

CONDENSED BALANCE SHEET INFORMATION [continued]

A large portion of the Division's net assets, $89,388,000 (50%) reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets of $5,877,000 (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $84,716,000 (47%), may be used 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 2004 and 2003 increased its net assets by $5,313,000 and $7,634,000, respectively. Key elements of these increases are summarized below:

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 141 143	$ 139,640	$ 1,503
Operating expenses	124,562	120,715	3,847
Operating income	16,581	18,925	(2,344)
Non-Operating Revenue (Expense):			
Investment income	1,005	1,550	(545)
Interest expense	(10,915)	(11,286)	(371)
Amortization of bond issuance costs and discount	(2,123)	(2,180)	(57)
Workers compensation refund	12	28	(16)
Gain (loss) on disposal of capital assets	6	(233)	239
Other	679	795	(116)
Total non-operating revenue (expense), net	(11,336)	(11,326)	10
Income before other contributions	5,245	7,599	(2,354)
Capital and other contributions	68	35	33
Increase in net assets	5,313	7,634	(2,321)
Net assets, beginning of year	174,668	167,034	7,634
Net assets, end of year	$ 179,981	$ 174,668	$ 5,313

CONDENSED BALANCE SHEET INFORMATION [continued]

- Operating revenues increased by $1,503,000 largely related to the 0.7% increase in kilowatt-hours sold.
- Operating expenses increased by $3,847,000 primarily due to increased purchased power costs and the increased healthcare costs.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2003 by $174,668,000 (net assets). Of this amount, $90,970,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by $7,634,000 during 2003. Charges for services decreased by 1.45% mainly due to the loss of several major commercial customers, while total operating and non-operating revenue/expenses increased by 8.1%.
- Kilowatt-hours sold decreased by 1.7% due to mild summer weather conditions and the loss of several major customers resulting in operating revenues decreasing by $2,050,000 while operating expenses increased slightly by $1,980,000.
- During 2003, the Division had a decrease in capital assets, net of accumulated depreciation, of $2,133,000. This decrease was attributable to the net accumulated depreciation addition of $15,775,000. The principal capital expenditures during the year were for pole replacements, transformers and meters.
- The Division's total long-term debt decreased by $7,865,000. The total decrease is attributed to scheduled debt service payments made in 2003.

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 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 17 - 22 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 23 - 35 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2003 and 2002.

	2003	2002	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets	$ 288,379	$ 290,512	$ (2,133)
Restricted assets	19,122	20,708	(1,586)
Unamortized bond issuance costs	2,181	2,351	(170)
Current assets	101,324	93,690	7,634
Total assets	$ 411,006	$ 407,261	$ 3,745
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	$ 77,927	$ 76,938	$ 989
Restricted for debt service	5,771	4,059	1,712
Unrestricted	90,970	86,037	4,933
Total net assets	174,668	167,034	7,634
Liabilities:			
Long-term obligations	212,640	218,995	(6,355)
Payable from restricted assets	116	401	(285)
Current liabilities	23,582	20,831	2,751
Total liabilities	236,338	240,227	(3,889)
Total net assets and liabilities	$ 411,006	$ 407,261	$ 3,745

Restricted assets

The Division's restricted assets decreased by $1,586,000 primarily due to the decrease in restricted cash and cash equivalent of $1,766,000 which was a result of payments on construction projects.

Current assets

The Division's current assets increased by $7,634,000 mainly due to the following:

- The increase of cash and investments. The increase in cash is attributed to the purchasing of less power by $2,181,000 and an increase in customer account receivable collections of $1,408,000.
- Unbilled revenue increased by $436,000 relating to an increase in kilowatt hours sold during December 2003 as compared to December 2002. Due from other City Divisions increased by $239,000 primarily attributable to security fencing for the Division of Water.
- The Materials and Supplies increase of $220,000 is the result of the Division's new eastside service store room reaching full operational status in 2003.
- Accrued interest receivable increased $117,000 as compared to 2002.

CONDENSED BALANCE SHEET INFORMATION [continued]

- Current liabilities increased by $2,751,000 in 2003 primarily due to the $1,545,000 increase in the current portion of long term debt and a $500,000 legal settlement with Cinergy Corporation. In addition, there was a $694,000 increase in the accrued wages and benefits. This was primarily due to an increase in workers compensation expense as compared to the prior year.

Capital assets

The Division's investment in capital assets as of December 31, 2003 amounted to $288,379,000 (net of accumulated depreciation). The total decrease in the Division's investment in capital assets for the current fiscal year was $2,133,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2003 is as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
		(In thousands)		
Land	$ 4,863	$	$	$ 4,863
Land mprovements	2,313			2,313
Utility plant	341,643	7,967		349,610
Buildings, structures and improvements	41,336			41,336
Furniture, fixtures, vehicles and equipment	37,300	544	(767)	37,077
Construction in progress	16,349	12,964	(7,066)	22,247
Total	443,804	21,475	(7,833)	457,446
Less: Accumulated depreciation	(153,292)	(15,992)	217	(169,067)

The principal capital expenditures during the year are as follows:

- *Pole replacements - $2,996,000*
- *Transformers and meters replacement - $1,126,000*
- *Longwood Estates underground electric feed and lighting - $907,000*
- *Vehicles purchased - $577,000*
- *Ridge Road Substation construction - $268,000*
- *Related engineering and overhead expense capitalized - $3,896,000*

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

Liabilities

Long-term debt

At December 31, 2003 the Division had total debt outstanding of $259,765,000. All bonds and notes 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. This debt is being retired in an orderly manner with repayment schedules through 2024.

CONDENSED BALANCE SHEET INFORMATION [continued]

The activity in the Division's debt obligations outstanding during the year ended December 31, 2003 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings).

	Balance January 1, 2003	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2003
			(In thousands)		
Cleveland Public Power Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335	$	$	$	$ 48,335
Mortgage Revenue Bonds 1994 B	11,560			(5,610)	$ 5,950
Mortgage Revenue Bonds 1996	122,380			(695)	$ 121,685
Mortgage Revenue Bonds 1998	44,760				$ 44,760
Mortgage Revenue Bonds 2001	40,595			(1,560)	$ 39,035
Total	$ 267,630	$	$	$ (7,865)	$ 259,765

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 2003, 2002, and 2001 was 193%, 220%, and 204%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 26 - 28.

Net Assets

Net assets serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $174,668,000 at the close of the most recent fiscal year.

A large portion of the Division's net assets, $77,927,000 (45%) reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets of $5,771,000 (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $90,970,000 (52%), may be used 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 2003 and 2002 increased its net assets by $7,634,000 and $19,569,000 respectively. Key elements of these increases are summarized below:

	(In thousands)		
Operating revenues	$ 139,640	$ 141,690	$ (2,050)
Operating expenses	120,715	118,735	1,980
Operating income	18,925	22,955	(4,030)
Non-Operating Revenue (Expense):			
Investment income	1,550	1,693	(143)
Electric excise tax		7,974	(7,974)
Interest expense	(11,286)	(11,879)	593
Amortization of bond issuance costs and discount	(2,180)	(2,236)	56
Workers compensation refund	28	119	(91)
Gain (loss) on disposal of capital assets	(233)	9	(242)
Other	795	934	(139)
Total non-operating revenue (expense), net	(11,326)	(3,386)	(7,940)
Income (loss) before other contributions	7,599	19,569	(11,970)
Capital and other contributions	35		35
Increase in net assets	7,634	19,569	(11,935)
Net assets, beginning of year	167,034	147,465	19,569
Net assets, end of year	$ 174,668	$ 167,034	$ 7,634

- Operating revenues decreased by $2,050,000 largely related to the loss of several commercial customers which includes Midland Steel Products, Saint Michael's Hospital and the 1.7% decrease in kilowatt-hours sold due to mild summer weather conditions.

- Operating expenses increased by $1,980,000 primarily due to the increase in health care costs and a small increase in the number of Divisional employees. The Division also settled a $500,000 legal suit with Cinergy Corporation.

- The Division received $7,974,000 of electric excise tax in 2002. In 2003, an ordinance was passed that allocates this tax revenue to the City's General Fund.

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

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. Additional customers can be added and serviced with little extra expense.

The Division purchases most of its power requirements via medium and long-term contracts in the power markets. 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. This 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 authorized a temporary rate increase of approximately 4% that was implemented through modification of the calculation of the Energy Adjustment Charge. The additional revenue of approximately $4,000,000 annually may be spent only for accelerated debt reduction or major capital expenditures. This temporary rate increase expires on December 31, 2005.

After the system expansion period in the 1990's, the Division executed several non-standard contracts with new customers that have contributed significantly to incremental revenue but are now at billed rates below current market rates. As these contracts expire, the Division anticipates renewing these contracts at billing rates that will contribute positively to its operating margins in the future.

The construction of the Ridge Road Substation, which began in 2003 and is anticipated to be completed in 2005, will provide load relief to existing substations on Clevelandís West side and also provide the Division with the ability to expand and provide electric service to residential and business customers.

The Division is constantly evolving within the changing transmission services market. The Division is currently a transmission customer of MISO (Midwest Independent Transmission System Operator) and intend to become a transmission customer of PJM (Pennsylvania Jersey Maryland) along with becoming a market participant with both organizations. Our involvement with these two major regional independent system operators may adversely impact our power costs via increased transmission delivery costs. However, these systems provide the Division with greater access and flexibility for power sourcing, providing the potential to reduce overall power costs.

To ensure that Cleveland Public Power has the ability to handle emergency outages, the Division completed projects that will maintain the dielectric integrity of our 69 kv high-pressure cable in outage situations, which will improve back-start capacity. In addition, computer software was added to three 16 mw turbines that will allow the units to operate on isochroous control, ensuring they will operate at the proper frequency (60 hz). Both of these system additions should address operating issues resulting from the major power outage that occurred in August 2003.

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.

	(In thousands) 2004	2003
ASSETS		
CAPITAL ASSETS		
Land	$ 4,863	$ 4,863
Land improvements	2,519	2,313
Utility plant	361,901	349,610
Buildings, structures and mprovements	41 752	41,336
Furniture, fixtures,equipment and vehicles	41,025	37,077
	452,060	435,199
Less: Accumulated depreciation	(184,142)	(169,067)
	267,918	266,132
Construction in progress	28,176	22,247
CAPITAL ASSETS, NET	296,094	288,379
RESTRICTED ASSETS		
Cash and cash equivalents	12,881	15,805
Investments	24,882	3,307
Accrued interest receivable	24	10
TOTAL RESTRICTED ASSETS	37 787	19,122
UNAMORTIZED BOND ISSUANCE COSTS	1,952	2,181
CURRENT ASSETS		
Cash and cash equivalents	4,756	3,655
Investments	38,780	63,185
Receivables:		
Accounts receivable net of allowance for doubtful accounts of $757,000 in 2004 and $314,000 in 2003	18,176	20,330
Unbilled revenue	1,964	1,987
Due from other City of Cleveland departments, divisions or funds	5,100	4,839
Accrued nterest receivable	331	300
Materials and supplies at average cost, net of allowance for obsolescence of $749,000 n 2004 and $749,000 in 2003	6,073	6,974
Prepaid expenses	54	54
TOTAL CURRENT ASSETS	75,234	101,324
TOTAL ASSETS	$ 411,067	$ 411,006

(Continued)

	(In thousands) 2004	2003
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 89,388	$ 77,927
Restricted for debt service	5,877	5,771
Unrestricted	84,716	90,970
TOTAL NET ASSETS	179,981	174,668
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	204,861	211,665
Accrued wages and benefits	951	975
TOTAL LONG-TERM OBLIGATIONS	205,812	212,640
PAYABLE FROM RESTRICTED ASSETS	505	116
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	9,710	9,410
Accounts payable	7,663	7 156
Due to other City of Cleveland departments, divisions or funds	976	349
Accrued interest payable	1,242	1,306
Current portion of accrued wages and benefits	3,211	3,603
Other accrued expenses	398	431
Customer deposits and other liabilities	1,569	1,327
TOTAL CURRENT LIABILITIES	**24,769**	**23,582**
TOTAL LIABILITIES	**231,086**	**236,338**
TOTAL NET ASSETS AND LIABILITIES	**$ 411,067**	**$ 411,006**

See notes to financial statements. (Concluded)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2004 and 2003

	(In thousands) 2004	2003
OPERATING REVENUES		
Charges for services	$ 141,143	$ 139,640
TOTAL OPERATING REVENUES	141 143	139,640
OPERATING EXPENSES		
Purchased power	74,608	69,993
Operations	15,020	16,006
Maintenance	19,647	18,941
Depreciation	15,287	15,775
TOTAL OPERATING EXPENSES	124,562	120,715
OPERATING INCOME	16,581	18,925
NON-OPERATING REVENUE (EXPENSE)		
Investment ncome	1,005	1,550
Interest expense	(10,915)	(11,286)
Amortization of bond issuance costs and discounts	(2,123)	(2,180)
Workers compensation refund	12	28
Gain (loss) on disposal of capital assets	6	(233)
Other	679	795
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(11,336)	(11,326)
Income (loss) before other Contributions	5,245	7,599
Capital and other contributions	68	35
INCREASE IN NET ASSETS	5,313	7,634
NET ASSETS, beginning of year	174,668	167,034
NET ASSETS, end of year	$ 179,981	$ 174,668

See notes to financial statements.

	(In thousands) 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 145,036	$ 143,208
Cash payments to suppliers for goods or services	(9,169)	(7,839)
Cash payments to employees for services	(20,658)	(23,500)
Cash payments for purchased power	(74,384)	(70,127)
Electric excise tax payments to agency fund	(5,213)	(5,127)
NET CASH PROVIDED BY OPERATING ACTIVITIES	35,612	36,615
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	68	35
Workers compensation refund	12	28
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	80	63
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(21,554)	(13,006)
Principal paid on long-term debt	(9,410)	(7,865)
Interest paid on long-term debt	(10,447)	(10,887)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(41,411)	(31 758)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(28,410)	(102,587)
Proceeds from sale and maturity of investment securities	31 162	86,808
Interest received on investments	1,144	1,677
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	3,896	(14,102)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,823)	(9,182)
CASH AND CASH EQUIVALENTS, beginning of year	19,460	28,642
CASH AND CASH EQUIVALENTS, end of year	$ 17,637	$ 19,460

(Continued)

	(In thousands) 2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 16,581	$ 18,925
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,287	15,775
Changes in assets and liabilities:		
Accounts receivable, net	2,154	1,408
Unbilled revenue	23	(436)
Due from other City of Cleveland departments, divisions or funds	(261)	(239)
Materials and supplies, net	901	(220)
Accounts payable	507	378
Due to other City of Cleveland departments, divisions or funds	627	14
Accrued wages and benefits	(416)	835
Other accrued expenses	(33)	(23)
Customer deposits and other liabilities	242	198
TOTAL ADJUSTMENTS	19,031	17,690
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 35,612	$ 36,615

See notes to financial statements.

(Concluded)

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 Department of Public Utilities and is a part of the City of Cleveland's (City) primary government. The Division was created for the purpose of supplying electrical services to customers within the City of Cleveland. 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. Effective January 1, 2002, the Division 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 affected the way the Division prepares and presents financial information. As a result of the implementation of these new GASB statements, the amount previously reported as the Division's equity is now reported as the Division's net assets in the accompanying balance sheets and the net assets are divided into three categories as follows:

- 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.

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 City 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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 2004 and 2003. 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 STAROhioís share price, which is the price the investment could be sold for on December 31, 2004 and 2003.

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.

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 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 2004 and 2003, total interest costs incurred amounted to $11,397,000 and $11,845,000 respectively, of which $379,000 and $467,000, respectively, was capitalized, net of interest income of $103,000 in 2004 and $92,000 in 2003.

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.

NOTE B – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2004 and 2003 is as follows:

	Interest Rate	Original Issuance	2004	2003
		(In thousands)		
Cleveland Public Power Mortgage Revenue Bonds:				
Series 1994, zero coupon bonds due through 2013		$ 179,775	$ 48,335	$ 48,335
Series 1994, due through 2013	6.20%-7.00%	39,330		5,950
Series 1996, due through 2024	5.00%-6.00%	123,720	120,955	121,685
Series 1998, due through 2017	4.00%-5.25%	44,840	44,760	44,760
Series 2001, due through 2016	3.55%-5.50%	41,925	36,305	39,035
		$ 429,590	$ 250,355	$ 259,765
Less:				
Unamortized discount-zero coupon bonds			(15,936)	(17,550)
Unamortized discount-current interest bonds			(5,019)	(5,298)
Unamortized loss on debt refunding			(14,829)	(15,842)
Current portion			(9,710)	(9,410)
Total Long-Term Debt			$ 204,861	$ 211,665

Summary: Changes in long-term obligations for the year ended December 31, 2004 are as follows:

	January 1, 2004	Increase	Decrease	December 31, 2004	Within One Year
			(In thousands)		
Cleveland Public Power Mortgage Revenue Bonds:					
Series 1994, zero coupon bonds due through 2013	$ 48,335	$	$	$ 48,335	$
Series 1994, due through 2004	5,950		(5,950)		
Series 1996, due through 2024	121,685		(730)	120,955	765
Series 1998, due through 2017	44,760			44,760	6,105
Series 2001, due through 2016	39,035		(2,730)	36,305	2,840
Total revenue bonds	259,765		(9,410)	250,355	9,710
Accrued wages and benefits	4,578	$	(416)	4,162	3,211
Total	$ 264,343	$	$ (9,826)	$ 254,517	$ 12,921

NOTE B - LONG-TERM DEBT [continued]

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

	Principal	Interest	Total
	(In thousands)		
2005	$ 9,710	$ 9,933	$ 19,643
2006	11,025	9,474	20,499
2007	11,465	9,035	20,500
2008	11,755	8,745	20,500
2009	11,945	8,559	20,504
2010-2014	62,735	39,441	102,176
2015-2019	66,130	26,008	92,138
2020-2024	65,590	10,158	75,748
Total	$ 250,355	$ 121,353	$ 371,708

Defeasance of Power Mortgage Revenue Bonds

In addition to the defeased debt described above, in prior years, the City defeased certain Power Mortgage Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old funds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of defeased debt outstanding at December 31, 2004 and December 31, 2003 is as follows:

Bond Issue	2004	2003
	(In thousands)	
Series 1994	$	$ 131,440

Power Mortgage 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 plus a first mortgage lien upon all property of the public power system, including any improvements, additions, replacements, and extension thereto.

NOTE B - LONG-TERM DEBT [continued]

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, 2004 and 2003, 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.

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 Mortgage 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 City 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 1994 and Series 1991 bonds of $79,386,000 and $12,050,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2004 and 2003, the Division had $12,319,000 and $10,370,000, respectively, of outstanding commitments for future construction that will be funded by available bond proceeds and operating revenue. 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, 2004 and December 31, 2003, the Division's carrying amount of deposits totaled $3,167,000 and $640,000, respectively, and the Divisioní s bank balances totaled $175,000 and $725,000, 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.

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 banksí 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.GASB Statement No. 3 Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements, requires the City to categorize its investments into one of three credit risk categories:

Category 1: Includes insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Includes uninsured and unregistered, with securities held by the counterpartyís trust department or agent in the City's name.

Category 3: Includes uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the City's name.

The categorized investments shown in the following table include those which are 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:

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Type of Investment	Risk Category	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
		(In thousands)			
U.S. Agency Obligations	1	$ 60,388	$ 61 128	$ 63,182	$ 63,107
U.S. Treasury Bills	2	3,275	3,270	3,310	3,307
STAROhio	n/a	1,944	1,944	3,437	3,437
Investment n Mutual Funds	n/a	12,525	12,525	15,383	15,383
Total Investments		78,132	78,867	85,312	85,234
Total Deposits		3,167	3,167	640	640
Total Deposits and Investments		$ 81,299	$ 82,034	$ 85,952	$ 85,874

STAROhio investments and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2004 was as follows

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	22,247	22,465	(16,536)	28,176
Total capital assets, not being depreciated	27,110	22,465	(16,536)	33,039
Capital assets, being depreciated:				
Land improvements	2,313	206		2,519
Utility plant	349,610	12,291		361,901
Buildings, structures and improvements	41,336	416		41,752
Furniture, fixtures, equipment and vehicles	37,077	4,161	(213)	41,025
Total capital assets, being depreciated	430,336	17,074	(213)	447,197
Less: Accumulated depreciation	(169,067)	(15,287)	212	(184,142)
Total capital assets being depreciated, net	261,269	1,787	(1)	263,055
Capital assets, net	$ 288,379	$ 24,252	$ (16,537)	$ 296,094

NOTE D - CAPITAL ASSETS [continued]

Commitments

The Division has outstanding commitments of approximately $12,319,000 and $10,370,000 for future capital expenditures at December 31, 2004 and 2003, 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 - EMPLOYEES RETIREMENT PLAN

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 (TP) – a cost-sharing, multiple-employer defined benefit pension plan.

2) The Member-Directed Plan (MD) – 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 (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System 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) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for all plans for the years ending December 31, 2004, 2003 and 2002 were approximately $2,575,000, $2,449,000 and $2,510,000 each year, respectively. The required payments due in 2004, 2003 and 2002 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage 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 postretirement 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 recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS [continued]

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (and beyond) health care costs were assumed to increase at 4% (the projected inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2004 which were to fund postemployment benefits were approximately $760,000. $10.5 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 suits. The Cityís 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 2004 or 2003. There were no significant decreases in any insurance coverage in 2004. In addition, there were no insurance settlements in excess of insurance coverage during the past three fiscal years.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

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 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 accounts payable on the balance sheet and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable

The Division provides Cleveland Public Power services to the City of Cleveland, 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, 2004 and 2003 are as follows:

	2004	2003
	(In thousands)	
City Administration	$ 1,524	$ 1,488
Telephone Exchange	445	422
Division of Water	383	382
Utilities Administration and Fiscal Control	469	388
Motor Vehicle Maintenance	344	283

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 $1,406,000 and $1,405,000 for the years ended December 31, 2004 and 2003, respectively.

NOTE J - IDLE GENERATION FACILITIES

In April 1977, the Division closed its generation plant and, since that time, the Division's revenues have been derived primarily from the distribution of purchased power. With the present availability of competitively priced purchased power, the plant will remain idle. The Division's general plantís net book value was fully depreciated in 1999.

NOTE K - KILOWATT PER HOUR TAX

In May 2001, Cleveland Public Power started billing electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. Cleveland Public Power billed $5,172,000 and $5,122,000 for this tax in 2004 and in 2003 respectively, of which $13,016 and $12,625 was remitted to the State. All except the State of Ohio's portion belongs to the General Fund of the City of Cleveland. The City Council passed ordinances in 2002 and 2003, which allocated the City share to the General Fund of the City of Cleveland for 2003 and 2004.

NOTE L - INCREMENTAL CHARGES

In 2000, 2002 and 2003 Cleveland City Council passed ordinances 910-98, 1886-02 and 2088-03, respectively to allow the Division to add an incremental charge for excess fuel, power production and purchase power cost.

The revenue resulting from the increase in the incremental charges shall be applied to the repayment of any bond obligations of the Division of Cleveland Public Power and the replacement of utility poles treated with copper naphthenate in the Cleveland Public Power distribution system.

The incremental charges billed were $4,435,000 and $4,195,000 in 2004 and 2003, respectively.

Cleveland Public Power

1300 LAKESIDE AVENUE • CLEVELAND, OHIO 44114 • PHONE: 216.664.3922 • FAX: 216.664.2777