05 Lighting the Pathway to the Future

ANNUAL REPORT

Cleveland Public Power

MISSION STATEMENT

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

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… FROM THE MAYOR

Dear Fellow Clevelanders,

For more than 95 years Cleveland Public Power has been providing safe, reliable and competitive electric service to businesses and residents within the City of Cleveland. As the utility prepares to mark its centennial, CPP has focused its energies on *Lighting the Pathway to the Future,* which included looking at its present business practices in an effort to increase productivity and to be more efficient with the delivery of services.

In evaluating their internal processes the Marketing, Program Management and Engineering departments dissected the standards in place and developed new models that have led to a continued increase in new customers.

One of the first new customers to participate in this new process model was the Cleveland Play House. With a new team based process in place, the transition of adding one of Cleveland's cultural icons to the customer base was smooth and without incident.

The future of Cleveland is dependent upon the growth of the economy and the continued education of our youth. Cleveland Public Power continues to play a role in the latter with the addition of the Collinwood Athletic Complex and Benedictine High School.

With continued internal evaluation and improvements, Cleveland Public Power will continue to provide safe and reliable service to the City of Cleveland into the future and beyond.

Sincerely,

Jane Campbell

Mayor Jane Campbell

… FROM THE DIRECTOR & COMMISSIONER

Dear Fellow Clevelanders,

On the eve of its centennial, Cleveland Public Power continued the forward progress of recent years and began preparing for the future.

The first step in this process was to evaluate the internal processes and remove some of the roadblocks to their workflow.

Through the cooperative efforts of the Marketing, Engineering and Program Management departments streamlined business practices were implemented which translated into better communications with customers – both internal and external.

New connections continued to surpass goals and CPP was on the road to helping light the future of Cleveland.

The Cleveland Play House has been producing plays of the highest professional standard for more than 95 years and one of the key components to a good production is good lighting! This year Cleveland Public Power added the Cleveland Play House to its customer base and utilized some of their new processes to insure that all parties involved in the conversion were at the table, which culminated in a seamless transition.

In keeping with Cleveland Public Power's mission to be a good neighbor and a stakeholder in the future of Cleveland, we were pleased to join forces with The Ohio Technical College and its expansion project to help bring more educational resources and jobs to the city.

Ensuring the future of our children, Cleveland Public Power worked in cooperation with the City of Cleveland and the Cleveland Municipal School District to light the Collinwood Athletic Complex as well as became the electric supplier for Benedictine High School.

Beginning with internal evaluation and the development of sound operating practices Cleveland Public Power is planning to light the homes, businesses and streets of Cleveland well into the future.

Sincerely,

Director Julius Ciaccia [Top]

Commissioner James Majer [Bottom]

… FROM THE CITY COUNCIL PRESIDENT & CHAIRMAN

Dear Fellow Clevelanders,

On behalf of Cleveland City Council, we congratulate Cleveland Public Power on a very successful year. We are proud of the partnership we have had with you and anticipate many more years of productivity and success.

Cleveland City Council, under the mandate of "Moving Cleveland Forward," continued to pass legislation to enable Cleveland Public Power to provide residents and businesses with electric service at competitive rates.

Throughout the year, Council monitored the progress being made on infrastructure improvements that include updated computerized systems, better and more relay stations and other capital improvements, the goal of which means continuous service and fewer power outages.

As we prepare for 2006, City Council understands the need to keep rates competitive even though various suppliers will likely increase their costs.

We want to thank our customers for their continued support and patience while we prepare for the future.

Sincerely,

Frank G. Jackson
Council President
Cleveland City Council

Roosevelt Coats
Chairman, Public Utilities Committee
Cleveland City Council

Cleveland Public Power 2005 Annual Report | COMMERCIAL GROWTH

SPIRAL OF OHIO

5344 BRAGG ROAD

Joe Piazza likes his energy simple and reliable. “I come into work, flip the switch, and the lights and the machines come on,” says the Vice President of Sales at Spiral of Ohio.

For 75 years, Spiral of Ohio has been flipping switches to power its binding and binding-related machines of many types: perfect binders, spiral wire, coil, shrink-wrapping and drilling. Located in Cleveland off E. 55th, Spiral of Ohio specializes in perfect and mechanical book binding. The Cleveland-based company binds books, annual reports, manuals, calendars and more for schools and companies. A sister plant is located in Atlanta.

The machines in the 55,000 square foot plant demand reliable energy, and because the plant is open 24 hours a day, seven days a week, Spiral has tight deadlines to meet the needs of its customers.

The plant also requires power to keep the temperature, lights and office equipment working properly, so the more than 100 employees can stay in touch with their customers and continue business, as usual.

A newer Cleveland Public Power customer, Spiral of Ohio began looking at other power companies a few years ago. “We liked very much what we saw at Cleveland Public Power,” says Mr. Piazza, “and we decided a change made sense. We have been happy ever since.”

> *“CPP proves to be the best choice for bindery headquarters.”*

OHIO TECHNICAL COLLEGE

1374 EAST 51ST STREET

What started in the late 60s as a fledgling truck driving school with just a few students has grown into a 900-student strong school for pretty much every thing automotive.

Ohio Technical College (OTC) offers training in programs that include auto mechanics, body work, sports and motorcycle repair, classic car restoration, BMW repair and truck driving. Located on East 51st, the college is housed in what was once the White Motors Corporation Service Garage.

"We train students for specific careers that they can walk right into after graduation," says Mark Brenner, President of the Cleveland-based school. "We are definitely a college with an outcome."

Students attend classes year round, for 18 months, until they graduate. About 20% of the students take classes toward an Associates Degree in applied science, but most are interested in certification in a specific area of expertise, according to Brenner. High on the technical scale is BMW training, where students train to work on the German engineered cars at BMW dealerships throughout the country. To hone their skills, the students train on brand-new BMWs.

"Automotive college partners with CPP to keep students driven to success."

"All of our students have an enviable array of tools and resources to work with," says Mr. Brenner. "It's our way of ensuring they are knowledgeable on the highest technology upon graduating."

With more than half a million square feet in total area, the school needs a power company that can deliver. Air compressors, bake ovens for paint, power tools, grinders, sanders and plenty of computers mean that OTC requires plenty of power to keep its students learning.

OTC appreciates the fact that CPP was as committed to excellent customer service as the college places in educating its students. "We've made a decision to stay in Cleveland," says Mr. Brenner. "Cleveland Public Power helped us with the conversion of the older buildings we are in, and helped us maintain our energy needs for the growing technology of the automotive industry. They made the investment in the conversion, and it benefits both of us."


OTC
OTC
CLASSIC CAR RESTORATION

BENEDICTINE HIGH SCHOOL

2900 MARTIN LUTHER KING DRIVE

Alan Schmiederer, Director of Business Operations for Benedictine High School, holds the responsibility of making sure the college prep school for young men makes smart business decisions for itself as well.

One of those smart decisions involved studying up on energy costs. "We realized we could save money with Cleveland Public Power," says Mr. Schmiederer. "We are saving money, indeed, but we are also getting much better service."

The Roman Catholic college prep school is operated by the Benedictine monks of Saint Andrew Abbey. Located on Buckeye Road, near Shaker Square, Benedictine makes its mission to grow young men who will live the school's motto of "Pray and work."

The school relies heavily on power to keep the school heated, lit, and conducive to keeping its young minds inside engaged in the learning process.

Mr. Schmiederer especially likes the ease and accessibility of finding the high school's account on CPP's website, www.cpp.org. "We can read our meters on CPP's website, so all bills are based on accurate usage." Which in turn helps Mr. Schmiederer get *his* job done more accurately.

Best of all, he hasn't had to connect much with CPP, beyond making sure the school's account is in order. "All of the power equipment is up to date, so we have less potential for failure. We really haven't had any reason to call on them with power issues, but when we do, I am sure Cleveland Public Power will be very efficient and professional."

"High school sets the bar high by making smart business decisions."

THE CLEVELAND PLAY HOUSE

8500 EUCLID AVENUE

Pass by The Cleveland Play House in December, and you might just find yourself stopping in to catch the brilliance of nearly 70 Christmas trees, decked inside and out with 7,000 twinkling lights, all kinds of shiny baubles and maybe even a "legendary official Red Ryder 200 shot carbine action range model air rifle with a compass and this thing that tells time built right into the stock."

It's an annual Cleveland holiday tradition to visit the trees, one that has been enhanced by the addition of performances of "The Nutcracker," "The Santaland Diaries," and "A Christmas Story," an adapted version of the movie that was filmed in Cleveland back in the 80s.

"A holiday tradition, presented to the people of Greater Cleveland by The Cleveland Play House and CPP."

"The Cleveland Play House has hosted the Festival of Trees for over ten years," says Merlin DeTardo, General Manager for the live theater venue. "We have people come from near and far, so we need to have a reliable energy provider to keep our patrons smiling."

All this holiday magic requires a very reliable power source to keep the lights sparkling until the holidays wind down.

"We switched to Cleveland Public Power over a year ago," says Mr. DeTardo. "They made the better offer, provided the better partnership to keep our trees lit and our productions alive. We've been very happy ever since." So have holiday fans in Cleveland, Mr. DeTardo.


with generos and curiosity.


Virginia Rodriguez

CPP EMPLOYEES MAKE A DIFFERENCE

2005 proved to be a challenge for the employees at Cleveland Public Power in a number of ways – first and foremost being the changes in internal processes which resulted in a continued increase in customers connected. This was also a banner year for community events and activities. Challenges aside, the staff at CPP worked diligently to improve the organization's bottom line.

The hard work was clearly evident in the Marketing Department where the staff spent every Thursday morning evaluating themselves and the organization in an effort to develop a new Marketing Strategy. "Those Thursday meetings helped to bring the department together. We became a more cohesive unit and the team work resulted in an increased presence in the community and an increase in the connection of new customers," said Marketing Manager Shelley Shockley.

Under the leadership of Deputy Commissioner Joy Perry, the Marketing Department joined forces with the Program Management and Engineering Departments to analyze the Commercial Connection process. Regular meetings led to an increase in communication between departments and a better understanding of the roles each section played in bringing new customers on line.

"The weekly staff meetings and bi-weekly departmental meetings were a good first step in providing better service to our customers. We really came together as a team," said Rodney Jenkins, manager of commercial marketing.

The hard work of Cleveland Public Power employees was also noticed and honors were bestowed upon the Marketing Department – Unit of the Month; Wes Tarver – Outstanding Performance; and Virginia Rodriquez – Employee of the Month.

"Those Thursday meetings helped to bring the department together. We became a more cohesive unit and the team work resulted in an increased presence in the community as well as the connection of new customers."

CPP EMPLOYEES MAKE A DIFFERENCE (CONTINUED)

With a new philosophy of "Team Work Makes the Dream Work," Cleveland Public Power enlisted the services of the Shelton Group to take on the formidable task of developing a Strategic Marketing Plan. To begin this process, representatives from all sections of CPP gathered at Burke Lakefront Airport for a full day session on how to better serve the needs of its customers. While the lines of communication were opened, there is still much work that needs to be done in order to present a united front.

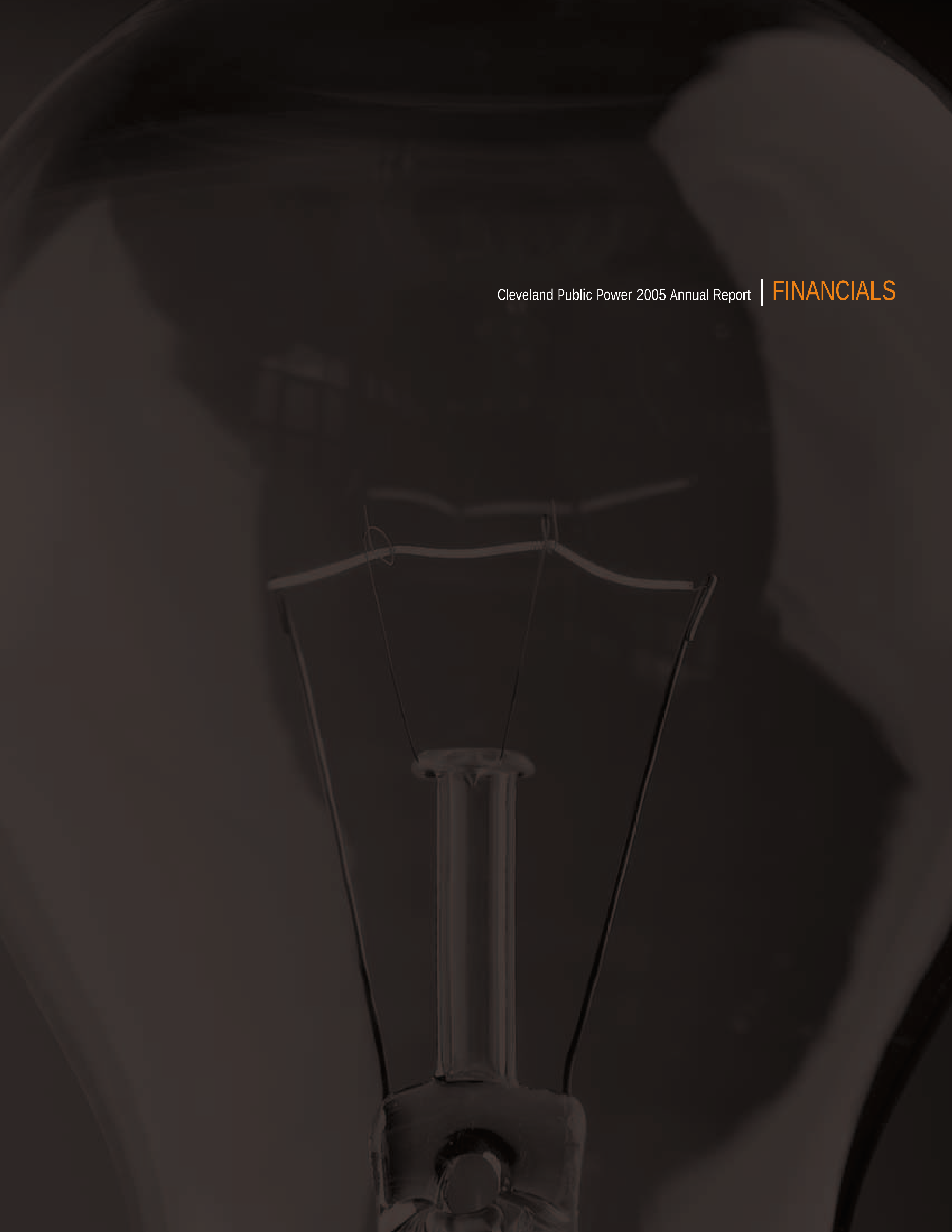
The Shelton Group's study confirmed many of the thoughts held by staff internally – among them being the need to provide more customer friendly services including electronic bill payment, pay by phone services and an updated and interactive Website.

One of the largest and most significant efforts to come out of the study was a redesign of Cleveland Public Power's logo and brand. The new logo, pictured below will be introduced as part of the 2006 Centennial celebrations.

> *"The weekly staff meetings and bi-weekly departmental meetings were a good first step in providing better service to our customers. We really came together as a team."*

ClevelandPublicPower
Count on it

Safe, strong, reliable and an electric utility you can count on – that's the goal of the employees of Cleveland Public Power!



Cleveland Public Power 2005 Annual Report | FINANCIALS

GENERAL

As management of the City of Cleveland's (the 'City') Department of Public Utilities, Division of Cleveland Public Power (the ìDivisionî), 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, 2005 and 2004. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 16.

The Division was created in 1906 and charged with the responsibility of the distribution of electricity and related electric service to customers within its service areas. The Division operates a municipal electric system that is the largest in the State of Ohio and the thirty-fifth largest in the United States. The Division serves an area that is bound by the city limits of the City and presently serves over 78,000 customers.

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

According to the 2000 census reports, the City's population is approximately 478,000 people with approximately 224,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains most of its power and energy requirements through short and long-term agreements with various regional utilities and other power suppliers through CEI interconnections. The balance of the Division's energy power and energy requirements are satisfied from combustion turbine generating units and various arrangements for the exchange of short-term power and energy. The Division anticipates that it will continue to rely on wholesale purchases of power and energy to meet its customer's needs for the foreseeable future.

COMPARISON OF 2005 DATA TO 2004 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2005 by $178,867,000 (net assets). Of this amount, $71,938,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets decreased by $1,114,000 during 2005. Charges for services increased by 6.5% due to a 5% increase in Kilowatt-hours sold and total operating expenses increased 14.3% primarily due to an increase in purchased power costs.

- The Division received a $400,000 grant from Interstate Gas Supply to fund community outreach programs to inform residents of energy-assistance benefits, energy conservation measures and to create jobs opportunities for Cleveland residents in the home-energy insulation field.

- During 2005, the Division had an increase in capital assets, net of accumulated depreciation of $7,667,000. The major additions during the year were related to utility plant improvements, pole replacements and purchases of furniture, fixtures, equipment and vehicles.

- The principal capital expenditures during the year were for defective pole replacements, the Ridge Road substation improvements, new service connections, motor vehicle purchases, Geographical Information System (G.I.S.), and East 73rd St. transmission cable bridge structure.

- The Division's total long-term debt decreased by $9,710,000. The decrease is attributed to scheduled debt service payments to bondholders during 2005 and the Division utilizing $4,910,000 of the incrementall surcharges collected to defease outstanding debt.

FINANCIAL HIGHLIGHTS (Continued)

- The Division was impacted by the introduction of SECA (Seams Elimination Cost Adjustment), which was mandated by the FERC (Federal Energy Regulatory Commission). These one-time series of charges were established to compensate transmission owners for following new FERC guidelines for eliminating most of the ìthrough and outî transmission rates that customers paid to transmission owners in neighboring regional transmission organizations when transmitted power crossed more than one transmission system. The Division paid SECA charges to Midwest Independent System Operator (MISO) of $8,072,000 in 2005.

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 16 – 21 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 22 - 34 of this report.

CONDENSED BALANCE SHEET INFORMATION

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

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 303,761	$ 296,094	$ 7,667
Restricted assets	30,933	37,282	(6,349)
Unamortized bond issuance costs	1,737	1,952	(215)
Current assets	67,647	75,739	(8,092)
Total assets	404,078	411,067	(6,989)
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	95,977	80,572	15,405
Restricted for capital projects	4,534	8,816	(4,282)
Restricted for debt service	6,418	5,877	541
Unrestricted	71,938	84,716	(12,778)
Total net assets	178,867	179,981	(1,114)
Liabilities:			
Long-term obligations	197,692	205,812	(8,120)
Current liabilities	27,519	25,274	2,245
Total liabilities	225,211	231,086	(5,875)
Total net assets and liabilities	$ 404,078	$ 411,067	$ (6,989)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Restricted assets: The Division's restricted assets decreased by $6,349,000 primarily due to purchases of Capital Assets and increased spending on capital projects.

Current assets: The Division's current assets decreased by $8,092,000 mainly due to the following:

- The decrease in cash and investments of $8,489,000 was mainly attributed to a $8,072,000 payment for SECA charges and the increase in operating costs.
- The increase in net accounts receivable of $2,989,000 was mainly due to a $1,220,000 SECA refund from American Electric Power, which was received in 2006 and an increase in accounts receivable related to the increase in Kilowatt-hours sold.
- Due from Other City Divisions decreased $2,370,000 primarily due to more efficient billings and payments between City-user divisions.
- Net materials and supplies decreased by $365,000 due to utilization of prior year inventory and the Division's cost containment efforts as compared to 2004.
- Current liabilities increased by $2,245,000 in 2005 mainly due to the $1,315,000 increase in the current portion of long-term debt and the $978,000 increase in payables from restricted assets.
- The long-term obligation decrease of $8,120,000 is attributed to scheduled debt service payments.

Capital assets: The Division's investment in capital assets as of December 31, 2005 amounted to $303,761,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was $7,667,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2005 is as follows:

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

The principal capital expenditures during the year are as follows:

- Pole replacements - $6,109,000
- Related engineering and overhead expense capitalized - $4,711,000
- Ridge Road Substation construction - $4,179,000

CONDENSED BALANCE SHEET INFORMATION (Continued)

- Vehicles purchased - $1,218,000
- New customer service connections - $1,167,000
- East 73rd St. Transmission cable bridge structure - $580,000
- Distribution Engineering services - $452,000
- Geographical Information System (G.I.S.) - $434,000
- Transformers - $430,000
- Coal Fired Generation Plant - $375,000

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

Liabilities:

Long-term debt: At December 31, 2005 the Division had total debt outstanding of $240,645,000. 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. This debt is being retired in accordance with repayment schedules through 2024.

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

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

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

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

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2005, 2004, and 2003 was 178%, 166%, and 193%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 25 - 27.

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 $178,867,000 at the close of the most recent year.

CONDENSED BALANCE SHEET INFORMATION (Continued)

A large portion of the Division's net assets, $95,977,000 (54%) reflects its investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending.

Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets of $10,952,000 (6%) represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds or represent unspent bond proceeds relating to capital projects. The remaining balance of unrestricted net assets, $71,938,000 (40%), may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2005 decreased its net assets by $1,114,000 and increased its net assets by $5,313,000 in 2004. Key elements of these changes are summarized below:

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 150,263	$ 141,143	$ 9,120
Operating expenses	142,336	124,562	17,774
Operating income	7,927	16,581	(8,654)
Non-Operating Revenue (Expense):			
Investment income	1,883	1,005	878
Interest expense	(10,289)	(10,915)	(626)
Amortization of bond issuance costs and discount	(2,124)	(2,123)	1
Workers compensation refund	8	12	(4)
Gain on disposal of capital assets	2	6	(4)
Other	1,079	679	400
Total non-operating revenue (expense), net	(9,441)	(11,336)	(1,895)
Income (loss) before other contributions	(1,514)	5,245	(6,759)
Capital and other contributions	400	68	332
Increase (Decrease) in net assets	(1,114)	5,313	(6,427)
Net assets, beginning of year	179,981	174,668	5,313
Net assets, end of year	$ 178,867	$ 179,981	$ (1,114)

CONDENSED BALANCE SHEET INFORMATION (Continued)

- Operating revenues increased by $9,120,000 largely related to a 5% increase in kilowatt-hours sold.
- Operating expenses increased by $17,774,000 primarily due to a $14,738,000 increase in purchased power costs, which included $8,072,000 in SECA payments, an increase of $1,125,000 in depreciation expense and an increase in health care costs.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2004 by $179,981,000 (net assets). Of this amount, $84,716,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by $5,313,000 during 2004. Charges for services increased by 1.1% mainly due to increase in Kilowatt Hour's sales by 0.7% and operating expenses increased 3.2%.
- The Division received reimbursements in the amount of $68,000, from FEMA for damage resulted from rainstorms in May and June of 2004. The Federal portion was $58,000 and the State portion was $10,000.
- During 2004, the Division had an increase in capital assets, net of accumulated depreciation, of $7,715,000. This increase is attributable to net capital asset additions of $16,861,000, the addition to net construction in progress of $5,929,000, which was offset by an addition of accumulated depreciation of $15,075,000.
- The principal capital expenditures during the year were for defective pole replacements, Ridge Road substation, vehicles, transformers and meters.
- The Division's total long-term debt decreased by $9,410,000. The total decrease is attributed to scheduled debt service payments to bondholders during 2004.

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CONDENSED BALANCE SHEET INFORMATION (Continued)

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

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets	$ 296,094	$ 288,379	$ 7,715
Restricted assets	37,282	19,006	18,276
Unamortized bond issuance costs	1,952	2,181	(229)
Current assets	75,739	101,440	(25,701)
Total assets	411,067	411,006	61
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	80,572	66,329	14,243
Restricted for capital projects	8,816	11,598	(2,782)
Restricted for debt service	5,877	5,771	106
Unrestricted	84,716	90,970	(6,254)
Total net assets	179,981	174,668	5,313
Liabilities:			
Long-term obligations	205,812	212,640	(6,828)
Current liabilities	25,274	23,698	1,576
Total liabilities	231,086	236,338	(5,252)
Total net assets and liabilities	$ 411,067	$ 411,006	$ 61

Restricted assets: The Division's restricted assets increased by $18,276,000 primarily due to an increase of $16,633,000 in restricted cash and cash equivalents and investments, which represent amounts set aside for the payment of revenue bonds. As a result, there was also a corresponding decrease in cash and cash equivalents and investments classified as current assets.

Current assets: The Division's current assets decreased by $25,701,000 mainly due to the following:

- The decrease of cash and investments of $22,915,000, which is mainly attributed to the above referenced cash and cash equivalents restriction of $16,633,000.
- Decrease in customer net accounts receivable of $2,154,000 due to the increased collection efforts of the Division and a $443,000 increase in Allowance for doubtful accounts.
- Materials and supplies decreased by $901,000 due to utilization of prior year inventory and the Division's cost containment efforts as compared to 2003.
- Current liabilities increased by $1,576,000 in 2004 mainly due to the $300,000 increase in the current portion of long-term debt and a $507,000 increase in accounts payables. In addition, there was a $627,000 increase in due to other City Divisions, which is primarily due to the addition in the reserve for workers compensation expense as compared to the prior year.

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

The principal capital expenditures during the year are as follows:

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

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

Liabilities:

Long-term debt: At December 31, 2004 the Division had total debt outstanding of $250,355,000. All bonds and notes are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. This debt is being retired in an orderly manner with repayment schedules through 2024.

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

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

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

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2004, 2003, and 2002 was 166%, 193%, and 220%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 25 - 27.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $179,981,000 at the close of 2004.

A large portion of the Division's net assets, $80,572,000 (45%) reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Division's net assets of $14,693,000 (8%) represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds or represent unspent bond proceeds relating to capital projects. The remaining balance of unrestricted net assets, $84,716,000 (47%), may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2004 and 2003 increased its net assets by $5,313,000 and $7,634,000, respectively. Key elements of these increases are summarized below:

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

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

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

The Division purchases most of its power requirements via medium and long-term contracts in the power markets. The actual costs of these power purchases are passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately. This will not impact the Division financially unless actual power costs push the Division's billing rates significantly above those of its competition.

The Division was impacted by the introduction of SECA (Seams Elimination Cost Adjustment), which was mandated by FERC (Federal Energy Regulatory Commission). These one-time series of charges were established to compensate transmission owners for following new FERC guidelines for eliminating most of the ìthrough and outî transmission rates that customers paid to transmission owners in neighboring regional transmission organizations when transmitted power crossed more than one transmission system. The Division paid $8,072,000 in SECA charges to Midwest Independent System Operator (MISO). The Division, along with many other public and privately owned electric utilities, believes that the SECA charges represent a retroactive rate increase that is unfair and fully unjustifiable and as a result will join AMP-Ohio and other impacted utilities to contest these charges.

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 for debt reduction and pole replacements. The increase was originally scheduled to end December 31, 2005, but has been extended by recent legislation to December 31, 2008. Effective January 1, 2006, the proceeds of the increase, which is approximately $4,000,000 annually, are no longer earmarked for a specific purpose, but the Division maintains a fund with about $16,600,000 of historic receipts that remains earmarked for debt reduction and pole replacements.

On March 20, 2006, legislation was passed authorizing the issuance and sale of Public Power System Revenue Refunding Bonds. This ordinance allows the City to refund any eligible outstanding Public Power System Revenue Bonds provided that the aggregate net present value of the debt service savings resulting from the refunding is not less than 3%. This authority expires on March 31, 2008.

ADDITIONAL INFORMATION

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

		(In thousands)		
		2005		2004
ASSETS				
CAPITAL ASSETS				
Land	$	4,863	$	4,863
Land improvements		2,759		2,519
Utility plant		403,120		361,901
Buildings, structures and improvements		42,278		41,752
Furniture, fixtures, equipment and vehicles		42,904		41,025
		495,924		452,060
Less: Accumulated depreciation		(200,344)		(184,142)
		295,580		267,918
Construction in progress		8,181		28,176
CAPITAL ASSETS, NET		303,761		296,094
RESTRICTED ASSETS				
Cash and cash equivalents		14,919		12,376
Investments		15,975		24,882
Accrued interest receivable		39		24
TOTAL RESTRICTED ASSETS		30,933		37,282
UNAMORTIZED BOND ISSUANCE COSTS		1,737		1,952
CURRENT ASSETS				
Cash and cash equivalents		4,767		4,756
Restricted cash and cash equivalents		1,483		505
Investments		29,302		38,780
Receivables:				
Accounts receivable - net of allowance for doubtful accounts of $3,794,000 in 2005 and $757,000 in 2004		21,165		18,176
Unbilled revenue		2,171		1,964
Due from other City of Cleveland departments, divisions or funds		2,730		5,100
Accrued interest receivable		267		331
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2005 and $749,000 in 2004		5,708		6,073
Prepaid expenses		54		54
TOTAL CURRENT ASSETS		67,647		75,739
TOTAL ASSETS	$	404,078	$	411,067

(Continued)

	(In thousands) 2005	2004
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 95,977	$ 80,572
Restricted for capital projects	4,534	8,816
Restricted for debt service	6,418	5,877
Unrestricted	71,938	84,716
TOTAL NET ASSETS	178,867	179,981
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
Revenue bonds	196,759	204,861
Accrued wages and benefits	933	951
TOTAL LONG-TERM OBLIGATIONS	197,692	205,812
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	11,025	9,710
Accounts payable	7,979	7,663
Current payable from restricted assets	1,483	505
Due to other City of Cleveland departments, divisions or funds	907	976
Accrued interest payable	1,184	1,242
Current portion of accrued wages and benefits	3,554	3,211
Other accrued expenses	435	398
Customer deposits and other liabilities	952	1,569
TOTAL CURRENT LIABILITIES	27,519	25,274
TOTAL LIABILITIES	225,211	231,086
TOTAL NET ASSETS AND LIABILITIES	$ 404,078	$ 411,067

See notes to financial statements.

(Concluded)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2005 and 2004

	(In thousands) 2005	2004
OPERATING REVENUES		
Charges for services	$ 150,263	$ 141,143
TOTAL OPERATING REVENUES	150,263	141,143
OPERATING EXPENSES		
Purchased power	89,346	74,608
Operations	17,830	15,020
Maintenance	18,748	19,647
Depreciation	16,412	15,287
TOTAL OPERATING EXPENSES	142,336	124,562
OPERATING INCOME	7,927	16,581
NON-OPERATING REVENUE (EXPENSE)		
Investment income	1,883	1,005
Interest expense	(10,289)	(10,915)
Amortization of bond issuance costs and discounts	(2,124)	(2,123)
Workers compensation refund	8	12
Gain on disposal of capital assets	2	6
Other	1,079	679
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(9,441)	(11,336)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	(1,514)	5,245
Capital and other contributions	400	68
INCREASE (DECREASE) IN NET ASSETS	(1,114)	5,313
NET ASSETS, BEGINNING OF YEAR	179,981	174,668
NET ASSETS, END OF YEAR	$ 178,867	$ 179,981

See notes to financial statements.

	(In thousands) 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 150,152	$ 145,036
Cash payments to suppliers for goods or services	(5,813)	(9,169)
Cash payments to employees for services	(24,901)	(20,658)
Cash payments for purchased power	(90,140)	(74,384)
Electric excise tax payments to agency fund	(5,428)	(5,213)
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,870	35,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	400	68
Electric excise tax		
Workers compensation refund	8	12
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	408	80
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(21,591)	(21,554)
Principal paid on long-term debt	(4,920)	(9,410)
Principal paid on long-term debt	(4,920)	(9,410)
Cash paid to escrow agent for refunding	(4,910)	
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(36,341)	(40,374)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(13,594)	(28,410)
Proceeds from sale and maturity of investment securities	31,979	31,162
Interest received on investments	2,103	1,144
NET CASH PROVIDED BY INVESTING ACTIVITIES	20,488	3,896
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,425	(786)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,637	19,460
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 26,062	$ 18,674

(Continued)

	(In thousands) 2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 7,927	$ 16,581
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,412	15,287
Changes in assets and liabilities:		
Accounts receivable, net	(2,989)	2,154
Unbilled revenue	(207)	23
Due from other City of Cleveland departments, divisions or funds	2,370	(261)
Materials and supplies, net	365	901
Accounts payable	316	507
Due to other City of Cleveland departments, divisions or funds	(69)	627
Accrued wages and benefits	325	(416)
Other accrued expenses	37	(33)
Customer deposits and other liabilities	(617)	242
TOTAL ADJUSTMENTS	15,943	19,031
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 23,870	$ 35,612

See notes to financial statements.

(Concluded)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Effective January 1, 2002, the Division changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments.* Effective January 1, 2005, the Division implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for the year ended December 31, 2005. The Division has determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005.

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The City has invested funds in STAROhio during year 2005 and 2004. 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, 2005 and 2004.

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For 2005 and 2004, total interest costs incurred amounted to $10,889,000 and $11,397,000 respectively, of which $429,000 and $379,000, respectively, was capitalized, net of interest income of $171,000 in 2005 and $103,000 in 2004.

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

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

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

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2005 and 2004 is as follows:

	Interest Rate	Original Issuance	2005	2004
		(In thousands)		
Mortgage Revenue Bonds:				
Series 1994, zero coupon bonds due through 2013		$ 219,105	$ 48,335	$ 48,335
Series 1996, due through 2024	5.00%-6.00%	123,720	120,190	120,955
Series 1998, due through 2017	4.00%-5.25%	44,840	38,655	44,760
Series 2001, due through 2016	3.55%-5.50%	41,925	33,465	36,305
		$ 429,590	240,645	250,355
Less:				
Unamortized discount-zero coupon bonds			(14,322)	(15,936)
Unamortized discount-current interest bonds			(4,723)	(5,019)
Unamortized loss on debt refunding			(13,816)	(14,829)
Current portion			(11,025)	(9,710)
Total Long-Term Debt			$ 196,759	$ 204,861

NOTE B - LONG-TERM DEBT (Continued)

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

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

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

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

NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
	(In thousands)		
2006	$ 11,025	$ 9,474	$ 20,499
2007	11,465	9,035	20,500
2008	11,755	8,745	20,500
2009	11,945	8,559	20,504
2010	12,140	8,358	20,498
2011-2015	64,465	37,747	102,212
2016-2020	64,130	22,623	86,753
2021-2024	53,720	6,879	60,599
Total	$ 240,645	$ 111,420	$ 352,065

Defeasance of Mortgage Revenue Bonds: During September 2005, the City utilized incremental charges to defease certain Mortgage Revenue Bonds that were due November 15, 2005 by placing $4,790,000 relating to principal and $120,000 relating to interest in an irrevocable trust to provide for the debt service payments. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. There was no defeased debt outstanding at December 31, 2005 and December 31, 2004.

Mortgage Revenue Bonds are payable from the revenues derived from operations of the public power system, after the payment of all operating and maintenance expenses (net revenues). The bonds are collateralized by a pledge of and lien on such net revenues plus a first mortgage lien upon all property of the public power system, including any improvements, additions, replacements, and extensions thereto.

The indenture requires that at all times the Division will charge rates and fees for the products and services of the public power system. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the power system and in an amount equal to 1.25 times the payments of principal and interest on the revenue bonds then outstanding and due in that year. As of December 31, 2005 and 2004, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

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

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

NOTE B - LONG-TERM DEBT (Continued)

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

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

Construction Fund: The proceeds from Series 1994 and Series 1991 bonds of $79,386,000 and $12,050,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2005 and 2004, the Division had $8,434,000 and $12,319,000, respectively, of outstanding commitments for future construction that will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

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

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: At December 31, 2005 and 2004, the Division's carrying amount of deposits totaled $1,158,000 and $3,167,000, respectively, and the Division's bank balances totaled $1,395,000 and $175,000, 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.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

Credit Risk: The Division's investments as of December 31, 2005 and 2004 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, STAROhio and mutual funds. The Division maintains the highest ratings for its investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, Allegiant Government Money Market Fund and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's.

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

Concentration of Credit Risk: The Division places no limit on the amount it may invest in any one issuer. The Division had the following investments at December 31, 2005 and 2004, 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	2005 Fair Value	2005 Cost	2004 Fair Value	2004 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years
	(In thousands)					
U.S. Agency Obligations	$ 43,415	$ 44,104	$ 60,388	$ 61,128		X*
U.S. Treasury Bills	1,861	1,861	3,275	3,270		X*
Repurchase Agreements	1,550	1,550			X*	
STAROhio	8,342	8,342	1,944	1,944	X*	
Investment in Mutual Funds	10,120	10,120	12,525	12,525	X*	
Total Investments	65,288	65,977	78,132	78,867		
Total Deposits	1,158	1,158	3,167	3,167		
Total Deposits and Investments	$ 66,446	$ 67,135	$ 81,299	$ 82,034		

* Investment maturities apply to the investment categories for both 2005 and 2004.

As of December 31, 2005, the investments in U.S. Agency Obligations, STAROhio and mutual funds are approximately 66%, 13% and 16%, respectively, of the Division's total investments. As of December 31, 2004, the investments in U.S. Agency Obligations and mutual funds are approximately 77% and 16%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2005 was as follows:

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

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

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

NOTE D - CAPITAL ASSETS (Continued)

Commitments: The Division has outstanding commitments of approximately $8,790,000 and $12,319,000 for future capital expenditures at December 31, 2005 and 2004, respectively. It is anticipated that these commitments will be financed from the Division's cash balances; however, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - EMPLOYEES RETIREMENT PLAN

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

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for the pension portion of the plans for the years ending December 31, 2005, 2004 and 2003 were approximately $1,776,000, $1,815,000 and $1,545,000 each year, respectively. The required payments due in 2005, 2004 and 2003 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage.

In order to qualify for postretirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

based on OPERS' latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2005 which were to fund postemployment benefits were approximately $744,000. $10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the 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 2005 or 2004. There were no significant decreases in any insurance coverage in 2005. 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 workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

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

NOTE H - RELATED PARTY TRANSACTIONS

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

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
	(In thousands)	
City Administration	$ 1,524	$ 1,524
Telephone Exchange	488	445
Division of Water	357	383
Utilities Administration and Fiscal Control	545	469
Motor Vehicle Maintenance	483	344

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 $1,355,000 and $1,406,000 for the years ended December 31, 2005 and 2004, 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 $5,122,000 and $5,172,000 for this tax in 2005 and in 2004 respectively, of which $13,031 and $13,016 was remitted to the State. All except the State of Ohio's portion belongs to the General Fund of the City. In March 2006, City Council passed ordinance 2068-05, which allocates 100% of the City's share of the tax in 2006 to the General Fund of the City.

NOTE K – INCREMENTAL CHARGES

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

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

The incremental charges were originally scheduled to end December 31, 2005, but have been extended by recent legislation to December 31, 2008. Effective January 1, 2006, the proceeds of the incremental charges are no longer earmarked for a specific purpose. The incremental charges billed were $4,922,000 and $4,435,000 in 2005 and 2004, respectively.

Cleveland Public Power

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