08 Annual Report

Cleveland Public Power
Count on it

08 Annual Report

Contents


CPP's Management Team

Cleveland City Hall

From the Mayor

As the City of Cleveland works to position itself as a leader in sustainability, the City's public utility, Cleveland Public Power, is engaging in new ventures that will help reach this goal – from the diversification of its power supply to the expansion of capacity and from increasing efficiency to providing job training, CPP is helping the City become a "green city on a blue lake."

Cleveland Public Power has begun the task of meeting the goals of my Advanced Energy Portfolio, which is designed to reduce the City's carbon footprint and promote a cleaner environment. In partnership with American Municipal Power (AMP), CPP is serving as a generator of energy from Hydro projects as well as Off-Shore Wind Turbines. This diversification also reduces the utility's reliance on purchased power, resulting in a more stable commodity for its customers.

In addition, CPP has worked diligently at identifying avenues that will allow for the local generation of power, including converting municipal solid waste to energy. Throughout 2008, a team was charged with investigating this process and how best to integrate it into CPP's operations. This team has expanded and is presently doing additional research to help move this project forward, positioning Cleveland as a leader in renewable energy sources.

Cleveland Public Power's footprint has expanded in the last year with the acquisition of more than 18,000 streetlights from First Energy's Illuminating Company. Acquiring these streetlights has resulted in a more efficient system of reporting and repairing outages to the City's 64,000 streetlights. Through efficient delivery of this service, the streets of Cleveland are safer.

In keeping with my efforts to reverse the trend of young people graduating and leaving Cleveland, CPP has developed an Intern-Apprentice program enabling graduates of the Cleveland Metropolitan School District to begin careers in the electric utility industry right out of high school. The first class of graduates resulted in 10 students being placed in positions that allow them to earn a good salary in their hometown.

These are just some of the ways in that Cleveland Public Power is helping to make Cleveland a stronger, greener sustainable City and to further its own goal of providing reliable and affordable energy and energy services to residents and businesses in the City of Cleveland.

I am extremely appreciative of Cleveland Public Power's commitment to providing excellent service and the dedication of its staff to improving the quality of life for the City of Cleveland and its residents.

Frank G. Jackson
Mayor, City of Cleveland

08 Annual Report

From City Council

In an ever-changing world, it is important to have strong and dedicated leaders to push our City forward. For over a century, Cleveland Public Power (CPP) has been a consistent leader committed to improving the quality of life for residents of the City of Cleveland. By continuously enhancing technologies, CPP continues to deliver an excellent level of service to Clevelanders.

CPP has been working tirelessly in conjunction with the Cleveland City Council Public Utilities Committee to confront the issues of safety, energy diversification and expansion within the company. Through projects to takeover streetlights and to expand capacity, CPP is constantly building Cleveland's power supply to bigger and more efficient levels.

More importantly, CPP is constantly looking forward to improving utilities for future generations. This year, CPP commenced a partnership with American Municipal Power (AMP Ohio) in an effort to diversify their power supply and bring greener and cleaner utilities to Cleveland residents.

Last year proved to be a productive and successful stepping stone for 2009 and beyond. At the heart of that success was CPP's relentless dedication to the City of Cleveland. Cleveland City Council is proud to work with CPP to build a foundation for our City to grow upon. Together, we will move forward to become a greener and stronger Cleveland.

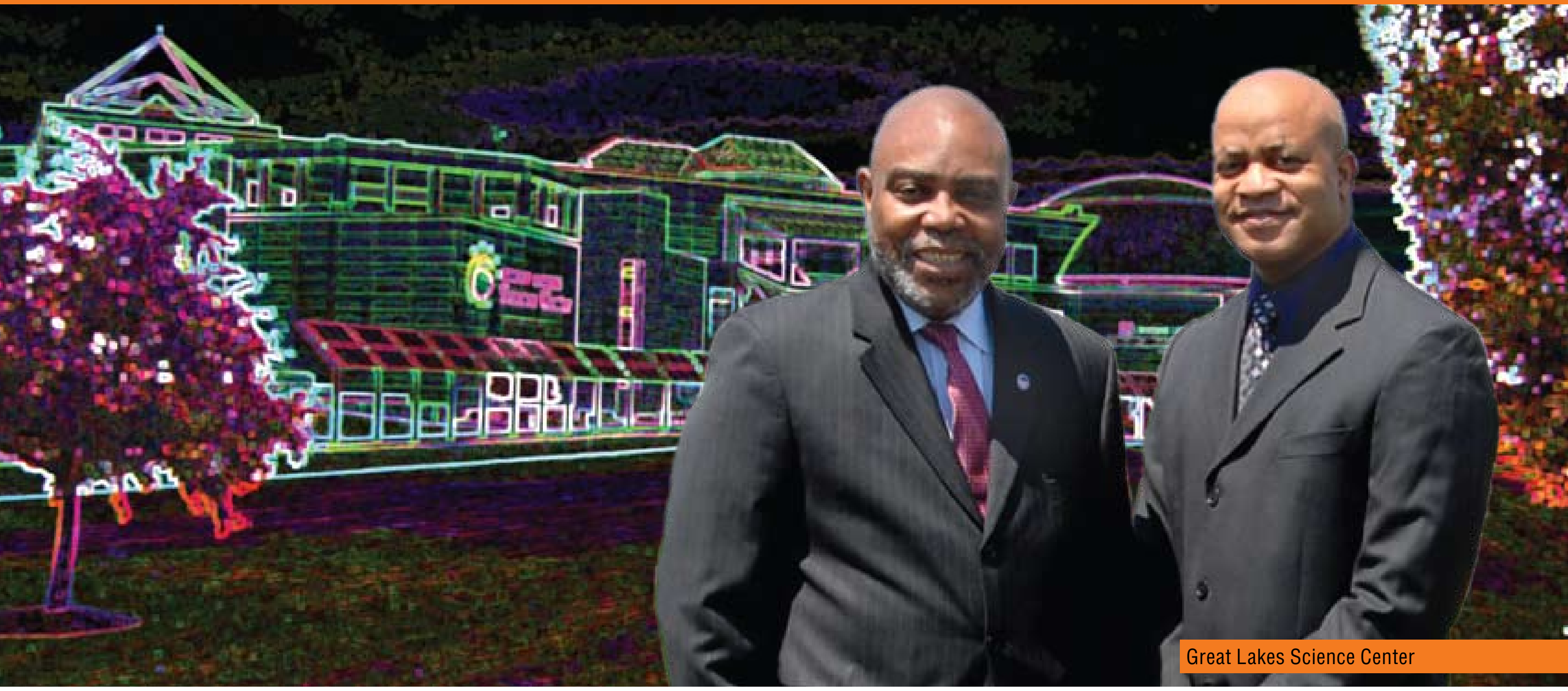
Martin J. Sweeney

Martin J. Sweeney (left)
President, City Council

Matt Zone

Matthew Zone (right)
Chairman, Public Utilities Committee, City Council

Federal Reserve Bank of Cleveland


Great Lakes Science Center

From the Director and Commissioner

In an effort to continue moving toward the goal of being a leader in electricity and the electric utility industry, Cleveland Public Power worked diligently throughout 2008 in diversifying its power supply, expanding its footprint within the City of Cleveland and developing new businesses practices.

Working in cooperation with American Municipal Power, Inc. (AMP Ohio), CPP has entered into an agreement to purchase hydroelectric power from three separate facilities in southern Ohio, Kentucky and West Virginia. From these projects Cleveland Public Power will receive up to 50 megawatts of hydropower, which helps the utility meet the City of Cleveland's Advanced Energy Portfolio Standards proposed by Mayor Frank G. Jackson in 2007.

Additional advanced energy will come from CPP's involvement in the Cuyahoga County Regional Energy Task Force, which is developing a plan for the construction of off-shore wind turbines in Lake Erie.

Throughout the year, CPP has also worked on the development of a Municipal Solid Waste to Energy facility at the City's Ridge Road Transfer Station utilizing a patented process that converts household and business waste into a synthetic gas using thermal gasification. This facility would not only provide power generation for Cleveland Public Power, but would also serve as a catalyst for economic development in the City of Cleveland.

In addition, CPP has worked to expand its footprint through the establishment of a 4th Interconnect and the construction of two new substations. The Interconnect project will allow the utility to receive power from outside of its system and provide it to potential customers on the southeast side of Cleveland. The expansion of CPP's footprint will continue with the construction of two 138-kilowatt substations in downtown Cleveland and on the south side of the City. These projects will give Cleveland Public Power the ability to attract new customers in downtown Cleveland as well as the southern and western sections of town.

These efforts coincide with our goal to remain reliable and responsive to the needs of our customers through the examination of processes, seeking the most efficient methods. As part of Mayor Jackson's Operation Efficiency Task Force we have identified practices that can be streamlined in order to increase the levels of efficiency in service delivery.

As we strive to become a leader in the electric utility industry, Cleveland Public Power has also invested in Cleveland's youth through the Intern to Apprentice Program. The success has been welcoming, and we are proud to have 10 new apprentices — all Cleveland Municipal School District graduates.

All of these efforts keep Cleveland Public Power in line with our core philosophy of providing reliable and affordable electric service to the residents and businesses of Cleveland.

Barry Withers (left)
Director, Department of Public Utilities

Ivan L. Henderson

Ivan Henderson (right)
Commissioner, Division of Cleveland Public Power

08 Annual Report

Diversifying the Power Supply: A Long-Term Strategy

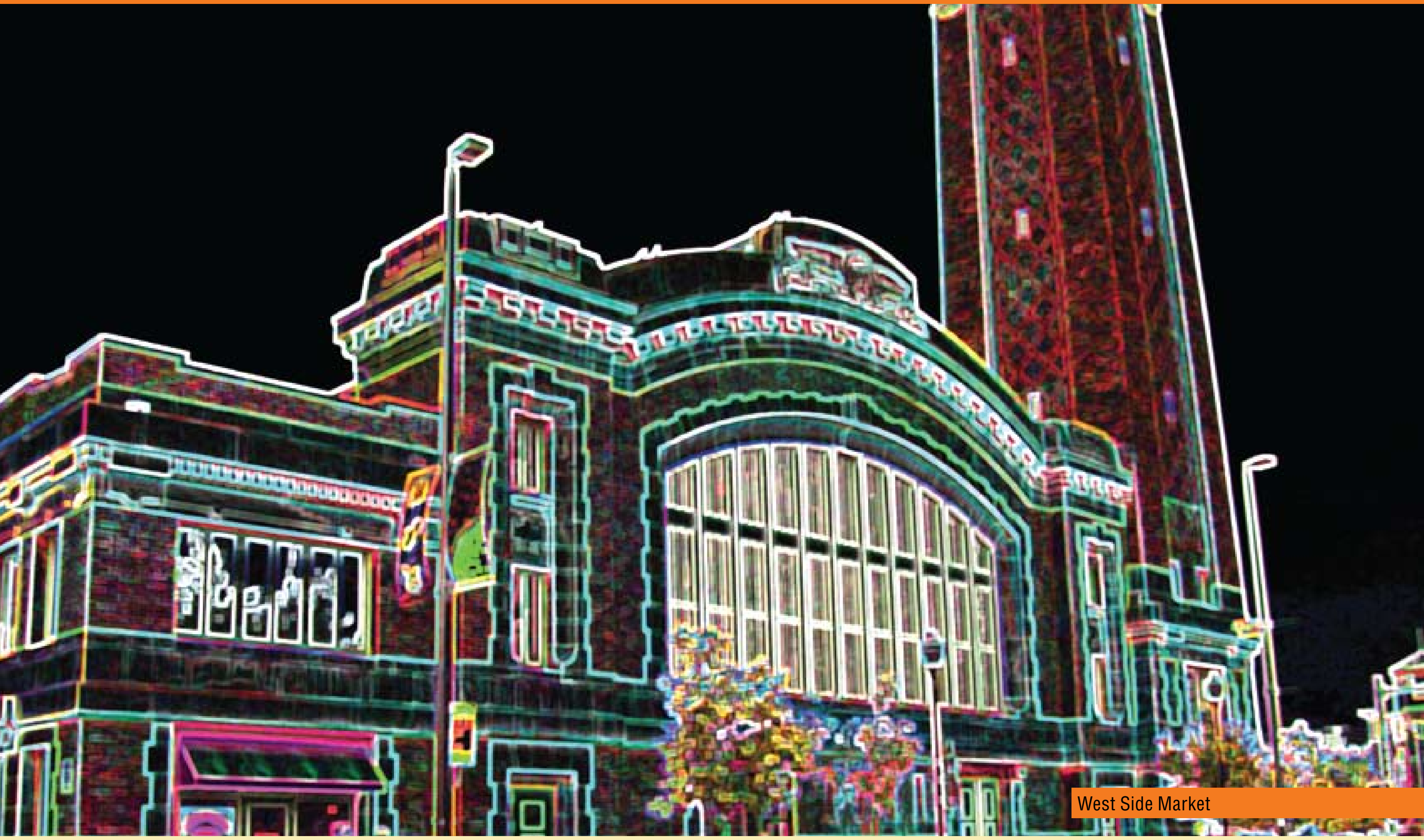
Alternative and Renewable Energy Sources are Key

CPP's five-year Strategic Business Plan recognized that the utility was highly market-dependent, purchasing more than 99 percent of its power from the wholesale market. As a result, the Plan recommended that CPP diversify its power supply portfolio to secure long-term stable sources of base load power, increase CPP's use of renewable energy and explore local sources of power generation.

Cleveland City Council approved legislation that requires CPP to meet Mayor Frank G. Jackson's Advanced Energy Portfolio Standard (AEPS) designed to promote a cleaner environment. The standard calls for CPP to produce and/or purchase generation from advanced energy sources to meet the following goals and timeframes:

Advanced Energy Source	Target Year
15%	2015
20%	2020
25%	2025

"By diversifying, we can minimize our dependence on fossil fuels and reduce our overexposure to fluctuating coal prices and the associated impact on the power market," says Commissioner Ivan Henderson.



West Side Market

AMP-Ohio Hydro Projects

CPP has entered into a member participation agreement with AMP-Ohio to purchase hydroelectric power from three future AMP-Ohio hydroelectric projects. AMP-Ohio has obtained licenses from the Federal Energy Regulatory Commission (FERC) to construct and operate three hydroelectric generation stations on the Ohio River: the Cannelton and Smithland projects in Kentucky and the Willow Island project in West Virginia. Together these projects are expected to produce approximately 191 megawatts. AMP-Ohio is proceeding with all three projects, with all three to be completed by the end of 2012.

CPP has legislative authority to receive up to 50 megawatts of hydropower from the AMP-Ohio projects. The agreement helps the utility meet its City of Cleveland Advanced Energy Portfolio Standards.

Off-Shore Wind Turbines

CPP is a participant in the Cuyahoga County Regional Energy Task Force, which is studying the feasibility of constructing offshore wind turbines in Lake Erie. In a separate project, the City is conducting wind-monitoring studies to identify suitable on-shore sites for wind turbines.

FERC – Regulating Electricity Transmission

The Federal Energy Regulatory Commission, or FERC, is an independent agency that regulates the interstate transmission of electricity, natural gas and oil. While CPP is not directly regulated by FERC, CPP as a purchaser of transmission services is subject in most respects to the same terms of the transmission and energy market tariff that apply to investor-owned utilities.

Municipal Solid Waste to Energy

With the completion of a waste to energy facility feasibility study, CPP is moving forward with developing plans for a Municipal Solid Waste to Energy (MSWE) plant capable of generating 20 megawatts of electricity. The study addressed costs, environmental impact, technology and gasification technology issues. The facility would be located at the City's Ridge Road Transfer Station, Cleveland's central municipal waste transfer point and site of an existing CPP substation and nearby rail lines. In addition to reviewing the gasification technology and environmental impacts of the facility, the feasibility study also determined that the sale of recyclables, fuel pellets and other byproducts would provide additional revenue streams.

NERC – Regulating Electric System Reliability

In April 2007, the North American Electricity Reliability Council (FERC) approved a delegation agreement between NERC and ReliabilityFirst Corporation, charging ReliabilityFirst with enforcing the mandatory reliability standards in much of the Midwest, including Ohio. CPP voluntarily registered with ReliabilityFirst and is on the compliance registry that ReliabilityFirst provided to NERC.

Tremont Neighborhood

Bob Bonner, Assistant Commissioner of Engineering and Planning explains, "We intend to expand our footprint to allow those not currently being served by CPP in the City to take advantage of our service. Our expansion plans will enable CPP to continue to provide reliable, low-cost power to our customers."

Capacity Expansion Paves the Way for Growth, Improved Reliability

With the planned expansion of its transmission and distribution facilities, CPP continues to position itself for greater electric system reliability, with the planned expansion of its transmission and distribution facilities.

"There are two very important issues: CPP's ability to serve more customers and improving our system reliability," emphasizes Commissioner Ivan Henderson. "We were capacity strapped and constrained from expanding our system and attracting new residential and commercial customers."

The project, planned for completion by 2012, will allow CPP to extend its electric service to serve potential customers in parts of the southern and western areas of the City that are outside the current CPP footprint as well as areas that are within the current CPP footprint but presently lack sufficient capacity.

Over the next few years, CPP's Capacity Expansion Program will involve the completion of three projects totaling $66 million:

The 4th Interconnect

CPP staff completed the purchase of land in Southeast Cleveland for the construction of an interconnection switching substation between the CPP and FirstEnergy systems. Scheduled for completion by June 2010, the expansion will allow CPP to import power from outside of its system and provide electric service to future customers.

Lake Road Project

By 2012, a new 138-kilovolt substation, adjacent to the current Lake Road substation, will have two 40-megavolt-amperes of power load that will allow CPP to serve new customers in Cleveland's downtown area.

The Southern Project

The proposed extension of the southern 138-kilovolt transmission system and addition of a 138/13.8-kilovolt substation will complete a continuous transmission ring around the CPP system and provide better system reliability. It will allow CPP to extend its electric service to serve potential customers in parts of the southern and western areas of the City and neighboring areas.

"This plan provides a link that completes a loop for our system and also gives us redundancy — the ability to switch and shift loads in an emergency to minimize outages," concludes Henderson.

08 Annual Report

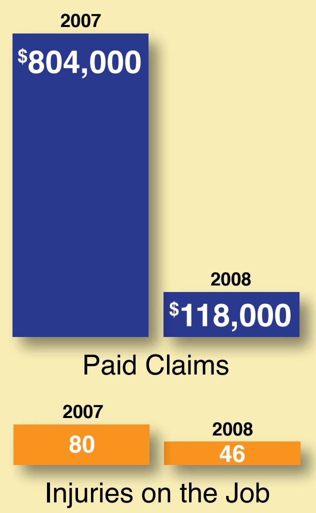
Big Emphasis on Safety Makes a Big Difference at CPP

Safety Manager Derek Hendrix was beaming with pride when the Safety Development team won the Commissioner's 2007 Service Award for Outstanding Efficiency Improvement. Clearly the team's efforts in establishing the groundwork for a division-wide safety program set the stage for changing CPP's culture.

When the 2008 safety statistics were compared with 2007, Hendrix said the difference "was like night and day." The 2008 record was a testament that the new safety plan was working throughout the division.

"Safety is becoming institutionalized at CPP," notes Hendrix. "Our people are putting on their safety equipment like they put on their clothes. It's natural."

So what made the difference? Implementation of new safety policies and procedures, the addition of new safety staff, safety training for all employees, regular safety inspections, enforcement of safety rules, collaboration with the worker's compensation staff and employees being more accountable for their actions contributed to the success of the past year.

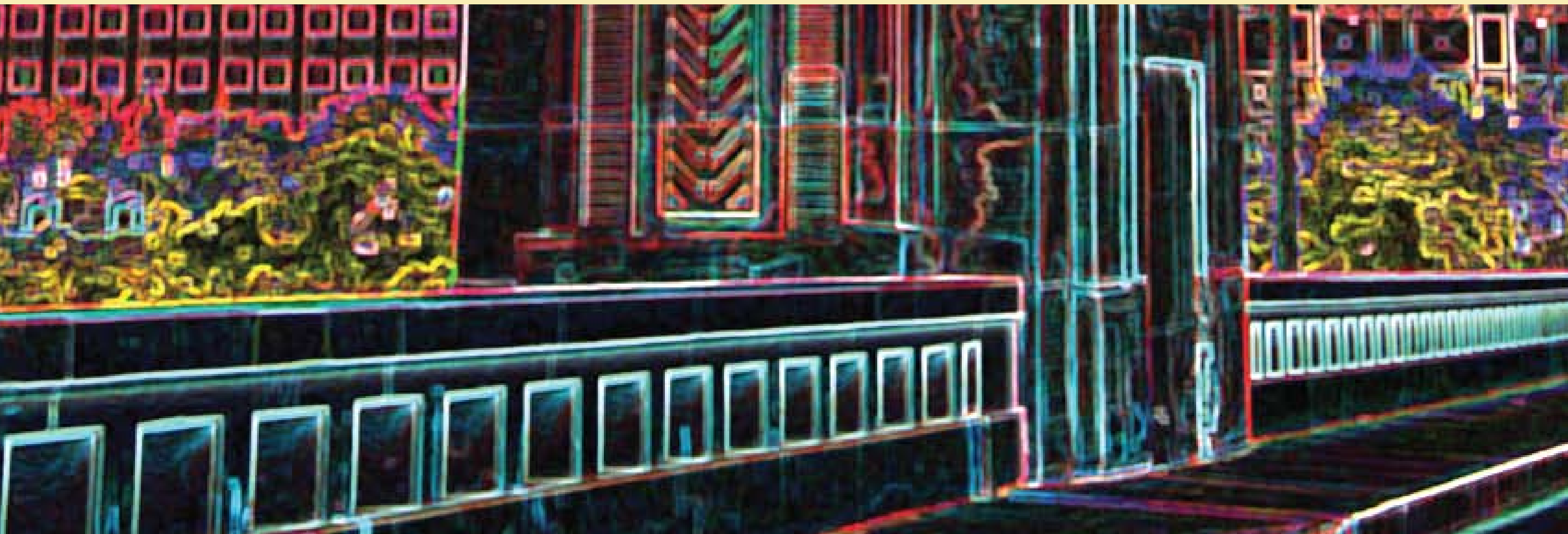


Hope Memorial Bridge

Comprehensive Safety Manual is CPP's First

The new policies and procedures, designed to provide employees a safe and healthy workplace, are outlined in the first CPP Safety Policies and Procedures Manual, approved in 2008. The 72-page manual details the procedures used to prevent occupational injuries and illnesses at CPP. Among the sections in the comprehensive handbook include general rules, safety training, inspections, personal protective equipment, confined space safety, handling poles, working near electrical circuits, aerial lift safety, emergency procedures and first aid, accident reporting and a host of other safety topics. Above all, the message to employees is: Everyone has a role to play to maintain health and safety in the workplace.

Ongoing support from the Commissioner, the Safety Development Team and the Worker's Compensation staff is equally important in impacting safety as a way of life on the job, Hendrix adds. "By working closely with the Workers' Compensation Department, we are able to monitor the status of injury claims and, as a result, we can transition employees back to work as quickly as possible."



08 Annual Report

CPP Completes City Streetlight Acquisition for a Brighter Cleveland

CPP now owns all the streetlights within the City of Cleveland boundaries. Previously, CPP provided power and maintenance to approximately 65 percent of the City's streetlights. The remaining 35 percent from First Energy/Cleveland Electric Illuminating Company were transferred and consolidated to CPP in September.

"For a long time we had seen disparities in how we responded to streetlight outages. It made sense to improve and make uniform the streetlights throughout the City," says Commissioner Ivan Henderson.

With the planned change, the bureau can more effectively manage the power and maintenance of the City's 64,028 streetlights. To that end, CPP doubled its street lighting workforce, adding three maintenance crews to systematically patrol City streets, support staff and new bucket trucks.

In addition, the bureau researched and purchased an automated complaint and tracking system (CATS), which tracks trouble calls and performance, and gives an all-around record of activity. By asking customers a series of questions, the system can isolate the trouble and customize the solution by organizing complaints by date and geographic locations. As a result, the type of complaints can be prioritized and work can be scheduled from the service centers.

Cleveland Public Library: Main Library

Grand Improvement Project Lights Up Euclid Avenue

Cleveland's Euclid Avenue has a brand new look, thanks to the completion of the Euclid Corridor Transportation Project, a multi-year reconstruction undertaking to improve transit service and support increased economic and community development along the 10-mile stretch from downtown Cleveland to East Cleveland. CPP played an important role in the project, responsible for all new street lighting from Public Square to the East Cleveland border.

"CPP was a supporter of the corridor project," explains Commissioner Ivan Henderson. "Our role was to provide the street lighting and illuminate the roadway improvements as you drive down the corridor."

"We moved around a lot of facilities," says Bob Bonner, Assistant Commissioner of Engineering and Planning. Employees from design engineering and operations provided support. "Our operations team put in new manholes, installed new underground conduit systems and necessary connections to support the project."

CPP teams also completed the installation of all street light poles and lights, and provide electric power for the 58 transportation stations along the route. The development also included the Euclid Corridor bike lanes and incorporates environmentally-friendly streetscape and landscape components, such as the addition of 1,500 new trees along the line.

The centerpiece of the project is a bus-rapid transit system, known as HealthLine, which offers shorter travel times along Euclid Avenue and connections to other routes of the Greater Cleveland Regional Transit Authority (RTA). In addition, HealthLine offers linkages to the City's cultural and education institutions, medical and business centers and the merchant locations in between.

"The project is intended to position the City to attract commerce along the corridor and bring with it new designs and traffic patterns that can encourage new development," says Henderson.

CMSD Graduates Mature from Interns to Apprentices

Eleven Cleveland Metropolitan School District (CMSD) graduates selected to participate in the first Intern-to-Apprentice program at CPP recognized one thing for sure — becoming an apprentice in the high-demand utility industry is a great opportunity.

"The chance to be in the program gave me the motivation to work hard," says Manuel McKinney, who graduated from East Tech. "It's exciting to go to work, be outside and work with my hands."

CPP chose 11 graduating seniors as a result of a competitive selection process. In January, CPP's Special Project Career Day Team conducted an open house for five CMSD high school principals and counselors to provide an overview of the program. Next, the team hosted "Apprenticeship Week," a series of presentations for pre-screened seniors at CMSD's East Tech, John Marshall, Max Hayes, John Adams and Lincoln West high schools. Students interacted with experienced lineworkers, cable splicers, meter readers and power dispatch personnel to learn about job opportunities and the benefits of working at CPP.

To apply for the internship program, students were required to have a 2.5 GPA, passage of Ohio Graduation Test, a 90 percent attendance rate and a valid Ohio driver's license. Interested students submitted an application and interviewed with the Human Resources staff.

Once selected for the program, the interns took part in a 16-week summer training program, which covered orientation and safety, pole climbing,

Apprentice Jeff Bremer says, "Learning how to climb and work off poles is unique and the most interesting part of the job. My goal is to learn everything I can and become successful."

commercial driver's license (CDL) and six weeks of working in the field. For their field training, interns were assigned to lineworker crews, gaining experience pulling wire, replacing utility poles, connecting transmission lines and climbing poles. The training also included a personal finance course to teach the interns how to manage their money, establish credit and live within their means. The interns earned $10.50 per hour.

Ten of the interns completed the training and were hired as full-time CPP employees. Six entered a four-year apprenticeship and earn approximately $22 per hour as apprentice lineworkers or meter readers. The remaining four that earned their CDL became line helper drivers, with the potential to become apprentices in the future.

"This pilot program had a 91 percent success rate," says Eric Myles, Assistant Commissioner of Human Resources. "We intend to replicate the program in 2009 as a feeder for our succession planning."

Jeffrey Bremer, a John Marshall graduate, says being an apprentice lineworker has a special meaning for him. His father, Charles Bremer, is a CPP journeyman lineworker as well. While father and son do not work together on the same crew, young Bremer enjoys his new job and his future career possibilities.

Improving Service and Care for CPP Customers

I. OETF Initiatives are Working Well for Customers and CPP

Employee teams offered sound advice for improving operation processes that benefit both the organization and customers.

CPP met or exceeded 100 percent of the objectives of its Operations Efficiency Task Force (OETF) initiatives, part of Mayor Frank G. Jackson's comprehensive review of operations in every City department.

"By reworking some systems already in place, and letting the systems talk to one another, we were able to be more responsive to customers' needs, complete service in a more timely manner and improve the image of CPP," says Joy Perry, Assistant Commissioner of Customer Service and Marketing.

CPP's OETF process improvements included:

Residential Customer Work Order

- Reduced the number of errors received on new customer applications.
- Reduced the administrative follow-up hours from 50 hours per month to 25 hours per month.
- Decreased the connection installation time by 50 percent, from an average of 8 weeks to 4 weeks.

To accomplish the work order goals, the Residential Outreach Campaign (ROC) team designed a more user-friendly application and redesigned a tracking system that eliminated duplication of administrative tasks.

Move-In Service Order

- Reduced the number of move-in service orders from 450 to 315 per month.

To accomplish the reduction, CPP retrained customer service representatives to eliminate unnecessary meter reading steps during service order issuances so that new customers are activated for service in a timelier manner.

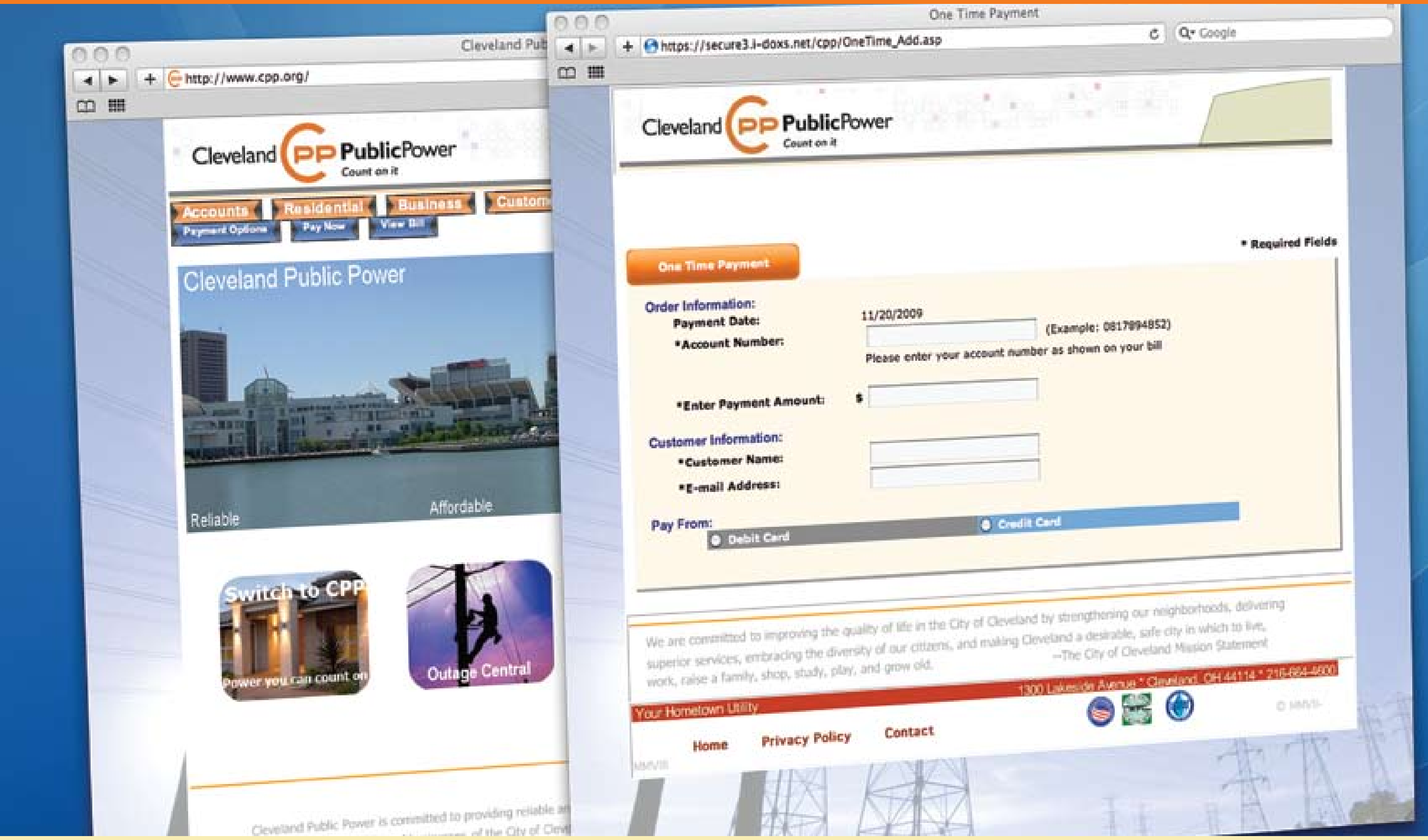
High Bill Complaints

- Reduced the large number of billing complaints by 50 percent.

CPP implemented an automated remote meter reading system, which (1) reduced potential for errors by manual reads, (2) eliminated re-reads by 50 percent and (3) and eliminated estimations, resulting in consistent billing cycles of 30 days.

II. Dedicated Staff Improve Service for Business Customers

Coupled with improved operations processes, CPP also took steps to address the unique needs of commercial customers by creating two new customer account units: the Customer Account Management



Representative Services (CAMR) and Customer Account Support Services (CASS).

CAMR

The two-person CAMR team is CPP's principal frontline contact for large commercial/industrial customers. These employees initiate and field customer calls pertaining to electrical needs, billing issues, how to use demand, resolution of delinquencies, innovations, new technologies and energy conservation measures. The CAMR representatives also help facilitate new equipment installations and serve as troubleshooters when remedying situations.

CASS

The four CASS representatives are assigned to a specific group of commercial customers and are responsible for setting up new accounts — from application through service connection to billing. Billing cycles drive the CASS teams' work, and they ensure the integrity of the bill is maintained. Previously, there was an average of 150 commercial billing issues each month. With the new CASS representatives in place, billing issues average 30 per month. "If a bill is not good, then the process suffers," Perry adds.

"Commercial customers need a lot of attention because their billing is complex, so we initiated these CASS positions to give customers a direct contact at CPP," notes Perry. "Both of these new initiatives allow us to personalize our approach and establish a more nurturing relationship with the customer."

III. Greater Customer Convenience is Coming with Online Bill Pay

Currently, customers can only pay bills by sending in a check or visiting the downtown office. Credit cards can only be used at the pay counter.

In 2009, the convenience of online bill payment will allow customers the opportunity to use their credit cards and pay on their accounts by going to the CPP Web site. And, in the instance when a customer's service gets turned off for delinquent payment, they can use their credit card online to get service resumed faster. As part of the implementation, customers will also be able to make payments over the phone.

"The main thrust of our planning is to give customers another payment option," says Keith Monson, Manager of Information Systems and project lead on the Online Bill Payment and Presentation team. "Anytime you can make it easier for customers to pay bills, they are likely to take advantage of it."

08 Annual Report

Next Wave of CPP Leadership is Linked to Succession Planning

In 2008, CPP approved and implemented a succession planning process to meet the objective outlined in the division's five-year Strategic Business Plan: Establish an ongoing process systematically identifying, assessing and developing leadership talent within the division of CPP that will contribute to the achievement of future strategic goals.

"Workforce training and succession planning are connected at the hip," points out Eric Myles, Assistant Commissioner of Human Resources. "Workforce training is intended to meet the demands for current, day-to-day technical and administrative staffing needs. Succession planning, on the other hand, focuses on developing high-performing employees for potential future management opportunities."

Assistant Commissioners recommended a total of 20 prospective employees to be considered for future management opportunities based on their past performance. The selected candidates met with their assistant commissioners and developed three-year individual development plans to align with their individual SMART (specific, measurable, attainable, realistic and timely) goals.

"We expect that at the end of three years each of these employees will have taken the steps necessary to be placed in future potential positions within the organization," foresees Eric Myles, Assistant Commissioner of Human Resources.

Digital Meter Conversion Nears Completion

By year-end, CPP replaced the existing analog equipment on 80 percent of its commercial and industrial premises and 72 percent of its residential premises with the new digital radio units.

"We plan to be completely converted by July 2009," says Debra Mitchell, General Manager of Billing and Metered Services. "And we're ahead of the mayor's OETF directive to be complete by 2010."

The change out is not only giving a new face to meters, but is also making meter reading more efficient and changing the work habits of meter readers.

With the new digital units, meter readers conduct their reads using one of two mobile laptop data collectors known as Automated Meter Readers (AMR). The AMR captures a customer's electric usage and relays the information into the main Customer Information System. The department has been offering computer-based training to meter reader personnel, and rotating the work schedule so that each meter reader gets experience on the new system.

A meter reader using the AMR can capture as many as 5,000 reads in a day, explains Mitchell. With greater speed and efficiency in meter reading, the change over also has resulted in a redeployment of meter reader service personnel to other departments of the City of Cleveland.

"We transitioned two meter readers into the Local 39 electrical lineworkers union apprenticeship program," notes Mitchell. "That left us with 11 meter readers. We anticipate that four or five others will be transitioned to the Water Division, walking the routes and being trained on water meters. Not only are we able to assist other departments with their personnel needs, we are also able to contain our expenses and find new and innovative ways to be efficient."

Campaign Counts on Reliability For New Residential Customers

Reliability. That's the commitment central to the CPP mission and the message used in the utility's Residential Outreach Campaign to attract new customers.

"Power You Can Count On," CPP's Residential Outreach Campaign (ROC), was a coordinated marketing and sales strategy designed to increase the residential customer base without the installation of new infrastructure.

"Our planning team was made up of representatives from every department that affects a new customer," says Christine Percival, Customer Service Manager and captain of the ROC team. Members of the team included employees from engineering, field operations, human resources, IT, power dispatch, the Meter Services Center and newly created Customer Account Support Services (CASS) team that developed the strategy and monitored the process.

"We worked together as a team to make sure every application CPP received was processed efficiently and that customers were receiving exemplary service along the way," says Percival. The ROC team won the Commissioner's 2008 Outstanding Service Award for Outstanding Special Projects.

About the Campaign

The campaign centered around two activities: direct mail and neighbor referrals.

Direct Mail

The ROC team created a direct mailer that went out to 35,000 residential households not currently served by CPP between May and July.

Refer-Your-Neighbor Bill Insert

The team came up with a message to "Turn your neighbors on to CPP," and developed a bill insert distributed to current CPP customers. For referrals that resulted in new residential accounts, customers received credits on their accounts. More than 1,000 new residential customers signed up for CPP service by year-end.

House of Blues Cleveland

New Management System Is Improving Work Order Processing

CPP is transitioning from a stand alone, paper-driven work order process to an integrated Computerized Maintenance Management System (CMMS). The Work Order Improvement team evaluated and selected a user-friendly product that easily customizes to CPP's needs. The web-based CMMS interfaces with CPP's Banner Customer Information System for system-wide access and transparency. A cross-functional team continues to manage the infrastructure integration, including system configuration and implementation. The process is realizing improved work practices throughout the organization.

"We looked at our work order process and realized that the vehicle we were using was not supporting our business," says Marcia Hines, Manager of Process Engineering Management. "The 100 percent transparency of our work order process will hold people and departments accountable to upholding their workload."

Lineworkers Hone Skills at Rodeo Competition

There is real pride in being a lineworker. Just ask journeymen Scott Simmerly, Jim Maly, Chuck Bremer and apprentice Carldell Moore. They represented CPP at the 2008 American Public Power Association (APPA) Lineworkers' Rodeo, held in Indianapolis, Indiana as the first CPP team ever to compete in the annual test of skills. The CPP team was one of more than 60 public utility groups from across the United States.

"The event is designed to help lineworkers refine their skills and enhance their education so that they can compete in an ever advancing utility field," explains Steve Holland, Superintendent of Operations for the Eastside Service Center.

The rodeo featured two levels of competition: journeyman and apprentice. Each journeyman team had two climbers and a ground person, and sometimes an alternate. A journeyman lineworker has more than four years of experience, while an apprentice lineworker has four years or less.

The journeymen competed in five timed events and the apprentices took a written test based on the *APPA Safety Manual*, and competed in four events. Events were judged based on safety, work practices, neatness, ability, equipment handling and timely event completion.

All safety rules established by the Occupational Safety and Health Administration and the *APPA Safety Manual* were observed during events.

While the CPP crew did not win any events in Indianapolis, later in the year the same team competed in the Ohio-Penn Lineworkers' Rodeo and was named the overall winner.

PlayhouseSquare

Rodeo Events

Hurtman Rescue

A lineworker climbs a pole to "rescue" a 165-pound mannequin (simulating a pole top lineworker rescue).

Cross Arm Change Out

Replace a simulated bad cross arm (which holds up electrical wires)

600-amp Switch Change

Replace a simulated live line switch

Alley Arm Insulator Change

Replace a simulated live line insulator on an alley arm

Cutout Change Out

Replace two simulated live line cutout switches

"Activities like the rodeo are helping change the culture here at CPP — showing the pride in being a lineman and advancing of the skills you need in this field," says Holland.

08 Annual Report

Financials

Wind Turbine

Independent Accountant's Report

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

We have audited the accompanying basic financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, (the Division) as of and for the years ended December 31, 2008 and December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2008 and December 31, 2007, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2008 and December 31, 2007, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 25, 2009

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

08 Annual Report

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 ("City") Department of Public Utilities, Division of Cleveland Public Power ("Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2008 and 2007. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 30.

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

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

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

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

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 25 – 32 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 34 - 44 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 $205,779,000, $197,178,000 and $186,575,000 at December 31, 2008, 2007 and 2006, respectively. Of these amounts, $72,450,000, $72,648,000 and $72,461,000 are unrestricted net assets at December 31, 2008, 2007 and 2006, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by $8,601,000, $10,603,000 and $7,708,000 during 2008, 2007 and 2006, respectively. Operating revenue increased by $2,935,000 or 1.9%. Purchased power increased by $3,327,000 or 4.0% and total operating expenses increased by $4,372,000 or 3.2% for 2008. In addition, investment income decreased by $1,943,000, or 47.8%, whereas interest expense increased by $1,490,000, or 13.5%, and amortization of bond issuance costs and discounts increased by $410,000, or 48.6%, due to the bond refinancing and issuance of new bonds completed in April 2008.
- During 2008, the Division had an increase in capital assets, net of accumulated depreciation of $5,527,000 or 1.8%. The principal capital expenditures in 2008 were for acquiring CEI street lights, new service connections, pole replacements, replacing and upgrading distribution feeders, expansion of the Ridge Road substation, building betterments and the continued implementation of automated meters. The automated meters allow for more accurate billing of consumption, more timely reading of meters and a reduction in man-hours associated with meter reading.
- The Division's total long-term bonded debt increased by $65,053,000 and decreased by $8,045,000 for the years ended December 31, 2008 and 2007, respectively. The increase in 2008 is attributed to a combination of $93,713,000 new bonds issued, $20,325,000 bonds refunded and scheduled debt service payments made to bondholders.
- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC). For additional information see Note L. The Division paid SECA charges to Midwest Independent System Operator from December 2004 to March 2006. In 2008, the Division received a SECA refund of $4,000 and has received $5,030,000 as of December 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CONDENSED BALANCE SHEET INFORMATION

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

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

CAPITAL ASSETS

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

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

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

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

RESTRICTED ASSETS

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

CURRENT ASSETS

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

- An increase in current cash and cash equivalents of $28,913,000 resulting from the decrease in investments of $30,017,000 due to the declining investment returns during the year.
- The decrease in net accounts receivable of $390,000 in 2008 is due to increased collection activity and increased allowance for doubtful accounts.
- Unbilled receivables increased by $518,000 due to increased sales.
- Accrued interest receivable also decreased by $394,000 due to a significant decrease in investment.
- Net materials and supplies increased by $564,000 due to the necessity to keep supplies readily available for use.

The principal capital expenditures during 2008 included the following:

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CURRENT LIABILITIES

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

LONG-TERM OBLIGATIONS

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

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

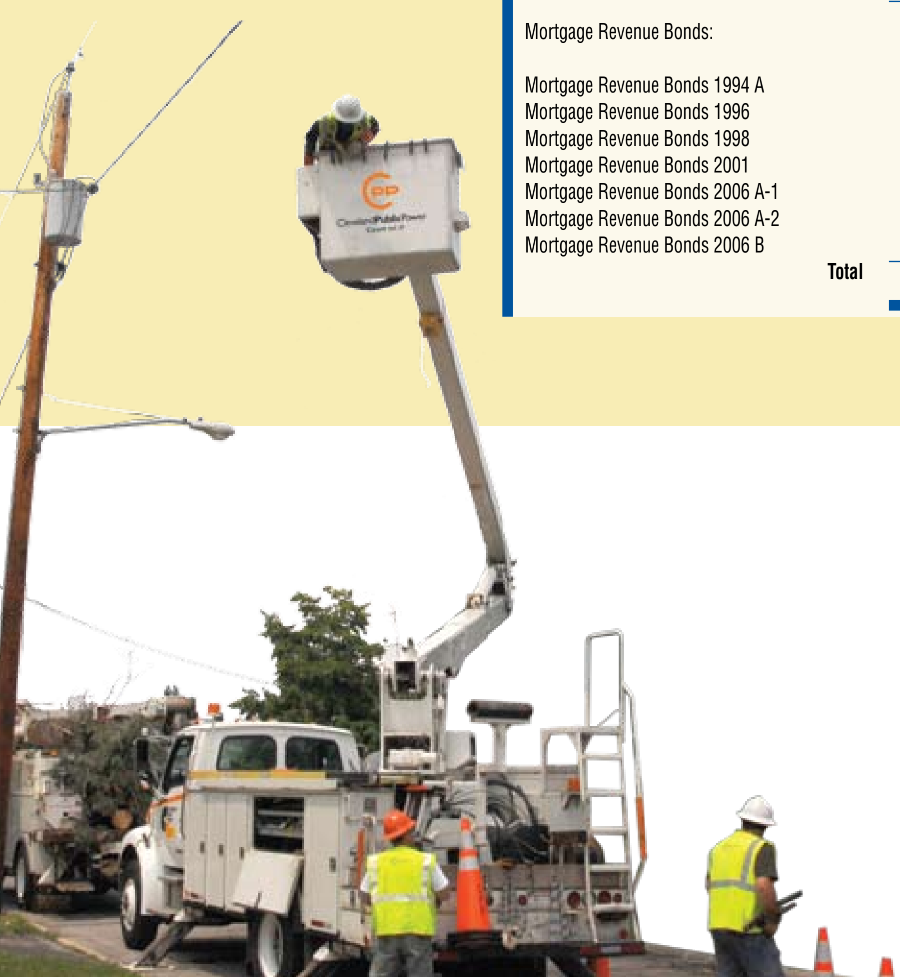
The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in mid-2006 and in April 2008 for system expansion and to refinance a portion of its long-term debt. This outstanding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

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

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

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

(In thousands)	Balance Jan. 1, 2007	Debt Issued	Debt Refunded	Debt Retired	Balance Dec. 31, 2007
Mortgage Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 33,875	$	$	$ (965)	$ 32,910
Mortgage Revenue Bonds 1996	4,730			(850)	3,880
Mortgage Revenue Bonds 1998	31,145			(3,430)	27,715
Mortgage Revenue Bonds 2001	30,755			(2,800)	27,955
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	$ 228,390	$ -	$ -	$ (8,045)	$ 220,345



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2008, 2007 and 2006 was 207%, 223%, and 179%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 36 - 38.

NET ASSETS

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

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

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

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

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

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

- In 2008, operating revenues increased by $2,935,000. The increase is related to the increase in purchased power costs passed through via the energy adjustment charge and the more accurate billing of consumption resulting from the implementation of the automated meters.
- In 2007, operating revenues increased by $8,824,000. The increase is related to a 3% increase in kilowatt hours sold, the increase in purchased power costs passed through via the energy adjustment charge and the more accurate billing of consumption resulting from the implementation of the automated meters.
- In 2008, operating expenses increased by $4,372,000. The increase is mainly related to a $3,327,000 increase in purchased power costs.
- In 2007, operating expenses increased $5,816,000. The increase is related to a $3,777,000 increase in purchased power costs associated with the additional kilowatt hours sold, and an increase of $1,313,000 in operations expenses attributed mainly to an increase of approximately $1,000,000 in administrative and other services expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

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

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

FOURTH INTERCONNECT

The first component is the addition of the fourth 138kV interconnection with the FirstEnergy transmission system. Increased capacity from the new distribution substations and their distribution circuits will allow the Division to transfer load from the existing distribution system to new circuits and provide electric service to future customers.

SOUTHERN PROJECT

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

LAKE ROAD PROJECT

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

ANTICIPATED COST

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

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

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

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

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

The Division purchases most of its power requirements via contracts in the power markets. The Division intends to reduce its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

provided by participation in AMP-Ohio's base load coal-fired project, the AMP-Ohio hydroelectric projects and the Prairie State project. The Division will purchase 80 MW from AMP-Ohio's base load coal-fired project that is expected to be in operation in 2013. The Division is currently scheduled to purchase 35 MW from AMP-Ohio's hydroelectric projects that are expected to be in operation in 2011 and 2012. The Division will purchase up to 25 MW from AMP-Ohio's share of the Prairie State project that is projected to be on-line in 2011-2012. The Division is also investigating local opportunities to add alternative energy resources to its portfolio. The actual costs of these power purchases are passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately. These projects will not impact the Division financially unless actual power costs push the Division's billing rates significantly above those of its competition.

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

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

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

BALANCE SHEETS

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

December 31, 2008 and 2007

(In thousands)	2008	2007
ASSETS		
Capital Assets:		
Land	$ 4,875	$ 4,863
Land improvements	2,759	2,759
Utility plant	458,236	415,531
Buildings, structures and improvements	43,335	42,278
Furniture, fixtures, equipment and vehicles	45,826	43,960
	555,031	509,391
Less: Accumulated depreciation	(248,762)	(231,376)
	306,269	278,015
Construction in progress	13,124	35,851
Capital Assets, Net	319,393	313,866
Restricted Assets:		
Cash and cash equivalents	74,567	2,578
Investments		1,383
Accrued interest receivable	53	11
Total Restricted Assets	74,620	3,972
UNAMORTIZED BOND ISSUANCE COSTS	3,947	2,330
Current Assets:		
Cash and cash equivalents	52,721	23,808
Restricted cash and cash equivalents	723	964
Investments	7,091	37,108
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $3,663,000 in 2008 and $2,169,000 in 2007	15,596	15,986
Unbilled revenue	2,629	2,111
Due from other City of Cleveland departments, divisions or funds	2,621	2,566
Accrued interest receivable	80	474
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2008 and 2007	7,412	6,848
Prepaid expenses	79	78
Total Current Assets	88,952	89,943
Total Assets	$ 486,912	$ 410,111
NET ASSETS AND LIABILITIES		
Net Assets:		
Invested in capital assets, net of related debt	$ 126,891	$ 121,128
Restricted for debt service	6,438	3,402
Unrestricted	72,450	72,648
Total Net Assets	205,779	197,178
Liabilities:		
Long-Term Obligations: excluding amounts due within one year:		
Revenue bonds	252,771	185,925
Accrued wages and benefits	710	733
Total Long-Term Obligations	253,481	186,658
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	8,530	8,335
Accounts payable	9,339	8,616
Current payable from restricted assets	723	964
Due to other City of Cleveland departments, divisions or funds	949	1,522
Accrued interest payable	2,414	1,054
Current portion of accrued wages and benefits	4,171	4,178
Other accrued expenses	436	438
Customer deposits and other liabilities	1,090	1,168
TOTAL CURRENT LIABILITIES	27,652	26,275
TOTAL LIABILITIES	281,133	212,933
TOTAL NET ASSETS AND LIABILITIES	$ 486,912	$ 410,111

See notes to financial statements.

STATEMENT 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, 2008 and 2007

(In thousands)	2008	2007
OPERATING REVENUES		
Charges for services	$ 158,106	$ 155,171
Total Operating Revenues	158,106	155,171
OPERATING EXPENSES		
Purchased power	86,850	83,523
Operations	19,520	19,247
Maintenance	17,791	17,645
Depreciation	17,682	17,056
Total Operating Expenses	141,843	137,471
Operating Income	16,263	17,700
NON-OPERATING REVENUE (EXPENSE)		
Investment income	2,118	4,061
Interest expense	(12,563)	(11,073)
Amortization of bond issuance costs and discounts	(1,253)	(843)
Workers compensation refund	17	15
Gain on disposal of capital assets	(20)	(2)
Other	3,936	732
Total Non-Operating Revenue (Expense), Net	(7,765)	(7,110)
Income (Loss) Before Other Contributions	8,498	10,590
Capital and other contributions	103	13
Increase (Decrease) In Net Assets	8,601	10,603
NET ASSETS, BEGINNING OF YEAR	197,178	186,575
NET ASSETS, END OF YEAR	$ 205,779	$ 197,178

See notes to financial statements.

STATEMENT OF CASH FLOWS

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

For the Years Ended December 31, 2008 and 2007

(In thousands)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 162,928	$ 160,224
Cash payments to suppliers for goods or services	(13,524)	(9,526)
Cash payments to employees for services	(24,848)	(22,862)
Cash payments for purchased power	(86,033)	(83,339)
Electric excise tax payments to agency fund	(5,286)	(5,498)
Net Cash Provided By Operating Activities	33,237	38,999
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	103	13
Workers compensation refund	17	15
Other	(26)	
Net Cash Provided By Noncapital Financing Activities	94	28
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds	91,790	
Acquisition and construction of capital assets	(20,174)	(20,827)
Principal paid on long-term debt	(8,335)	(8,045)
Interest paid on long-term debt	(10,148)	(8,966)
Cash paid to escrow agent for refunding	(20,432)	
Net Cash Provided by (Used For) Capital And Related Financing Activities	32,701	(37,838)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(31,167)
Proceeds from sale and maturity of investment securities	31,170	34,719
Interest received on investments	3,459	2,992
Net Cash Provided By Investing Activities	34,629	6,544
Net Increase (Decrease) In Cash And Cash Equivalents	100,661	7,733
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,350	19,617
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 128,011	$ 27,350
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 16,263	$ 17,700
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,682	17,056
Changes in assets and liabilities:		
Accounts receivable, net	390	3,796
Unbilled revenue	(518)	(168)
Due from other City of Cleveland departments, divisions or funds	(55)	(34)
Materials and supplies, net	(564)	(439)
Prepaid expenses	(1)	
Accounts payable	723	157
Due to other City of Cleveland departments, divisions or funds	(573)	458
Accrued wages and benefits	(30)	312
Other accrued expenses	(2)	(7)
Customer deposits and other liabilities	(78)	168
Total Adjustments	16,974	21,299
Net Cash Provided By Operating Activities	$ 33,237	$ 38,999

See notes to financial statements.

Detroit Superior Bridge

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING MODEL AND BASIS OF ACCOUNTING

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

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

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

RESTRICTED ASSETS

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

CAPITAL ASSETS AND DEPRECIATION

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

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

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

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

BOND ISSUANCE COSTS, DISCOUNTS AND UNAMORTIZED LOSSES ON DEBT REFUNDINGS

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

COMPENSATED ABSENCES

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE B - LONG-TERM DEBT

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

SUMMARY

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

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

SUMMARY

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE B - LONG-TERM DEBT (CONTINUED)

INTEREST RATE SWAP TRANSACTION

TERMS

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

OBJECTIVE

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

BASIS RISK

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

COUNTERPARTY RISK

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

TERMINATION RISK

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

FAIR VALUE

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

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

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

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

REVENUE FUND

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

DEBT SERVICE FUND

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

DEBT SERVICE RESERVE FUND

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

RENEWAL AND REPLACEMENT FUND

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

CONSTRUCTION FUND

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE C - DEPOSITS AND INVESTMENTS

DEPOSITS

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

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

INVESTMENTS

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

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

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

INTEREST RATE RISK

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

CUSTODIAL CREDIT RISK

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

CREDIT RISK

The Division's investments as of December 31, 2008 and 2007 include U.S. Agency Obligations, U.S. Treasury Bills, repurchase agreements, STAROhio and mutual funds. The Division maintains the highest ratings for its investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

CONCENTRATION OF CREDIT RISK

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE D - CAPITAL ASSETS

CAPITAL ASSET ACTIVITY

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

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

CAPITAL ASSET ACTIVITY

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

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

COMMITMENTS

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE E - DEFINED BENEFIT PENSION PLAN

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

CONTINGENT LIABILITIES

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

RISK MANAGEMENT

The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2008 or 2007. There were no significant decreases in any insurance coverage in 2008. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

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

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is reported as part of accounts payable on the balance sheet and is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

REVENUES AND ACCOUNTS RECEIVABLE

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

OPERATING EXPENSES

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

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

NOTES TO FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2008 and 2007

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

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

NOTE J - KILOWATT PER HOUR TAX

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

NOTE K – INCREMENTAL CHARGES

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

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

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

NOTE L - SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

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

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

NOTE M - SUBSEQUENT EVENTS

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

CPP Headquarters

Cleveland Public Power
Count on it

1300 LAKESIDE AVENUE • CLEVELAND, OH 44114 • 216.664.3922