year100

a century of power, a history of service

Cleveland PublicPower
Count on it

ANNUAL REPORT 2006

Contents

Mission

We are committed to providing reliable and affordable energy and energy services to the residents and businesses of the City of Cleveland.

From the Mayor

The City of Cleveland is committed to improving the quality of life of our residents by delivering the highest level of service to the community. Cleveland Public Power (CPP) has helped us achieve that goal for 100 years.

This centennial year has been challenging for CPP – from intense labor negotiations to a change in leadership, but the staff has met the challenge and continued to exemplify their mission "to provide reliable and affordable energy and energy services to the residents and businesses of the City of Cleveland."

Having implemented a recently developed strategic business plan, CPP is positioning itself to provide more and better service in the future. This is important for Cleveland residents and Cleveland businesses. With an eye towards sustainable growth, renewable energy and increasing capacity, CPP continue to provide high quality service at competitive rates and be responsive to the needs of the community it serves.

I am extremely appreciative of Cleveland Public Power's commitment to providing excellent service and the dedication of its staff to making Cleveland a City of Choice.

Frank G. Jackson
Mayor
City of Cleveland

From City Council

Running a successful city that works together to meet the needs of its residents takes hard work and commitment. The City of Cleveland is fortunate to have this talent and dedication in our workforce.

Cleveland Public Power sets an excellent example, in its commitment to its mission to provide safe and reliable services to the City of Cleveland, as they have for 100 years. Recently, CPP has renewed its efforts for new innovations in the community with their five-year strategic plan. The goals of the plan are to provide Cleveland with one of the finest power supply systems in the country by improving reliability, increasing diversification of power, and enhancing technology. Cleveland City Council fully supports this effort.

Congratulations to Cleveland Public Power and all of its employees for their 100 year commitment to our City. Through a century of service, Cleveland Public Power has established a high standard of quality, dependability and service. For this they deserve recognition for a job well done. We look forward to working with Cleveland Public Power to brighten Cleveland's future.

Martin J. Sweeney
President
Cleveland City Council

Matthew Zone
Public Utilities Chair
Cleveland City Council

Julius Ciaccia
Director
Department of Public Utilities

Ivan Henderson
Commissioner
Division of Cleveland Public Power

From the Director and Commissioner

In 1907, during the final term of legendary Mayor Tom L. Johnson, Cleveland first began producing its own electric power when it annexed the Village of South Brooklyn and its power station, today known as the West 41st Station. A strong advocate for public ownership of public utilities, Johnson envisioned the city's new asset as a means to provide electricity to residents and businesses at minimum costs.

Though Cleveland's power company expanded and grew over the next century and today services thousands of city households, institutions and businesses, it has yet to fully realize the full vision of Mayor Johnson. His goal was for Cleveland's power company to have the capability to service every resident and business in the city.

A century later Mayor Johnson's vision remains strong and is shared by Mayor Frank G. Jackson. Mayor Jackson also believes that every Cleveland resident should have a choice for reliable power at a minimum cost. Under his leadership Cleveland Public Power is positioning itself to expand and grow to meet the present and future demands and expectations of our residents and businesses.

As CPP enters its second century of service, it is embarking on an ambitious and thoughtfully crafted plan that will include the expansion of the system throughout Cleveland and the resumption of its capacity to generate a substantial amount of its power needs. CPP also is active in local explorations of the use of wind energy. The day may come sooner than many people think when wind turbines located offshore will contribute a safe, clean source of power for the needs of our city.

Under Mayor Tom Johnson, Cleveland's new power company sought to provide the Cleveland community with a safe, secure, viable choice for its power needs. At Cleveland Public Power, we continue to strive a century later to deliver the excellent products and services that our customers desire.

A strong municipally-owned power company is an asset that we must cherish and continue its development and growth for the benefit of our residents and customers. Although it may sound like a cliché I can declare with conviction that the future for CPP and its customers is a bright one.

A Century of Power, A History of Service

From a small, one-story 225 kilowatt electric light plant, to a 360 megawatt electrical generation, transmission and distribution system that serves more than 77,000 customers, the Division of Cleveland Public Power's (CPP) first 100 years chronicle the history of citizen advocacy, system growth and a proud legacy of reliable and safe electrical service. Known affectionately for years as Muny Light, today Cleveland Public Power is the largest municipal electric power company in the State of Ohio, and 35th largest out of 2,000 in the nation.

Public power is nearly as old as the incandescent light bulb. Ever since a forum of citizens appealed for an electric utility "of the people," CPP has been an integral part of municipal life. And providing low-cost, superior service to the citizens of Cleveland continues to be the hallmark of CPP.

CPP's longevity is a testament to our ability to successfully meet the needs of customers, and remain true to our core values – reliable service, customer orientation and local ownership. We invite you to take a look back at the milestones that belong to Cleveland Public Power's century of power and history of service.

By the Numbers

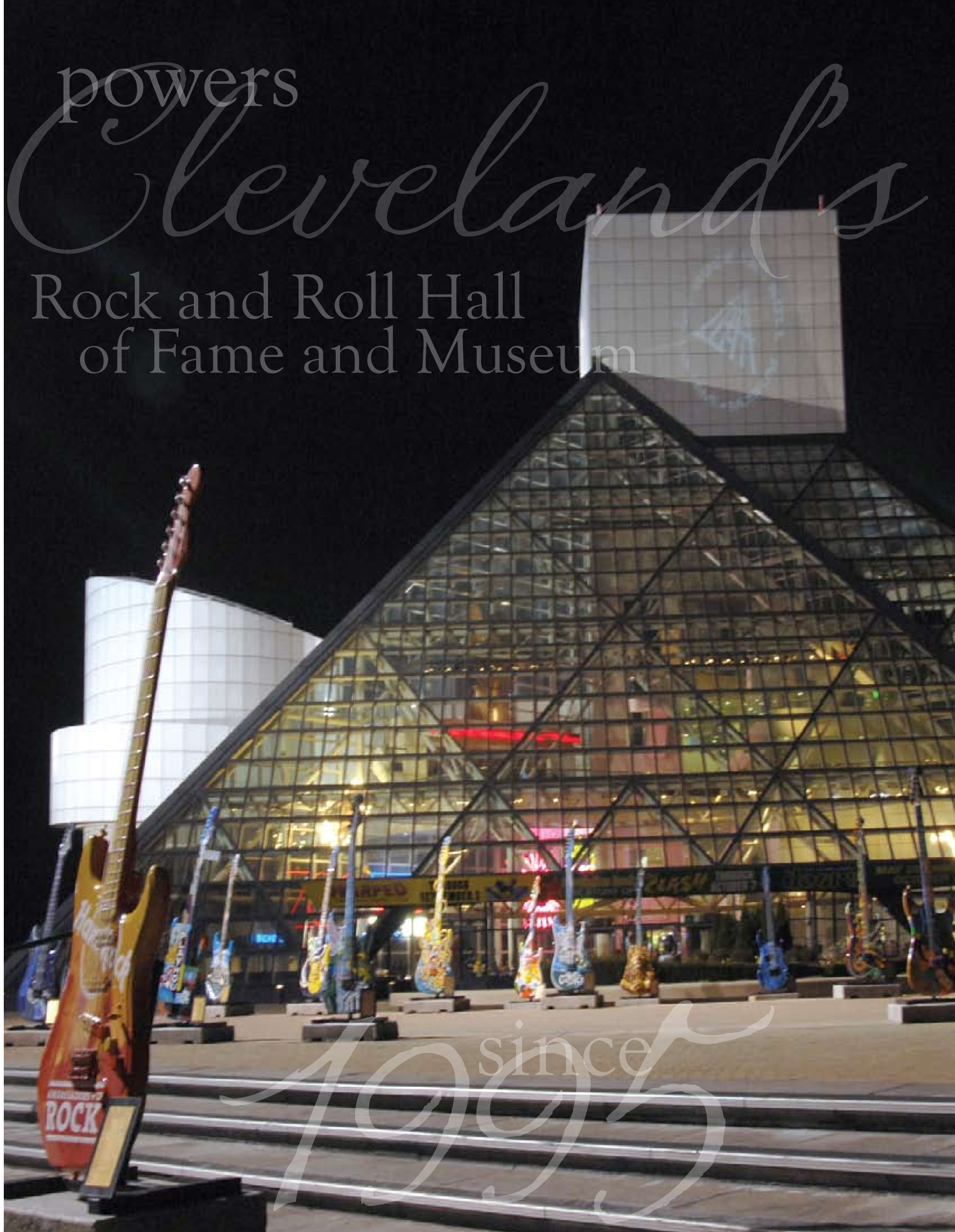
- Delivered electricity and related electric services to 77,798 customers located primarily in the City of Cleveland.

CUSTOMERS BY TYPE	
Residential	69,602
Small Commercial	5,981
Large commercial	874
Industrial	20
Large industrial	1
Protective Lighting	1,318
Street Lighting	2

- Supplied 1,672,037 million megawatt hours of electricity.
- Added 616 residential and 207 commercial customer accounts.
- Managed 45,869 streetlights in the City of Cleveland and 2,015 on state routes.
- Serviced 2,240 traffic signals.
- Generated $146,196,657 million in revenue.
- Invested $7.5 million in the construction of the new Ridge Road Substation.
- Reached a record-setting peak demand on August 1, using 324 megawatts of power.
- Employed a staff of 354 administrative, professional, clerical, skilled crafts, service, maintenance and technical workers.

At Your Service

- Operates Eastside and Westside Service Centers, a Meter Services Center, 32 power substations, 3 interconnections, and a Customer Service Center in its downtown Administration Building.
- Opens its Customer Service Center weekdays from 7:30 a.m. – 5:30 p.m., and Saturdays from 8:00 a.m. – noon for the payment of bills and to make inquiries.
- Provides a 24-hour Dispatch Center for downed wires, hit poles, electrical outages and other trouble reports – 216.664.3156.
- Manages a centralized 24-hour hotline to report street light outages – 216.621.LITE (5483).
- Maintains a 360-megawatts power system with a reliability rating of 99.98 percent.




Cleveland Public Library, Photograph Collection

1890 Citizens forum calls for a public power plant

The Franklin Club, a group of the leading social activists of the period who were devoted to the discussion of topics of public interest, petitions Cleveland City Council to "establish a municipal electric lighting plant with wires running underground."


CITY COUNCIL.

Monday, Aug. 11, 1890.

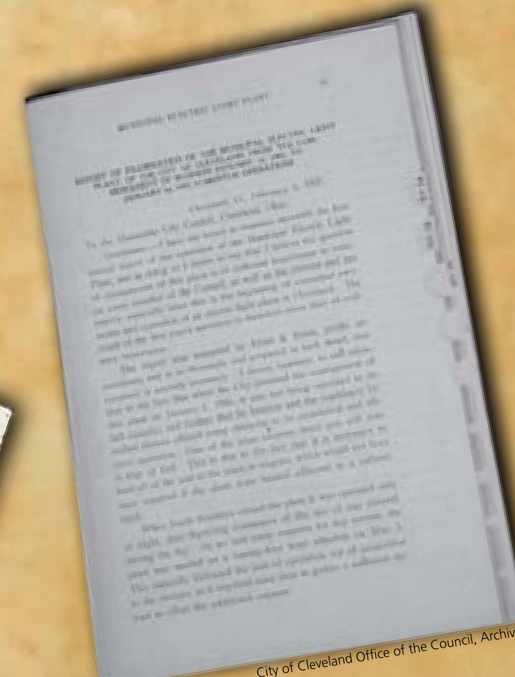
City of Cleveland Office of the Council, Archives

1903 Mayor Johnson champions municipal power

Mayor Tom L. Johnson addresses Cleveland City Council and recommends "an electric lighting plant of the most modern type, by which we can produce electricity cheaply for street lighting, and in addition give to the people in their homes and places of business the benefit of electric light and power at the minimum of cost."

1906 Cleveland begins operation as an electric utility

Cleveland begins 24-hour-a-day operation of the Municipal Electric Light and Power Plant when it annexes the Village of South Brooklyn and its light plant, a 225-kilowatt facility. In its first year of operation, the public power plant saved the city of Cleveland $1,533.33.


City of Cleveland Office of the Council, Archives

1911 Collinwood plant opens; voters say "yes" to new facility

The city annexes the Village of Collinwood in 1910 and the city takes over operation of the light plant. By 1911, the City of Cleveland has two electric light plants with aggregate capacity of 1,500 kilowatts. Convinced of the benefits and cost savings of using public power, Cleveland residents approve a $2 million bond issue to build their own large-scale, steam-generated power plant.


City of Cleveland Office of the Council, Archives

"... give to the people in their homes and places of business the benefit of electric light and power at the minimum of cost."

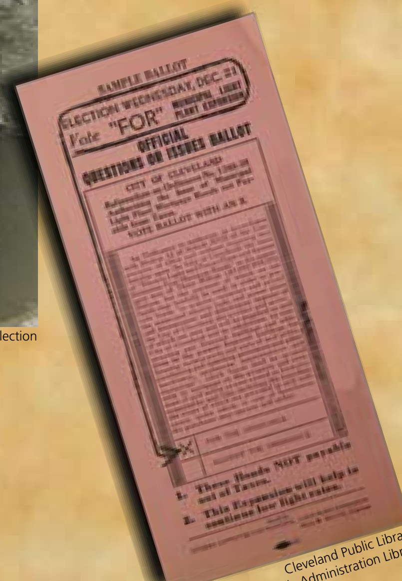
Cleveland Public Library, Photograph Collection

1914 Lake Road facility opens as largest municipal plant in the U.S.

In July, the new 15,000-kilowatt generating station on Lake Road at East 53rd Street opens for operation, becoming the largest municipal power plant in the United States. The city now has a total generating capacity of 3,250 kilowatts in three plants, and is furnishing power to approximately 5,000 customers and lighting 120 miles of city streets. After initial testing and operations, the city lowers its rates from 8 cents per kilowatt-hour to 3 cents per kilowatt-hour. By the end of the year, the South Brooklyn plant shuts down as a generating plant and, by the following year, the Collinwood plant is converted into a substation.

1915–1927 System prospers and grows

The city completes three additions to the power plant, and customers increase from 15,508 to 42,000, raising Muny's generating capacity to 50,000 kilowatts.



Cleveland Public Library, Public Administration Library

1930–1936 Light Plant revenues aid city in Depression Years

Demand for public power continues to grow, except for a slump at the height of the Great Depression. During the Depression years, the Municipal Light Plant fails to expand, but continues to generate revenues. Profits are often diverted to the city's general fund to subsidize other city services.

1937 New citizens group forms to revitalize Muny Light

The Cleveland Municipal Light Association, a coalition of activists, forms and lobbies to secure funds for new equipment and repairs. Their slogan: "of, by, and for the Citizens of Cleveland."

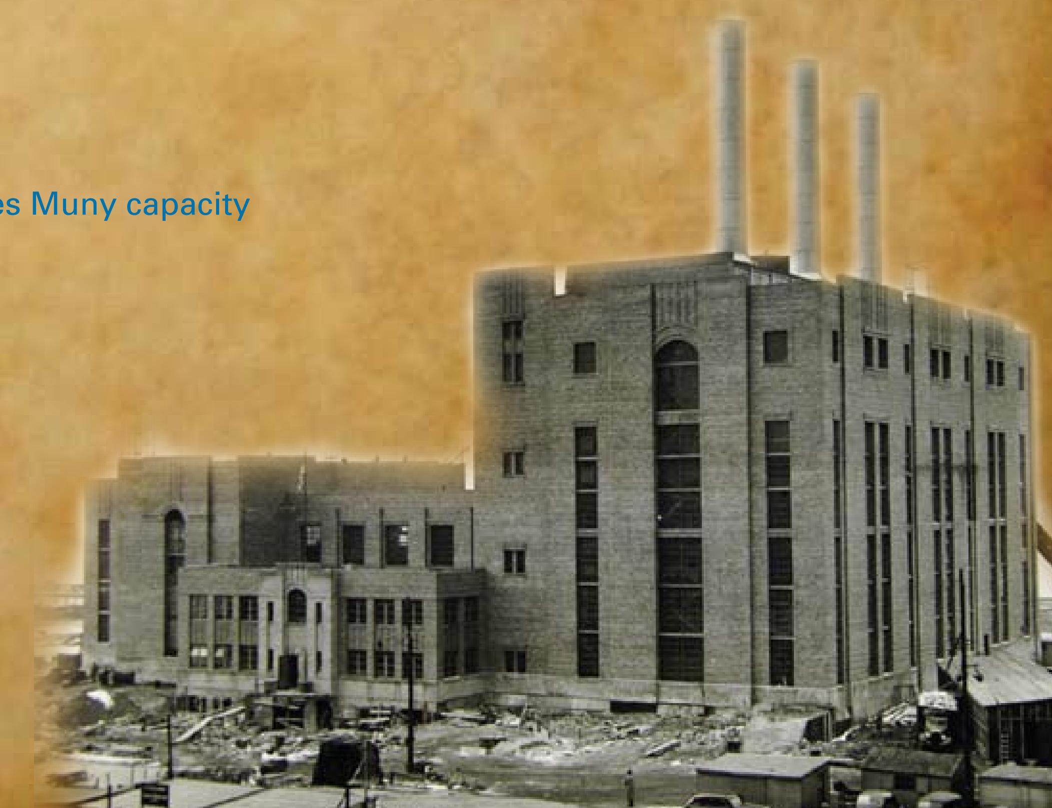
1941–1947 New station raises Muny capacity

A new Lake Road Generating Station opens, raising capacity of the Muny Light Plant to 87,500 kilowatts. The system has nearly 55,000 customers. Demand for electricity increases during World War II.

Cleveland Public Library, Public Administration Library

1938 Voters rally in favor of $3 million bond issue for new plant

A special election takes place on December 21, submitting a bond ordinance to the voters of the City of Cleveland. The election resulted in a vote of 88,678 "for" and 34,894 "against" the order, approving $3 million in bonds to build a new generating station on the Lake Road Division site.


Cleveland Public Library, Photograph Collection

City of Cleveland Office of the Council, Archives

1950s

Muny continues expansion, offers lowest electrical rates in Ohio

The Lake station expands to provide 137,500 kilowatts of power. A study shows Muny customers enjoy the lowest electricity rates in Ohio, $2.65 per 100 kilowatts for residential customers. City earns national recognition for its street lighting program.

City of Cleveland Office of the Council, Archives

City of Cleveland Office of the Council, Archives

1960s

Public utility serves 60,000

Muny grows to 26 substations and reaches an all-time high of 59,664 customers.

1970s

Muny buys power; "Save Muny Light" committee rallies voters

The public utility begins purchasing power from the investor-owned Cleveland Electric Illuminating Company (CEI) and establishes the first permanent interconnection between Muny and CEI lines. Muny ceases the production of power at its Municipal Light Plant on Lake Road, choosing to concentrate on distributing power to its customers with the best possible service. The "Save Muny Light" committee is established, and in a special election, voters choose not to sell their municipal electric utility. In December 1978, the City of Cleveland faces financial woes, and again refuses to sell Muny Light. Unable to pay its debts, the city goes into default.

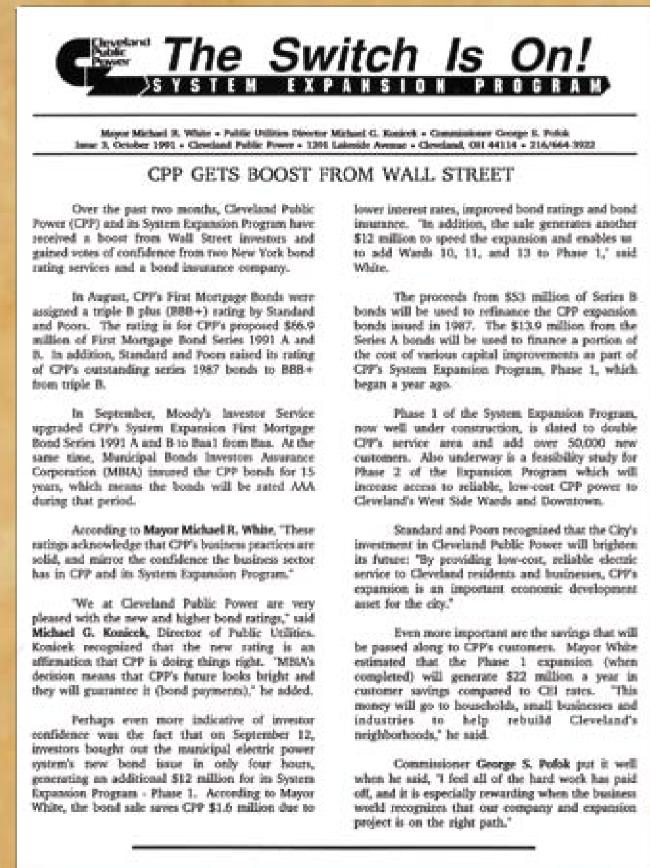
1983

Utility gets a new name

A new attitude about public power permeates the City of Cleveland, and the utility gets a new identity – Cleveland Public Power – to reflect the public's decision to keep the city in the electric utility business.

1990 Aggressive citywide expansion commences

City officials break ground for Phase 1 of the $240 million CPP System Expansion Program, designed to bring city electric power to a potential 95,000 households on Cleveland's East Side, thus, tripling CPP's service capacity, and doubling its service area to 70 percent of the city.



Cleveland Public Power

The Switch Is On!

SYSTEM EXPANSION PROGRAM

Mayor Michael R. White • Public Utilities Director Michael G. Konicek • Commissioner George S. Pofok
Issue 3, October 1991 • Cleveland Public Power • 1201 Lakeside Avenue • Cleveland, OH 44114 • 216/664-3922

CPP GETS BOOST FROM WALL STREET

Over the past two months, Cleveland Public Power (CPP) and its System Expansion Program have received a boost from Wall Street investors and gained votes of confidence from two New York bond rating services and a bond insurance company.

In August, CPP's First Mortgage Bonds were assigned a triple B plus (BBB+) rating by Standard and Poors. The rating is for CPP's proposed $66.9 million of First Mortgage Bond Series 1991 A and B. In addition, Standard and Poors raised its rating of CPP's outstanding series 1987 bonds to BBB+ from triple B.

In September, Moody's Investor Service upgraded CPP's System Expansion First Mortgage Bond Series 1991 A and B to Baa1 from Baa. At the same time, Municipal Bonds Investors Assurance Corporation (MBIA) insured the CPP bonds for 15 years, which means the bonds will be rated AAA during that period.

According to **Mayor Michael R. White**, "These ratings acknowledge that CPP's business practices are solid, and mirror the confidence the business sector has in CPP and its System Expansion Program."

"We at Cleveland Public Power are very pleased with the new and higher bond ratings," said **Michael G. Konicek**, Director of Public Utilities. Konicek recognized that the new rating is an affirmation that CPP is doing things right. "MBIA's decision means that CPP's future looks bright and they will guarantee it (bond payments)," he added.

Perhaps even more indicative of investor confidence was the fact that on September 12, investors bought out the municipal electric power system's new bond issue in only four hours, generating an additional $12 million for its System Expansion Program - Phase 1. According to Mayor White, the bond sale saves CPP $1.6 million due to lower interest rates, improved bond ratings and bond insurance. "In addition, the sale generates another $12 million to speed the expansion and enables us to add Wards 10, 11, and 13 to Phase 1," said White.

The proceeds from $53 million of Series B bonds will be used to refinance the CPP expansion bonds issued in 1987. The $13.9 million from the Series A bonds will be used to finance a portion of the cost of various capital improvements as part of CPP's System Expansion Program, Phase 1, which began a year ago.

Phase 1 of the System Expansion Program, now well under construction, is slated to double CPP's service area and add over 50,000 new customers. Also underway is a feasibility study for Phase 2 of the Expansion Program which will increase access to reliable, low-cost CPP power to Cleveland's West Side Wards and Downtown.

Standard and Poors recognized that the City's investment in Cleveland Public Power will brighten its future: "By providing low-cost, reliable electric service to Cleveland residents and businesses, CPP's expansion is an important economic development asset for the city."

Even more important are the savings that will be passed along to CPP's customers. Mayor White estimated that the Phase 1 expansion (when completed) will generate $22 million a year in customer savings compared to CEI rates. "This money will go to households, small businesses and industries to help rebuild Cleveland's neighborhoods," he said.

Commissioner George S. Pofok put it well when he said, "I feel all of the hard work has paid off, and it is especially rewarding when the business world recognizes that our company and expansion project is on the right path."

Cleveland Public Library, Public Administration Library

THE PLAIN DEALER

SUNDAY OCTOBER 13, 1996

Business H

The politics of power

CEI, CPP battle over electricity for Clevelanders

Finding a niche goal for retailers

SouthPark Center drawing new stores

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1997 Electric utilities reach accord

The City of Cleveland, Ohio Edison Company and Centerior Energy Corp. reach an agreement that paves the way for a productive working relationship with the future FirstEnergy Corp. The agreement sets up a structure in which CPP and FirstEnergy can compete while assuring that no customers are left in the dark.

2000 Ohioans elect community choice preference

Voters throughout Ohio pass "community choice" options on their local ballots, which allow local governments to bargain for lower rates on behalf of their residents. CPP continues to market itself as the "Smart Choice."

2001 Deregulation opens door for competition

Ohio deregulates electric utilities, opening the market to competition. Services subject to market-rate competition include retail electric generation, aggregation, power marketing and power brokering, while electric transmission and distribution services remain subject to regulation.

2006 A new image and grand plan for CPP

CPP welcomes the community to its 100th anniversary at its 1300 Lakeside Avenue headquarters. The utility completes its first strategic business plan in CPP history, establishing a pathway for the future, and unveiling its new logo and tagline – "Count on it."

Cleveland Public Power
Count on it

Counting on a New Era at CPP – Highlights of an Historic 2006

For Cleveland Public Power, the year 2006 was both an historic milestone, as well as a year of significant firsts and new beginnings. Consider: The celebration of the electric power company's 100th anniversary. Completion of the first strategic business plan in CPP history. New senior leadership. A record-setting day for electricity usage. And the unveiling of a new logo and tagline–"Count on it," kicking off the implementation of a strategic marketing plan. In all, 2006 launched a new era for Cleveland Public Power.

Centennial Celebration Attracts Hundreds

Hundreds of Cleveland citizens joined in the public celebration at Cleveland Public Power's administrative headquarters to commemorate its centennial anniversary in September. To mark the 100-year milestone, CPP hosted an open house with official greetings by Mayor Frank Jackson. Former mayor and municipal power champion Dennis Kucinich, along with Ward 17 Councilman Matt Zone, chairman of the Public Utilities Committee, also attended. Family-friendly activities included photos with CPP mascot "Jim Bulb," rides in the CPP bucket and digger trucks, and demonstrations that show how electricity is generated into the home, and the dangers associated with electricity.

Former CPP Official Returns as New Commissioner

Years before Ivan Henderson took the helm as CPP commissioner; he held another position as head of CPP's aggregation office. After leaving CPP to serve for five years at WPS Energy Services in Cleveland, Henderson returned to CPP in October with an action agenda aimed at increasing the amount of electricity the utility generates, improving system efficiency and enhancing training and development.

"Mayor Jackson was clear in communicating the need to hire a professional in the electrical utility business," says Darnell Brown, chief operating officer for the City of Cleveland. "We were looking for someone who was visionary and one who could motivate a work force."

"Henderson has all the requisite skills – significant electric utility background, know-how and previous work with CPP regarding the electric aggregation process, legal expertise, an understanding of the regulatory challenges, experience in shopping for power on the open market, and an ability to look ahead and understand the future of the industry," adds Brown.

"He has impressive attributes and is the total package for what we need in a commissioner."

Strategic Business Plan Lays Roadmap for the Future

With the completion of Cleveland Public Power's first strategic business plan in December, CPP positioned itself for a new era. The document, a five-year roadmap for the future, recommends 10 Strategic Options intended to solidify CPP's position as a leading provider of electrical energy (see page 21).

CPP's New Image – "Count on It."

The annual Public Power Week held in October helps put a face on municipal electric companies throughout the nation. It is a time to engage CPP employees and the community. So it was appropriate that the 2006 event served as a backdrop for the unveiling of CPP's new logo and tag line, "Count on It," affirming CPP employees' commitment to providing safe, strong, reliable service, and an electric utility customers can count on. Responding to customer surveys, CPP also introduced a number of energy efficient products and convenient services including online and budget billing. CPP also held a special employee appreciation celebration luncheon, giving out commemorative 100th anniversary tee shirts and other collectibles.

A Record-Setting Day

August 1 was a sweltering hot and humid 90-degree summer day in Cleveland. Not surprisingly, CPP customers turned up the power. But this time they powered up like no other time in the history of CPP. It was indeed a record-setting day of electricity usage – 331 megawatts, exceeding the previous record of 324.5 megawatts set in July 2005. While electricity usage typically peaks during the summer months, average daily usage is about 250.1 megawatts.

Work Stoppage Ends in Accord, Gives Way to Apprentice Program

In May, CPP employees represented by the International Brotherhood of Electric Workers Local 39 went on strike seeking wage increases. The work stoppage ended in seven days. When union officials and CPP reached a settlement, both sides also agreed to the creation of an apprentice program to train Cleveland Metropolitan School District youth for jobs as linemen and installers. The training program will create career opportunities for young people and a pipeline of next-generation workers for CPP.

"Mayor Jackson was clear in communicating the need to hire a professional in the electrical utility business."

Managing Capacity, Maintaining Reliability

If it was adding a new service line to a residence, constructing the underground infrastructure for Cleveland's new downtown Avenue District, adding back-up generation to the Water Plant, or installing pedestrian lighting for the massive Euclid Corridor Transportation Project, Cleveland Public Power continued to maintain and expand its power capacity, while providing reliable service.

In fact, CPP achieved a 99.98 percent reliability rating in 2006, thanks, in part, to the work of CPP engineers, who are responsible for the upkeep and expansion of the system. "Our role is to make sure the system stays up and operational 99 percent of the time," says Bob Bonner, assistant commissioner of engineering.

In 2006, CPP also completed the new Ridge Road substation, a 28 megawatt-capacity distribution facility. The new substation provides load relief to the aging Old Brooklyn network by taking on 7 megawatts of load from the older network. In addition, the new substation will enable CPP to add new customers. Prior to the completion of the Ridge Road facility, customers served by the West Side network were reporting frequent power outages. Yet all during the long-hot summer of 2006, there were no reported outages in the West Side service area.

The "Public" in Public Power

As a public power utility, Cleveland Public Power serves an important role in the community. First, it is citizen-owned, and subject to oversight by Cleveland City Council. And because CPP is locally owned and provides a service crucial to the community's economic health and quality of life, citizens have a responsibility to make sure their electric utility acts on behalf of the public.

CPP employees play a key role in helping educate citizens about utility services, energy issues and how to participate in the decision-making process.

Public Power Week, open houses, Customer Service Centers, hotlines and the new branding identity are among the ways CPP communicates and stays connected with the community.

Promoting public power's distinct role in the industry of placing communities first and demonstrating the value of local ownership and community advocacy are essential to keeping the "public" in public power.

Strategic Options – A Roadmap For The Future

You might say that Cleveland Public Power has experienced a new birth.

After nine months of demanding group discussions, interviews, examinations, evaluations and comparisons of virtually every function, operation, process, job description and financial status within the organization and analysis of the external environment, Cleveland Public Power released its first comprehensive strategic business plan in December 2006. The document, a five-year roadmap for the future, recommends 10 Strategic Options intended to solidify CPP's position as a leading provider of electrical energy.

"We wanted to touch every component of the organization – people, processes, and the technology and infrastructure, as well as compare ourselves with other municipal and investor-owned power companies," says Joy Perry, assistant commissioner and project manager for the system–wide planning initiative.

The Planning Process

First, CPP selected a consultant that worked with the project team to facilitate the strategic planning process. A cross representation of CPP employees attended the project kickoff meeting and signed the "Analysis of Strategic Options Team Charter," affirming their commitment to the process. In March, the consulting team conducted interviews with staff throughout the organization to better:

- understand how CPP conducted business from day-to-day
- understand how departments interacted
- assess the corporate culture
- evaluate the purchasing power process
- identify CPP's strengths and weaknesses

Next, customers were surveyed to determine service needs and perceptions about CPP. Finally, a scan of the external environment enabled the project team to define opportunities and threats related to the electric power industry, competition, energy legislation, and the political and regulatory environments.

Strategic Priorities

"What we discovered was that we needed to redefine ourselves, strengthen the infrastructure in areas where the system was aging and expand our capacity to serve more customers, while maintaining reliable service," says Perry. In addition, the report concluded that CPP should become less dependent on purchasing power and more reliant on alternative energies. "We developed an aggressive, bold vision statement that challenged CPP to be a role model for public utilities across the United States and a provider of world-class service."

Finally, the report outlined goals, tasks and subtasks for achieving the 10 Strategic Options.

Changing the Culture, Exploring New Power, Preparing Our Youth

CPP Commissioner Ivan Henderson promises to move aggressively to make the Strategic Options an action-focused, living document. Henderson starts by reorganizing and "re-culturing" the company and creating a structure with greater accountability and transparency throughout the organization. "We will develop a clear hierarchy and follow through with accountability through chains of command."

He plans to combine interdependent functions under a single manager to improve operational efficiency. "Such structural change will move us in a different, more strategic direction," explains Henderson.

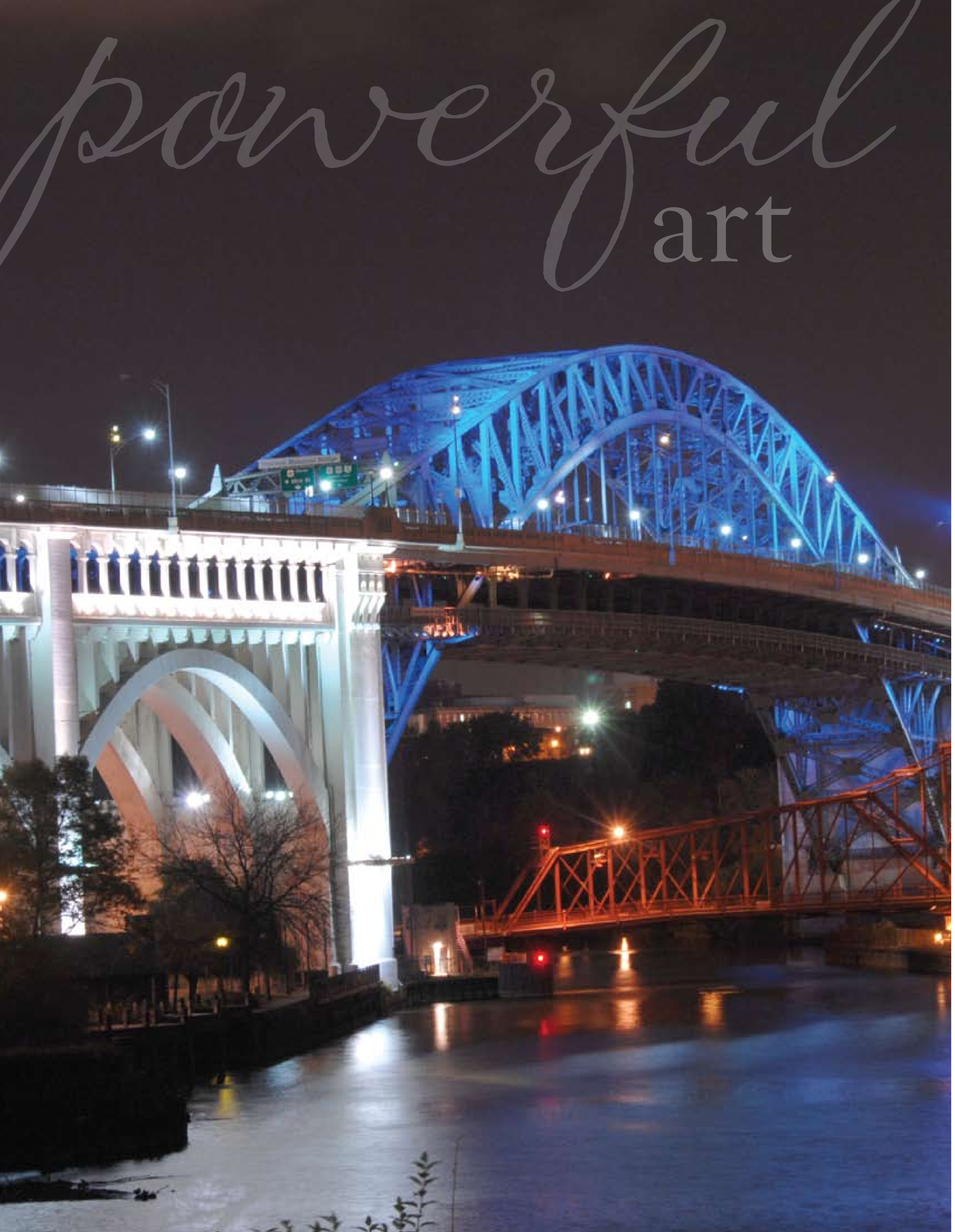
Next, Henderson wants to create cross-functional special project teams that address specific objectives. For example, "Green Power" teams will look at renewable energy technologies such as municipal solid waste, onshore wind, and water pump storage as methods to diversify CPP's power supply. Efficiency Improvement teams will examine processes.

Clearly, CPP employees are the backbone of the division, boasts Henderson. Yet, across the industry, approximately one-third of the work force is likely to retire in the next 5-10 years. To avoid a knowledge gap, "CPP will be working actively with the unions in a partnership to grow our own young line workers, producing an endless stream of apprentices."

"Such structural change will move us in a different, more strategic direction."

CPP's 10 Strategic Options

1. Enhance Infrastructure
2. Improve Financial Stability
3. Increase Diversification of Power
4. Increase Market Expansion
5. Enhance Communication and Knowledge Management
6. Enhance Technology
7. Improve Performance Management and Professional Capacity
8. Improve Non-Power Procurement
9. Participate Proactively in Political, Legal and Regulatory Issues
10. Increase Customer Satisfaction



INDEPENDENT ACCOUNTANT'S REPORT

FINANCIAL SUMMARY

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, 2006 and December 31, 2005, 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 Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2006 and December 31, 2005, 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, 2006 and December 31, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the 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 29, 2007

THE SEAL OF THE AUDITOR OF STATE OF OHIO

Auditor of State
Mary Taylor, CPA

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.

Lausche Building
615 Superior Ave., NW
Twelfth Floor
Cleveland, OH 44113-1801
Telephone: 216.787.3665
800.626.2297
Fax: 216.787.3361
www.auditor.state.oh.us

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

GENERAL

As management of the City of Cleveland's (the "City") Department of Public Utilities, Division of Cleveland Public Power (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2006 and 2005. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 29.

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 of the City and presently serves over 78,000 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 Co. (CEI).

According to the 2000 census reports, the City's population is approximately 478,000 people. There are 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.

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 29 – 31 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 32 – 40 of this report.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $186,575,000, $178,867,000 and $179,981,000 at December 31, 2006, 2005 and 2004, respectively. Of these amounts, $72,461,000, $71,938,000 and $84,716,000 are unrestricted net assets at December 31, 2006, 2005 and 2004, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $7,708,000, decreased by $1,114,000 and increased by $5,313,000 during 2006, 2005 and 2004, respectively. Purchased power decreased by 10.7% decreasing total operating expenses by 7.5% for 2006. In addition, investment income increased by 55.5% whereas interest expense and amortization of bond issuance costs and discounts decreased by 11.6% and 16.4%, respectively due to the bond refinancing transaction in August 2006.

- During 2006, the Division had an increase in capital assets, net of accumulated depreciation of $5,361,000. The principal capital expenditures in 2006 were for defective pole replacements, replacing and upgrading distribution feeders, work on the Euclid Corridor Transportation Project and the expansion of the Ridge Road substation.

- The Division's total long-term bonded debt decreased by $12,255,000 and $9,710,000 for the years ended December 31, 2006 and 2005, respectively. These decreases are attributed to scheduled debt service payments to bondholders. The Division also refinanced some outstanding bonds in 2006.

- In 2005, the Division was impacted by the introduction of SECA (Seams Elimination Cost Adjustment), which was mandated by the FERC (Federal Energy Regulatory Commission). See Footnote L. The Division paid SECA charges to Midwest Independent System Operator (MISO) of $2,733,000 and $8,072,000 in 2006 and 2005, respectively. The last payment made was for March 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2006, 2005 and 2004.

(In thousands)	2006	2005	2004
Assets:			
Capital assets, net of accumulated depreciation	$ 309,122	$ 303,761	$ 296,094
Restricted assets	21,079	30,933	37,282
Unamortized bond issuance costs	2,590	1,737	1,952
Current assets	71,135	67,647	75,739
Total assets	403,926	404,078	411,067
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	109,695	95,977	80,572
Restricted for capital projects	1,461	4,534	8,816
Restricted for debt service	2,958	6,418	5,877
Unrestricted	72,461	71,938	84,716
Total net assets	186,575	178,867	179,981
Liabilities:			
Long-term obligations	192,193	197,692	205,812
Current liabilities	25,158	27,519	25,274
Total liabilities	217,351	225,211	231,086
Total net assets and liabilities	$ 403,926	$ 404,078	$ 411,067

CAPITAL ASSETS The Division's investment in capital assets as of December 31, 2006 amounted to $309,122,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was $5,361,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2006 is as follows:

(In thousands)	Balance Jan. 1, 2006	Additions	Reductions	Balance Dec. 31, 2006
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,759			2,759
Utility plant	403,120	5,513		408,633
Buildings, structures & improvements	42,278			42,278
Furniture, fixtures, equipment & vehicles	42,904	1,782	(1,804)	42,882
Construction in progress	8,181	21,174	(5,635)	23,720
Total	504,105	28,469	(7,439)	525,135
Less: Accumulated depreciation	(200,344)	(16,713)	1,044	(216,013)
Capital assets, net	$ 303,761	$ 11,756	$ (6,395)	$ 309,122

A summary of the activity in the Division's capital assets during the year ended December 31, 2005 is as follows:

(In thousands)	Balance Jan. 1, 2005	Additions	Reductions	Balance Dec. 31, 2005
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,519	240		2,759
Utility plant	361,901	41,219		403,120
Buildings, structures & improvements	41,752	526		42,278
Furniture, fixtures, equipment & vehicles	41,025	2,090	(211)	42,904
Construction in progress	28,176	24,166	(44,161)	8,181
Total	480,236	68,241	(44,372)	504,105
Less: Accumulated depreciation	(184,142)	(16,412)	210	(200,344)
Capital assets, net	$ 296,094	$ 51,829	$ (44,162)	$ 303,761

RESTRICTED ASSETS The Division's restricted assets decreased by $9,854,000 and $6,349,000 in 2006 and 2005, respectively, primarily due to purchases of capital assets and increased spending on capital projects.

CURRENT ASSETS The Division's current assets increased by $3,488,000 and decreased by $8,092,000 in 2006 and 2005, respectively. The increase in 2006 is mainly due to the following:

- The increase in current cash and cash equivalent of $5,675,000 from increased collection.
- The decrease in net accounts receivable of $1,383,000 in 2006 is due to increased collection activity and the receipt of a $1,220,000 SECA refund from American Electric Power offset by a $2.5 million receivable for a SECA reimbursement.
- Due from Other City Divisions decreased by $198,000 in 2006 primarily due to more efficient billings and payments between City-user divisions.
- Net materials and supplies increased by $701,000 in 2006 due to cost increases and the increase in stores on hand for future use.

The principal capital expenditures during 2006 included the following:

- Pole replacements - $6,784,000
- Related engineering and overhead expense capitalized - $3,491,000
- Ridge Road Substation construction: $1,200,000
- Vehicles purchased - $581,000
- New customer service connections - $547,000
- Distribution Engineering services - $1,020,000
- Distribution Feeders 2004 - $600,000
- Distribution Feeders 2005 - $899,000
- Euclid Corridor Electrical Work - $1,853,000

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CURRENT LIABILITIES decreased by $2,361,000 in 2006 mainly due to the $2,980,000 decrease in the current portion of long-term debt, the $211,000 decrease in payables from restricted assets and the $100,000 decrease in accrued interest payable offset by normal increases in current liabilities.

LONG-TERM DEBT The long-term obligation decrease of $5,499,000 in 2006 is attributed to scheduled debt service payments offset by a new refinancing bond issue expected to reduce interest cost.

At December 31, 2006, the Division had total debt outstanding of $228,390,000. 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 to refinance its long term debt. This debt is being retired in accordance with repayment schedules through 2024.

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 2006, 2005 and 2004 was 179%, 178%, and 166%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 34 – 35.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2006 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(in thousands)	Balance Jan. 1, 2006	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2006
Mortgage Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335	$	$ (14,460)	$	$ 33,875
Mortgage Revenue Bonds 1996	120,190		(114,655)	(805)	4,730
Mortgage Revenue Bonds 1998	38,655			(7,510)	31,145
Mortgage Revenue Bonds 2001	33,465			(2,710)	30,755
Mortgage Revenue Bonds 2006 A-1		95,265			95,265
Mortgage Revenue Bonds 2006 A-2		12,295			12,295
Mortgage Revenue Bonds 2006 B		20,325			20,325
Total	$ 240,645	$ 127,885	$ (129,115)	$ (11,025)	$ 228,390

The activity in the Division's debt obligations outstanding during the year ended December 31, 2005 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(in thousands)	Balance Jan. 1, 2005	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2005
Mortgage Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335			$	$ 48,335
Mortgage Revenue Bonds 1996	120,955			(765)	120,190
Mortgage Revenue Bonds 1998	44,760			(6,105)	38,655
Mortgage Revenue Bonds 2001	36,305			(2,840)	33,465
Total	$ 250,355			$ (9,710)	$ 240,645

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 $186,575,000, $178,867,000 and $179,981,000 at December 31, 2006, 2005 and 2004, respectively.

A large portion of the Division's net assets, $109,695,000 (59%) and $95,977,000 (54%) at December 31, 2006 and 2005, respectively, reflects its 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. 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 $4,419,000 (2%) and $10,952,000 (6%) at December 31, 2006 and 2005, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds or represent unspent bond proceeds relating to capital projects. The remaining balance of unrestricted net assets, $72,461,000 (39%) and $71,938,000 (40%) at December 31, 2006 and 2005, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The Division's operations during 2006 increased its net assets by $7,708,000 as compared to a decrease in net assets of $1,114,000 in 2005. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2006, 2005 and 2004:

(In thousands)	2006	2005	2004
Operating revenues	$ 146,347	$ 150,263	$ 141,143
Operating expenses	131,655	142,336	124,562
Operating income	14,692	7,927	16,581
Non-Operating Revenue (Expense):			
Investment income	2,929	1,883	1,005
Interest expense	(9,096)	(10,289)	(10,915)
Amortization of bond issuance costs and discount	(1,775)	(2,124)	(2,123)
Workers compensation refund	10	8	12
Gain on disposal of capital assets	2	2	6
Other	946	1,079	679
Total non-operating revenue (expense), net	(6,984)	(9,441)	(11,336)
Income (loss) before other contributions	7,708	(1,514)	5,245
Capital and other contributions		400	68
Increase (Decrease) in net assets	7,708	(1,114)	5,313
Net assets, beginning of year	178,867	179,981	174,668
Net assets, end of year	$ 186,575	$ 178,867	$ 179,981

- In 2006, operating revenues decreased by $3,916,000 largely related to a 4% decrease in kilowatt-hours sold due to a cooler than normal summer. However, there has been a significant improvement in collections as cash receipts for 2006 increased by $2,729,000 over 2005. Much of the improvement could be attributed to collection policy changes, such as lowering the dollar threshold for delinquent customers, and requiring full payment for restoring electric service for customers that have been disconnected for non-payment.
- In 2005, operating revenues increased by $9,120,000 largely related to a 5% increase in kilowatt-hours sold.
- In 2006, operating expenses decreased by $10,681,000 primarily due to a $9,600,000 decrease in purchased power costs and a decrease of $1,486,000 in maintenance expense.
- In 2005, operating expenses increased by $17,774,000 primarily due to a $14,738,000 increase in purchased power costs, which included $8,072,000 in SECA payments, an increase of $1,125,000 in depreciation expense and an increase in health care costs.

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

In 2006, the Division, with the assistance of an external consultant, undertook a strategic planning initiative that will develop improved business processes and practices for meeting the challenges that will result from the planned change in 2009 to market rates for Ohio electric utilities pursuant to Ohio Amended Substitute Senate Bill 3 ("SB 3").

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 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 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 is scheduled to end December 31, 2008. Effective December 1, 2005, the proceeds of the increase, which is approximately $4,000,000 annually, are no longer earmarked for a specific purpose, but the Division maintains a fund with about $15,457,000 of historic receipts that remains earmarked by City Council for debt reduction and pole replacements.

In August 2006 the Division sold $127,885,000 in bonds to refinance $129,115,000 of older bonds. This is expected to reduce interest costs.

The Division is moving forward with a plan to construct a fourth interconnection with CEI. When completed, the Division will be able to deliver additional power to its customers. The project is currently estimated to cost $5 million.

BALANCE SHEETS

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

December 31, 2006 and 2005

(In thousands)	2006	2005
ASSETS		
Capital Assets:		
Land	$ 4,863	$ 4,863
Land improvements	2,759	2,759
Utility plant	408,633	403,120
Buildings, structures and improvements	42,278	42,278
Furniture, fixtures, equipment and vehicles	42,882	42,904
	501,415	495,924
Less: Accumulated depreciation	(216,013)	(200,344)
	285,402	295,580
Construction in progress	23,720	8,181
Capital Assets, Net	309,122	303,761
Restricted Assets:		
Cash and cash equivalents	7,903	14,919
Investments	13,162	15,975
Accrued interest receivable	14	39
Total Restricted Assets	21,079	30,933
UNAMORTIZED BOND ISSUANCE COSTS	2,590	1,737
Current Assets:		
Cash and cash equivalents	10,442	4,767
Restricted cash and cash equivalents	1,272	1,483
Investments	28,383	29,302
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $1,338,000 in 2006 and $3,794,000 in 2005	19,782	21,165
Unbilled revenue	1,943	2,171
Due from other City of Cleveland departments, divisions or funds	2,532	2,730
Accrued interest receivable	318	267
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2006 and 2005	6,409	5,708
Prepaid expenses	54	54
Total Current Assets	71,135	67,647
Total Assets	$ 403,926	$ 404,078
NET ASSETS AND LIABILITIES		
Net Assets:		
Invested in capital assets, net of related debt	$ 109,695	$ 95,977
Restricted for capital projects	1,461	4,534
Restricted for debt service	2,958	6,418
Unrestricted	72,461	71,938
Total Net Assets	186,575	178,867
Liabilities:		
Long-Term Obligations: excluding amounts due within one year:		
Revenue bonds	191,383	196,759
Accrued wages and benefits	810	933
Total Long-Term Obligations	192,193	197,692
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	8,045	11,025
Accounts payable	8,459	7,979
Current payable from restricted assets	1,272	1,483
Due to other City of Cleveland departments, divisions or funds	1,064	907
Accrued interest payable 1,084 1,184		
Current portion of accrued wages and benefits	3,789	3,554
Other accrued expenses	445	435
Customer deposits and other liabilities	1,000	952
TOTAL CURRENT LIABILITIES	25,158	27,519
TOTAL LIABILITIES	217,351	225,211
TOTAL NET ASSETS AND LIABILITIES	$ 403,926	$ 404,078

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

For the Years Ended December 31, 2006 and 2005

(In thousands)	2006	2005
OPERATING REVENUES		
Charges for services	$ 146,347	$ 150,263
Total Operating Revenues	**146,347**	150,263
OPERATING EXPENSES		
Purchased power	**79,746**	89,346
Operations	**17,934**	17,830
Maintenance	**17,262**	18,748
Depreciation	**16,713**	16,412
Total Operating Expenses	**131,655**	142,336
Operating Income	**14,692**	7,927
NON-OPERATING REVENUE (EXPENSE)		
Investment income	**2,929**	1,883
Interest expense	**(9,096)**	(10,289)
Amortization of bond issuance costs and discounts	**(1,775)**	(2,124)
Workers compensation refund	**10**	8
Gain on disposal of capital assets	**2**	2
Other	**946**	1,079
Total Non-Operating Revenue (Expense), Net	**(6,984)**	(9,441)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	**7,708**	(1,514)
Capital and other contributions		400
Increase (Decrease) In Net Assets	**7,708**	(1,114)
NET ASSETS, BEGINNING OF YEAR	**178,867**	179,981
NET ASSETS, END OF YEAR	**$ 186,575**	$ 178,867

See notes to financial statements.

STATEMENTS OF CASH FLOWS

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

For the Years Ended December 31, 2006 and 2005

(In thousands)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	**$ 152,881**	$ 150,152
Cash payments to suppliers for goods or services	**(6,774)**	(5,813)
Cash payments to employees for services	**(25,469)**	(24,901)
Cash payments for purchased power	**(82,080)**	(90,140)
Electric excise tax payments to agency fund	**(5,237)**	(5,428)
Net Cash Provided By Operating Activities	**33,321**	23,870
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants		400
Workers compensation refund	**10**	8
Net Cash Provided By Noncapital Financing Activities	**10**	408
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds	**131,644**	
Acquisition and construction of capital assets	**(23,006)**	(21,591)
Principal paid on long-term debt	**(11,025)**	(4,920)
Interest paid on long-term debt	**(8,144)**	(9,813)
Cash paid to escrow agent for refunding	**(131,110)**	(4,910)
Net Cash Used For Capital And Related Financing Activities	**(41,641)**	(41,234)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	**(23,309)**	(13,594)
Proceeds from sale and maturity of investment securities	**27,041**	31,979
Interest received on investments	**3,026**	2,103
Net Cash Provided By Investing Activities	**6,758**	20,488
Net Increase (Decrease) In Cash And Cash Equivalents	**(1,552)**	3,532
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**21,169**	17,637
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 19,617**	$ 21,169
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	**$ 14,692**	$ 7,927
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**16,713**	16,412
Changes in assets and liabilities:		
Accounts receivable, net	**1,383**	(2,989)
Unbilled revenue	**228**	(207)
Due from other City of Cleveland departments, divisions or funds	**198**	2,370
Materials and supplies, net	**(700)**	365
Accounts payable	**480**	316
Due to other City of Cleveland departments, divisions or funds	**157**	(69)
Accrued wages and benefits	**112**	325
Other accrued expenses	**10**	37
Customer deposits and other liabilities	**48**	(617)
Total Adjustments	**18,629**	15,943
Net Cash Provided By Operating Activities	**$ 33,321**	$ 23,870

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2006 and 2005

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. Effective January 1, 2005, the Division implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures. In November 2003, the GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is effective for the year ended December 31, 2005. The Division has determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005. In May 2004, the GASB issued Statement No. 44, Economic Condition Reporting: The Statistical Section, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 44 has no impact on its financial statements as of December 31, 2006. In June 2005, the GASB issued Statement No. 47, Accounting for Termination Benefits, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 47 has no impact on its financial statements as of December 31, 2006.

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 capital projects.
- 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 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 2006 and 2005. 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, 2006 and 2005.

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

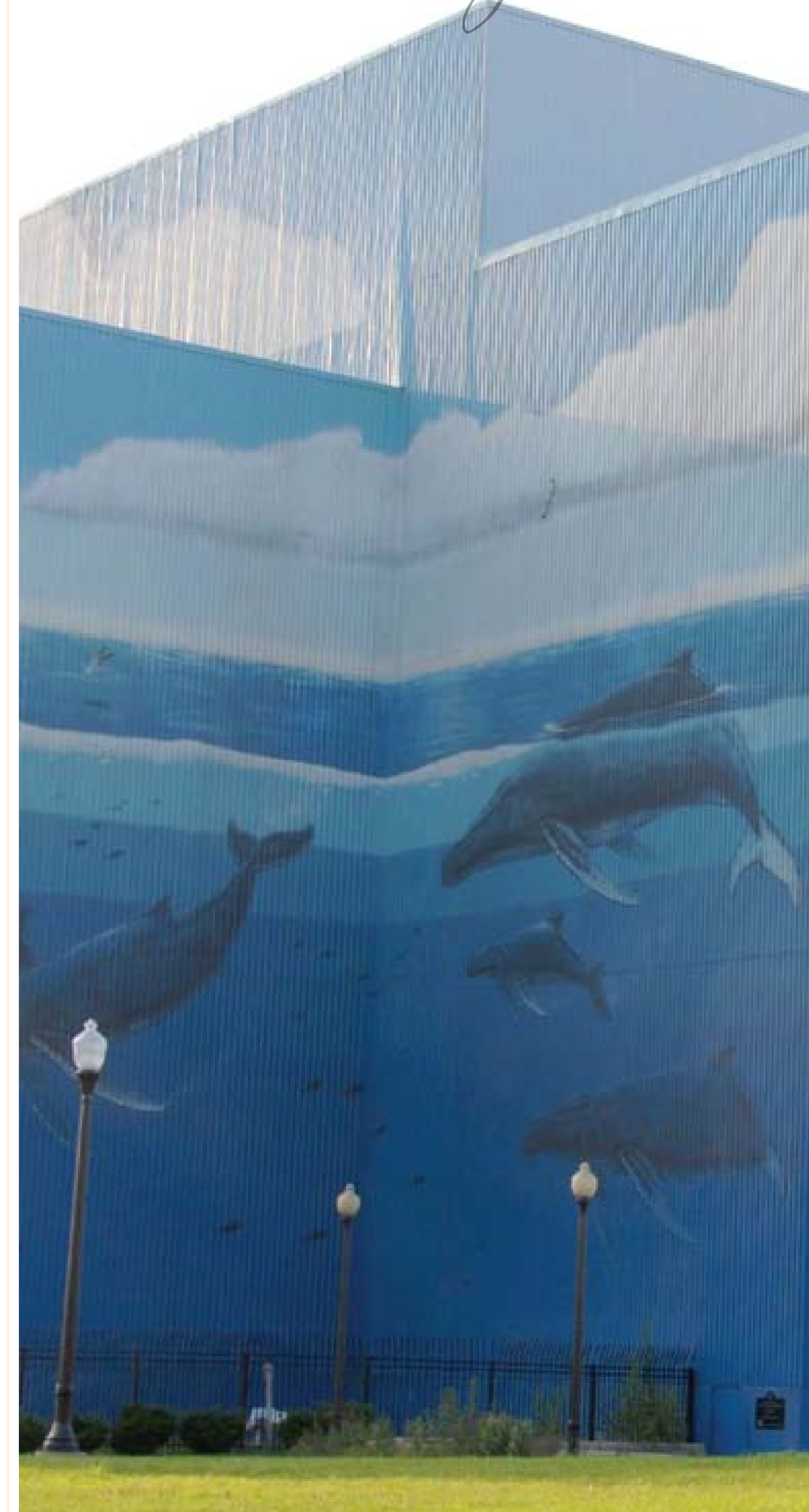
The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division 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 2006 and 2005, total interest costs incurred amounted to $9,534,000 and $10,889,000 respectively, of which $344,000 and $429,000, respectively, was capitalized, net of interest income of $94,000 in 2006 and $171,000 in 2005.

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.



For the Years Ended December 31, 2006 and 2005

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2006 and 2005 is as follows:

(In thousands)	Interest Rate	Original Issuance	2006	2005
MORTGAGE REVENUE BONDS:				
Series 1994, zero coupon bonds due through 2013		$ 219,105	**$ 33,875**	$ 48,335
Series 1996, due through 2011	5.25%-6.00%	123,720	**4,730**	120,190
Series 1998, due through 2017	4.00%-5.25%	44,840	**31,145**	38,655
Series 2001, due through 2016	3.55%-5.50%	41,925	**30,755**	33,465
Series 2006 A-1, due through 2024	4.25%-5.00%	95,265	**95,265**	
Series 2006 A-2, due through 2017	5%	12,295	**12,295**	
Series 2006 B, due through 2024	Auction Rates	20,325	**20,325**	
		$ 557,475	**$ 228,390**	$ 240,645
Less:				
Unamortized discount-zero coupon bonds			**(7,221)**	(14,322)
Unamortized premium-current interest bonds (net)			**4,148**	(4,723)
Unamortized loss on debt refunding			**(25,889)**	(13,816)
Current portion			**(8,045)**	(11,025)
Total Long-Term Debt			**$ 191,383**	$ 196,759

SUMMARY Changes in long-term obligations for the year ended December 31, 2006 are as follows:

(In thousands)	Balance Jan. 1, 2006	Increase	Decrease	Balance Dec. 31, 2006	Due Within One Year
MORTGAGE REVENUE BONDS:					
Series 1994, zero coupon bonds due through 2013	**$ 48,335**	$	**$ (14,460)**	**$ 33,875**	**$ 965**
Series 1996, due through 2011	**120,190**		**(115,460)**	**4,730**	**850**
Series 1998, due through 2017	**38,655**		**(7,510)**	**31,145**	**3,430**
Series 2001, due through 2016	**33,465**		**(2,710)**	**30,755**	**2,800**
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	**240,645**	**127,885**	**(140,140)**	**228,390**	**8,045**
Accrued wages and benefits	**4,487**	**112**		**4,599**	**3,789**
Total	**$ 245,132**	**$ 127,997**	**$ (140,140)**	**$ 232,989**	**$ 11,834**

SUMMARY Changes in long-term obligations for the year ended December 31, 2005 are as follows:

(In thousands)	Balance Jan. 1, 2005	Increase	Decrease	Balance Dec. 31, 2005	Due Within One Year
MORTGAGE REVENUE BONDS:					
Series 1994, zero coupon bonds due through 2013	$ 48,335	$	$	$ 48,335	$
Series 1996, due through 2024	120,955		(765)	120,190	805
Series 1998, due through 2017	44,760		(6,105)	38,655	7,510
Series 2001, due through 2016	36,305		(2,840)	33,465	2,710
Total revenue bonds	250,355		(9,710)	240,645	11,025
Accrued wages and benefits	4,162	325		4,487	3,554
Total	$ 254,517	$ 325	$ (9,710)	$ 245,132	$ 14,579

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

(In thousands)	Principal	Interest	Total
2007	$ 8,045	$ 9,626	$ 17,671
2008	8,335	9,336	17,671
2009	8,530	9,150	17,680
2010	8,725	8,950	17,675
2011	11,210	8,731	19,941
2012-2016	59,540	39,147	98,687
2017-2021	72,285	24,101	96,386
2022-2024	51,720	5,251	56,971
Total	$ 228,390	$ 114,292	$ 342,682

On August 17, 2006, the Division 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 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, including related premium, in the total amount of $131,110,000 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 Division 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 Division entered into a basis swap on a portion of the Series 2006A-1 Bonds at the time of issuance of the bonds.

For the Years Ended December 31, 2006 and 2005

INTEREST RATE SWAP TRANSACTION

Simultaneously with the issuance of the Division's $95,265,000 Series 2006A-1 Public Power System Refunding Revenue Bonds on August 17, 2006, the Division 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. is the counterparty on the transaction. Under the swap agreement for the Series 2006A-1 Bonds, the Division will pay the counterparty a floating rate based on the USD-BMA Municipal Swap Index. The counterparty is also a floating rate payor, paying the Division 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 Division 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 a parity with the pledge and lien securing the payment of debt service on the bonds.

OBJECTIVE The Division 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.

BASIS RISK By entering into a swap based upon the 30 day LIBOR rate of interest, the Division has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between LIBOR (taxable) and BMA (tax-exempt) interest rates has been 67%, this relationship may not continue to apply. If the payment received from the counterparty is less than the amount paid to the counterparty, the Division must make up the difference in addition to paying the fixed rate resulting from the swap. In addition, a reduction in federal income tax rates would increase the percentage relationship between BMA and LIBOR and would potentially increase the cost of financing.

COUNTERPARTY RISK The Division selected a highly rated counterparty in order to minimize this risk. Lehman Brothers Special Financing, Inc. is rated A1 by Moody's Investors Service and A+ by Standard & Poors. However, over the long term it is possible that the credit strength of Lehman Brothers could change and this event could trigger a termination payment on the part of the Division.

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, 2006 as reported by Lehman Brothers totaled $538,708, which would be payable by Lehman Brothers to the Division.

During September 2005, the Division utilized incremental charges to defease certain Mortgage Revenue Bonds that were due November 15, 2005 by placing $4,790,000 relating to principal and $120,000 relating to interest in an irrevocable trust to provide for the debt service payments. 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 $14,460,000 Series 1994A defeased debt outstanding at December 31, 2006.

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 extensions thereto.

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, 2006 and 2005, 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 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 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, 2006 and 2005, the Division had $4,439,000 and $8,434,000, respectively, of outstanding commitments for future constructions 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.

For the Years Ended December 31, 2006 and 2005

NOTE C - DEPOSITS AND INVESTMENTS

DEPOSITS At December 31, 2006 and 2005, the Division's carrying amount of deposits totaled $2,484,000 and $1,158,000, respectively, and the Division's bank balances totaled $2,697,000 and $1,395,000, 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.

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 table below.

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.

CREDIT RISK The Division's investments as of December 31, 2006 and 2005 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, 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 the Victory Money Market Fund, Allegiant Government Money Market Fund and 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.

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, 2006 and 2005, 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 (In thousands)	2006 Fair Value	2006 Cost	2005 Fair Value	2005 Cost	Investment Maturities Less than One Year	Investment Maturities 1 - 5 Years	Investment Maturities 5 Years or More
U.S. Agency Obligations	$ **40,373**	$ **40,547**	$ 43,415	$ 44,104	$ 23,398	$ 16,975	$
U.S. Treasury Bills	**1,171**	**1,171**	1,861	1,861	1,171		
Repurchase Agreements	**5,819**	**5,819**	1,550	1,550	5,819		
STAROhio	**8,400**	**8,400**	8,342	8,342	8,400		
Investment in Mutual Funds	**2,915**	**2,915**	10,120	10,120	2,915		
Total Investments	**58,678**	**58,852**	65,288	65,977	41,703	16,975	
Total Deposits	**2,484**	**2,484**	1,158	1,158	2,484		
Total Deposits and Investments	$ **61,162**	$ **61,336**	$ 66,446	$ 67,135	$ 44,187	$ 16,975	$

As of December 31, 2006, the investments in U.S. Agency Obligations, repurchase agreements and STAROhio are approximately 69%, 10% and 14%, respectively, of the Division's total investments. As of December 31, 2005, the investments in U.S. Agency Obligations, STAROhio and mutual funds are approximately 66%, 13% and 16%, respectively, of the Division's total investments.

For the Years Ended December 31, 2006 and 2005

NOTE D - CAPITAL ASSETS

CAPITAL ASSET ACTIVITY Capital asset activity for the year ended December 31, 2006 was as follows:

(In thousands)	Balance Jan. 1, 2006	Balance Additions	Reductions	Dec. 31, 2006
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ **4,863**	$	$	$ **4,863**
Construction in progress	**8,181**	**21,174**	**(5,635)**	**23,720**
Total capital assets, not being depreciated	**13,044**	**21,174**	**(5,635)**	**28,583**
CAPITAL ASSETS, BEING DEPRECIATED				
Land improvements	**2,759**			**2,759**
Utility plant	**403,120**	**5,513**		**408,633**
Buildings, structures and improvements	**42,278**			**42,278**
Furniture, fixtures, equipment and vehicles	**42,904**	**1,782**	**(1,804)**	**42,882**
Total capital assets, being depreciated	**491,061**	**7,295**	**(1,804)**	**496,552**
Less: Accumulated depreciation	**(200,344)**	**(16,713)**	**1,044**	**(216,013)**
Total capital assets being depreciated, net	**290,717**	**(9,418)**	**(760)**	**280,539**
Capital assets, net	$ **303,761**	$ **11,756**	$ **(6,395)**	$ **309,122**

CAPITAL ASSET ACTIVITY Capital asset activity for the year ended December 31, 2005 was as follows:

(In thousands)	Balance Jan. 1, 2005	Balance Additions	Reductions	Dec. 31, 2005
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	28,176	24,166	(44,161)	8,181
Total capital assets, not being depreciated	33,039	24,166	(44,161)	13,044
CAPITAL ASSETS, BEING DEPRECIATED:				
Land improvements	2,519	240		2,759
Utility plant	361,901	41,219		403,120
Buildings, structures and improvements	41,752	526		42,278
Furniture, fixtures, vehicles and equipment	41,025	2,090	(211)	42,904
Total capital assets, being depreciated	447,197	44,075	(211)	491,061
Less: Accumulated depreciation	(184,142)	(16,412)	210	(200,344)
Total capital assets being depreciated, net	263,055	27,663	(1)	290,717
Capital assets, net	$ 296,094	$ 51,829	$ (44,162)	$ 303,761

COMMITMENTS The Division has outstanding commitments of approximately $30,131,000 and $8,790,000 for future capital expenditures at December 31, 2006 and 2005, 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 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. 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 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 9.0% in 2006 and 8.5% in 2005 and 2004 and employer contribution rates were 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2006, 2005 and 2004 were approximately $1,747,000, $1,776,000 and $1,815,000 each year, respectively. The required payments due in 2006, 2005 and 2004 have been made.

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2006 and 2005

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: 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 benefit 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.

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 13.70% of covered payroll in 2006 and 13.55% of covered payroll in 2005 and 2004, and 4.50% was used to fund health care for the year in 2006 and 4.00% was used to fund health care for the year in 2005 and 2004. 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, 2005. The individual entry age 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, not to exceed a 12% corridor. The investment assumption rate for 2005 was 6.50%. 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 .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in December 31,2005, actuarial valuation was 358,804. The employer contribution rate of 13.70% is the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2006 which were to fund postemployment benefits were approximately $854,000. $11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005. Based on the actuarial cost method used, the actuarial valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at $31.3 billion and $20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow 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 2006 or 2005. There were no significant decreases in any insurance coverage in 2006. 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 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, 2006 and 2005 are as follows:

(In thousands)	2006	2005
City Administration	$ 703	$ 1,524
Telephone Exchange	570	488
Division of Water	434	357
Utilities Administration and Fiscal Control	654	545
Motor Vehicle Maintenance	449	483

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 $1,206,000 and $1,355,000 for the years ended December 31, 2006 and 2005, 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 $5,233,000 and $5,122,000 for this tax in 2006 and in 2005 respectively, of which $13,164 and $13,031 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 2068-05, which allocates 100% of the City's share of the tax in 2006 to the General Fund of the City.

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2006 and 2005

NOTE K – 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 purchased power cost. 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 originally scheduled to end November 30, 2005, but have been extended by recent legislation to December 31, 2008. Effective December 1, 2005, the proceeds of the incremental charges are no longer earmarked for a specific purpose. The incremental charges billed were $4,761,000 and $4,922,000 in 2006 and 2005, respectively.

NOTE L - SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Between December 2004 and March 2006, the Division was required by the Federal Energy Regulatory Commission ("FERC") to pay SECA payments amounting to $10.8 million. 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, 2006, the Division received $2.2 million as reimbursements for SECA payments. In addition, the Division has recorded a $2.5 million receivable from a settlement awaiting final approval by FERC. The Division is also pursuing two additional reimbursements of approximately $1 million. The remaining SECA payment of approximately $5.1 million is eligible for pass through to the customers of the Division in future years.

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Cleveland Public Power

Count on it

1300 LAKESIDE AVENUE
CLEVELAND, OH 44114
216.664.3922