CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2003 and 2002

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Jane L. Campbell, Mayor, Members of Council, and the Audit Committee:

We have audited the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Division of Cleveland Public Power'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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note A, the financial statements present only the Division of Cleveland Public Power and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2003 and December 31, 2002, and the 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 financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2003 and December 31, 2002, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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.

Betty Montgomery

Betty Montgomery
Auditor of State

June 18, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the "City") Department of Public Utilities, Division of Cleveland Public Power (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the fiscal year ended December 31, 2003. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 12.

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. Cleveland Public Power serves an area that is bound by the city limits of the City of Cleveland and presently serves over 80,000 customers.

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

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

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2003 by $174,668,000 (net assets). Of this amount, $90,970,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $7,634,000 during 2003. Charges for services decreased by 1.45% mainly due to the loss of several major commercial customers, while total operating and non-operating revenue/expenses increased by 8.1%.

- Kilowatt-hours sold decreased by 1.7% due to mild summer weather conditions and the loss of several major customers resulting in operating revenues decreasing by $2,050,000 while operating expenses increased slightly by $1,980,000.

- During 2003, the Division had a decrease in capital assets, net of accumulated depreciation, of $2,133,000. This decrease was attributable to the net accumulated depreciation addition of $15,775,000. The principal capital expenditures during the year were for pole replacements, transformers and meters.

FINANCIAL HIGHLIGHTS (Continued)

- The Division's total long-term debt decreased by $7,865,000. The total decrease is attributed to scheduled debt service payments made in 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City of Cleveland's Division of Cleveland Public Power Fund, in which the City accounts for the operations of the Department of Public Utilities Division of Cleveland Public Power. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The basic financial statements of the Division can be found on pages 12 – 17 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 18 - 29 of this report.

CONDENSED BALANCE SHEET INFORMATION

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

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

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

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
	(In thousands)			
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,313			2,313
Utility plant	341,643	7,967		349,610
Buildings, structures and improvements	41,336			41,336
Furniture, fixtures, vehicles and equipment	37,300	544	(767)	37,077
Construction in progress	16,349	12,964	(7,066)	22,247
Total	443,804	21,475	(7,833)	457,446
Less: Accumulated depreciation	(153,292)	(15,992)	217	(169,067)
Capital assets, net	$ 290,512	$ 5,483	$ (7,616)	$ 288,379

The principal capital expenditures during the year are as follows:

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

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

Liabilities:

Long-term debt: At December 31, 2003 the Division had total debt outstanding of $259,765,000. All bonds and notes are backed by the revenues generated by the Division.

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

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

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

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2003, 2002, and 2001 was 193%, 220%, and 204%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 21 - 23.

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

An additional portion of the Division's net assets of $5,771,000 (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $90,970,000 (52%), may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2003 and 2002 increased its net assets by $7,634,000 and $19,569,000 respectively. Key elements of these increases are summarized below:

	2003	2002	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 139,640	$ 141,690	$ (2,050)
Operating expenses	120,715	118,735	1,980
Operating income	18,925	22,955	(4,030)
Non-Operating Revenue (Expense):			
Investment income	1,550	1,693	(143)
Electric excise tax		7,974	(7,974)
Interest expense	(11,286)	(11,879)	593
Amortization of bond issuance costs and discount	(2,180)	(2,236)	56
Workers compensation refund	28	119	(91)
Gain (loss) on disposal of capital assets	(233)	9	(242)
Other	795	934	(139)
Total non-operating revenue (expense), net	(11,326)	(3,386)	(7,940)
Income (loss) before other contributions	7,599	19,569	(11,970)
Capital and other contributions	35		35
Increase in net assets	7,634	19,569	(11,935)
Net assets, beginning of year	167,034	147,465	19,569
Net assets, end of year	$ 174,668	$ 167,034	$ 7,634

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

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

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

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

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

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

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

In February 2000, Cleveland City Council authorized a temporary rate increase of about 4% that was implemented through modification of the calculation of the Energy Adjustment Charge. The additional revenue of about $4,000,000 annually may be spent only for accelerated debt reduction or major capital expenditures. This temporary rate increase expires on December 31, 2005.

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

As mentioned in Note K to the Financial Statements, the Division did not receive any of the revenue from the electric deregulation kilowatt-hour excise tax in 2003, and will not receive it in 2004.

The construction of the Ridge Road Substation will provide load relief to existing substations on Cleveland's West side and also provide the Division with the ability to expand. Construction is anticipated to begin in the second quarter of 2004, with anticipated completion in 2005.

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

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2003 and 2002

	(*In thousands*) 2003	2002
ASSETS		
CAPITAL ASSETS		
Land	$ 4,863	$ 4,863
Land improvements	2,313	2,313
Utility plant	349,610	341,643
Buildings, structures and improvements	41,336	41,336
Furniture, fixtures,equipment and vehicles	37,077	37,300
	435,199	427,455
Less: Accumulated depreciation	(169,067)	(153,292)
	266,132	274,163
Construction in progress	22,247	16,349
CAPITAL ASSETS, NET	288,379	290,512
RESTRICTED ASSETS		
Cash and cash equivalents	15,805	17,571
Investments	3,307	3,121
Accrued interest receivable	10	16
TOTAL RESTRICTED ASSETS	19,122	20,708
UNAMORTIZED BOND ISSUANCE COSTS	2,181	2,351
CURRENT ASSETS		
Cash and cash equivalents	3,655	11,071
Investments	63,185	47,739
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $314,000 in 2003 and $400,000 in 2002	20,330	21,738
Unbilled revenue	1,987	1,551
Due from other City of Cleveland departments, divisions or funds	4,839	4,600
Accrued interest receivable	300	183
Materials and supplies - at average cost, net of allowance for obsolescence of $749,000 in 2003 and $1,099,000 in 2002	6,974	6,754
Prepaid expenses	54	54
TOTAL CURRENT ASSETS	101,324	93,690
TOTAL ASSETS	$ 411,006	$ 407,261

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2003 and 2002

	(*In thousands*) 2003	2002
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 77,927	$ 76,938
Restricted for debt service	5,771	4,059
Unrestricted	90,970	86,037
TOTAL NET ASSETS	174,668	167,034
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
Revenue bonds	211,665	218,161
Accrued wages and benefits	975	834
TOTAL LONG-TERM OBLIGATIONS	212,640	218,995
PAYABLE FROM RESTRICTED ASSETS	116	401
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	9,410	7,865
Accounts payable	7,156	6,778
Due to other City of Cleveland departments, divisions or funds	349	335
Accrued interest payable	1,306	1,361
Current portion of accrued wages and benefits	3,603	2,909
Other accrued expenses	431	454
Customer deposits and other liabilities	1,327	1,129
TOTAL CURRENT LIABILITIES	23,582	20,831
TOTAL LIABILITIES	236,338	240,227
TOTAL NET ASSETS AND LIABILITIES	$ 411,006	$ 407,261

See notes to financial statements. (Concluded)

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2003 and 2002

	(*In thousands*) 2003	2002
OPERATING REVENUES		
Charges for services	$ 139,640	$ 141,690
TOTAL OPERATING REVENUES	139,640	141,690
OPERATING EXPENSES		
Purchased power	69,993	72,174
Operations	16,006	14,525
Maintenance	18,941	16,351
Depreciation	15,775	15,685
TOTAL OPERATING EXPENSES	120,715	118,735
OPERATING INCOME	18,925	22,955
NON-OPERATING REVENUE (EXPENSE)		
Investment income	1,550	1,693
Interest expense	(11,286)	(11,879)
Amortization of bond issuance costs and discounts	(2,180)	(2,236)
Workers compensation refund	28	119
Electric excise tax		7,974
Gain (loss) on disposal of capital assets	(233)	9
Other	795	934
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(11,326)	(3,386)
Income (loss) before other Contributions	7,599	19,569
Capital and other contributions	35	
INCREASE IN NET ASSETS	7,634	19,569
NET ASSETS, beginning of year	167,034	147,465
NET ASSETS, end of year	$ 174,668	$ 167,034

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2003 and 2002

	2003	2002
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 143,208	$ 148,384
Cash payments to suppliers for goods or services	(7,839)	(12,653)
Cash payments to employees for services	(23,500)	(18,375)
Cash payments for purchased power	(70,127)	(71,461)
Electric excise tax payments to agency fund	(5,127)	(6,049)
Receipt of customer deposits, net		203
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,615	40,049
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	35	
Electric excise tax		7,974
Workers compensation refund	28	54
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	63	8,028
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(13,006)	(11,404)
Principal paid on long-term debt	(7,865)	(6,620)
Interest paid on long-term debt	(10,887)	(11,803)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(31,758)	(29,827)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(102,587)	(90,033)
Proceeds from sale and maturity of investment securities	86,808	39,397
Interest received on investments	1,677	1,348
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(14,102)	(49,288)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,182)	(31,038)
CASH AND CASH EQUIVALENTS, beginning of year	28,642	59,680
CASH AND CASH EQUIVALENTS, end of year	$ 19,460	$ 28,642

(Continued)

CITY OF CLEVELAND, OHIO

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

For the Years Ended December 31, 2003 and 2002

	(In thousands) 2003	2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 18,925	$ 22,955
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,775	15,685
Changes in assets and liabilities:		
Accounts receivable, net	1,408	2,754
Unbilled revenue	(436)	65
Due from other City of Cleveland departments, divisions or funds	(239)	2,235
Materials and supplies, net	(220)	(3,827)
Accounts payable	378	809
Due to other City of Cleveland departments, divisions or funds	14	(248)
Accrued wages and benefits	835	(592)
Other accrued expenses	(23)	10
Customer deposits and other liabilities	198	203
TOTAL ADJUSTMENTS	17,690	17,094
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 36,615	$ 40,049

See notes to financial statements. (Concluded)

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

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2003 and 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Effective January 1, 2002, the Division changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These "Reporting Model" statements affected the way the Division prepares and presents financial information. As a result of the implementation of these new GASB statements, the amount previously reported as the Division's equity is now reported as the Division's net assets in the accompanying balance sheets and the net assets are divided into three categories as follows:

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

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

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

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

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 a maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury Bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

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

The City has invested funds in STAROhio during fiscal year 2003 and 2002. STAROhio is an investment pool managed by the State Treasurers 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, 2003 and 2002.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2003 and 2002, total interest costs incurred amounted to $11,845,000 and $12,334,000 respectively, of which $467,000 and $453,000, respectively, was capitalized, net of interest income of $92,000 in 2003 and $2,000 in 2002.

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 or utilized 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. Amounts in excess of 80 hours are forfeited unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2003 and 2002 is as follows:

	Interest Rate	Original Issuance	2003	2002
			(In thousands)	
Cleveland Public Power Mortgage Revenue Bonds:				
Series 1994, zero coupon bonds due through 2013		$ 179,775	$ 48,335	$ 48,335
Series 1994, due through 2013	6.10%-7.00%	39,330	5,950	11,560
Series 1996, due through 2024	5.00%-6.00%	123,720	121,685	122,380
Series 1998, due through 2017	4.00%-5.25%	44,840	44,760	44,760
Series 2001, due through 2016	3.55%-5.50%	41,925	39,035	40,595
		$ 429,590	$ 259,765	$ 267,630
Less:				
Unamortized discount-zero coupon bonds			(17,550)	(19,164)
Unamortized discount-current interest bonds			(5,298)	(5,585)
Unamortized loss on debt refunding			(15,842)	(16,855)
Current portion			(9,410)	(7,865)
Total Long-Term Debt			$ 211,665	$ 218,161

Summary: Changes in long-term obligations for the year ended December 31, 2003 are as follows:

	Balance January 1, 2003	Increase	Decrease	Balance December 31, 2003	Due Within One Year
			(In thousands)		
Cleveland Public Power Mortgage Revenue Bonds:					
Series 1994, zero coupon bonds due through 2013	$ 48,335	$	$	$ 48,335	$
Series 1994, due through 2004	11,560		(5,610)	5,950	5,950
Series 1996, due through 2024	122,380		(695)	121,685	730
Series 1998, due through 2017	44,760			44,760	
Series 2001, due through 2016	40,595		(1,560)	39,035	2,730
Total revenue bonds	267,630		(7,865)	259,765	9,410
Accrued wages and benefits	3,743		835	4,578	3,603
Total	$ 271,373	$	$ (7,030)	$ 264,343	$ 13,013

NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2004	$ 9,410	$ 10,447	$ 19,857
2005	9,710	9,933	19,643
2006	11,025	9,474	20,499
2007	11,465	9,035	20,500
2008	11,755	8,745	20,500
2009-2013	61,540	40,636	102,176
2014-2018	67,965	29,527	97,492
2019-2023	62,465	13,282	75,747
2024-2027	14,430	721	15,151
Total	$ 259,765	$ 131,800	$ 391,565

In August 2001, the Division of Cleveland Public Power issued $41,925,000 of Public Power System Refunding Revenue Bonds, Series 2001. The proceeds were used to refund certain outstanding Series 1991 Revenue Bonds and to pay costs of issuance. Net proceeds of $43,177,000 were placed in an irrevocable escrow account which including interest earned was used to pay principal, interest and premium on the refunded bonds on November 15, 2001. 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 total aggregate principal amount of the bonds refunded by the Series 2001 Bonds was $41,290,000. The City completed the refunding to reduce its total debt service payments over the next fifteen years by $7,951,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $5,832,000.

Defeasance of Power Mortgage Revenue Bonds: In addition to the defeased debt described above, in prior years, the City defeased certain Power Mortgage Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old funds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of defeased debt outstanding at December 31, 2003 and December 31, 2002 is as follows:

Bond Issue	2003	2002
	(In thousands)	
Series 1994	$ 131,440	$ 131,440

NOTE B - LONG-TERM DEBT (Continued)

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

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, 2003 and 2002, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

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

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

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

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

Construction Fund: The proceeds from Series 1994 and Series 1991 bonds of $79,386,000 and $12,050,000, respectively, were deposited into this fund to be used, along with earnings from investments of amounts held therein, for the payment of capital costs. As of December 31, 2003 and 2002, the Division had $10,370,000 and $12,456,000, respectively, of outstanding commitments for future construction costs which 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, 2003 and December 31, 2002, the Division's carrying amount of deposits totaled $640,000 and ($38,000), respectively, and the Division's bank balances totaled $725,000 and $835,000, respectively. The differences represent outstanding warrants and normal reconciling items. These amounts were insured or collateralized with securities held by the City or by its agent in the City's name.

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

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the 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.

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

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

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

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

The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Type of Investment	Risk Category	2003 Fair Value	2003 Cost	2002 Fair Value	2002 Cost
		(In thousands)			
U.S. Agency Obligations	1	$ 63,182	$ 63,107	$ 47,723	$ 47,514
U.S. Treasury Bills	2	3,310	3,307	3,137	3,122
STAROhio	n/a	3,437	3,437	12,044	12,044
Investment in Mutual Funds	n/a	15,383	15,383	16,636	16,636
Total Investments		85,312	85,234	79,540	79,316
Total Deposits		640	640	(38)	(38)
Total Deposits and Investments		$ 85,952	$ 85,874	$ 79,502	$ 79,278

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

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	16,349	12,964	(7,066)	22,247
Total capital assets, not being depreciated	21,212	12,964	(7,066)	27,110
Capital assets, being depreciated:				
Land improvements	2,313			2,313
Utility plant	341,643	7,967		349,610
Buildings, structures and improvements	41,336			41,336
Furniture, fixtures, vehicles and equipment	37,300	544	(767)	37,077
Total capital assets, being depreciated	422,592	8,511	(767)	430,336
Less: Accumulated depreciation	(153,292)	(15,992)	217	(169,067)
Total capital assets being depreciated, net	269,300	(7,481)	(550)	261,269
Capital assets, net	$ 290,512	$ 5,483	$ (7,616)	$ 288,379

NOTE D - CAPITAL ASSETS (Continued)

Commitments: The Division has outstanding commitments of approximately $10,370,000 and $3,886,000 for future capital expenditures at December 31, 2003 and 2002, 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, thereon.
3). The Combined Plan (CO) – a cost-sharing multiple-employer benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statue per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for all plans for the years ending December 31, 2003, 2002 and 2001 were approximately $2,449,000, $2,510,000, and $2,323,000 each year, respectively. The required payments due in 2003, 2002 and 2001 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, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered 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 post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 5.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. 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 2002 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 4.00% annually. OPEBs are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2003 which were to fund postemployment benefits were approximately $904,000. $10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

The Plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account. In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending “Choices” type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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 2003 or 2002. There were no significant decreases in any insurance coverages in 2003. In addition, there were no insurance settlements in excess of insurance coverage during the past three fiscal 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. In 2002, the City participated in the State of Ohio workers’ compensation premium program to provide workers’ compensation benefits to its employees. In 2003, the City exercised the option of retrospective rating mechanism for our workers’ compensation 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2003 and 2002

NOTE H - RELATED PARTY TRANSACTIONS

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

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
	(In thousands)	
City Administration	$ 1,488	$ 1,029
Telephone Exchange	422	590
Division of Water	382	493
Utilities Administration and Fiscal Control	388	443
Motor Vehicle Maintenance	283	270

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 $1,405,000 and $1,397,000 for the years ended December 31, 2003 and 2002, respectively.

NOTE J - IDLE GENERATION FACILITIES

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

NOTE K - KILOWATT PER HOUR TAX

In May 2001, Cleveland Public Power started billing electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. Cleveland Public Power billed $5,122,507 and $6,077,000 for this tax in 2003 and in 2002 respectively, of which $12,625 and $13,883 was remitted to the State. All except the State of Ohio’s portion belongs to the General Fund of the City of Cleveland. The City Council passed ordinances in 2002 and 2003 which allocated the City share to the General Fund of the City of Cleveland for 2003 and 2004. This tax is reported as electric excise tax under non-operating revenues on the Statements of Revenues, Expenses and Change in Net Assets.

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CITY OF CLEVELAND - DIVISION OF CLEVELAND PUBLIC POWER

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 17, 2004