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, 2002 and 2001

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 accompanying financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Ohio, as of and for the years ended December 31, 2002 and December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the Division of Cleveland Public Power's management. Our responsibility is to express an opinion 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 opinion.

As discussed 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, 2002 and December 31, 2001, 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 as of December 31, 2002 and December 31, 2001, 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.

Betty Montgomery

Betty Montgomery
Auditor of State

June 26, 2003

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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 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, 2002. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 10.

The Division was created in 1906 and charged with the responsibility of the distribution of electricity and providing 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.

FINANCIAL HIGHLIGHTS

- The assets of the Division exceed its liabilities at December 31, 2002 by $167,034,000 (net assets). Of this amount, $86,037,000 (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 $19,569,000 during 2002, largely due to weather driven increases to demand and kilowatt hour's sales, and revenues from the state electrical excise tax. Kilowatt-hours sales increased by 12.2 percent and all-time monthly demand peaks were reached for seven of the months in 2002. The state electric excise tax is the other major component of the increase, as this amount contributed $7,974,000 to the overall increase.

- During 2002, the Division made expenditures for capital improvements totaling $13,304,000. The principal capital expenditures during the year were for pole replacements, East 185th street improvement, transformers and meters.

- The Division's total debt decreased by $6,620,000 (2.4 percent) during the current fiscal year. The reason for this decrease was payments to bondholders for principal.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 the 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 10 – 15 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 16 - 27 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2002 and 2001.

	2002	2001	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets	$ 290,512	$ 292,897	$ (2,385)
Restricted assets	20,708	20,660	48
Unamortized bond issuance costs	2,351	2,787	(436)
Current assets	93,690	74,969	18,721
Total assets	$ 407,261	$ 391,313	$ 15,948
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	$ 76,938	$ 76,711	$ 227
Restricted for debt service	4,059	3,807	252
Unrestricted	86,037	66,947	19,090
Total net assets	167,034	147,465	19,569
Liabilities:			
Long-term obligations	218,995	223,910	(4,915)
Payable from restricted assets	401	278	123
Current liabilities	20,831	19,660	1,171
Total liabilities	240,227	243,848	(3,621)
Total net assets and liabilities	$ 407,261	$ 391,313	$ 15,948

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current assets:

- Current assets increased in 2002 as a result of a 7.3 percent increase in operating revenues with only a 4.0 percent increase in operating expenditures. The Division received $7,974,000 in electric excise tax (non-operating revenues), which was not received in 2001, and more aggressively collected on delinquent accounts, as the accounts receivable balance was reduced by $2.7 million in 2002.

- Inventory valuations at year-end 2002 increased $3,828,000 from December 31, 2001. Of this amount, $487,000 is initial stocking of the Division's new Eastside Service Center, $22,000 is increased stock at the Division's Meter Lab and $3,319,000 is significant restocking of the Division's West 41st Street Service Center from depleted levels considered insufficient to maintain excellent customer service.

Capital assets: The Division's investment in capital assets as of December 31, 2002, amounted to $290,512,000 (net of accumulated depreciation). The total decrease in the Division's investment in capital assets for the current fiscal year was approximately 1 percent. A summary of the activity in the Division's capital assets during the year ended December 31, 2002 is as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
	(In thousands)			
Land	$ 4,863	$	$	$ 4,863
Land improvements	2,304	9		2,313
Utility plant	338,490	12,293		350,783
Buildings, structures and improvements	41,209	127		41,336
Furniture, fixtures and equipment	28,297		(137)	28,160
Construction in progress	15,474	13,244	(12,369)	16,349
Total	430,637	25,673	(12,506)	443,804
Accumulated depreciation	(137,740)	(15,552)		(153,292)
Net book value	$ 292,897	$ 10,121	$ (12,506)	$ 290,512

Major events during the current fiscal year affecting the Division's capital assets included the following:

The principal capital expenditures during the year are as follows:

- Pole replacements - $2,109,000
- Transformers and meters - $998,000
- Duct line and other infrastructure improvements on East 185th Street and other streets - $816,000
- Longwood Estates underground electric feed and lighting - $628,000
- Vehicles purchased - $594,000
- Related engineering and overhead expense capitalized - $4,769,000

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.

CONDENSED BALANCE SHEET INFORMATION (Continued)

Liabilities:

Long-term debt: At the end of the current fiscal year, the Division had total debt outstanding of $267,630,000. 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. CPP did a $42,000,000 refunding issue in August 2001 that lowered its interest expense over the life of the bonds. At the end of 2002, total bond debt outstanding was $267,630,000.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2002 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings).

	Balance January 1, 2002	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2002
			(In thousands)		
Cleveland Public Power Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 48,335	$	$	$	$ 48,335
Mortgage Revenue Bonds 1994 B	16,850			(5,290)	11,560
Mortgage Revenue Bonds 1996	122,380				122,380
Mortgage Revenue Bonds 1998	44,760				44,760
Mortgage Revenue Bonds 2001	41,925			(1,330)	40,595
Total	$ 274,250	$	$	$ (6,620)	$ 267,630

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 2002, 2001, and 2000 was 220%, 204%, and 167%, respectively.

Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 19 - 21.

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 $167,034,000 at the close of the most recent fiscal year.

CONDENSED BALANCE SHEET INFORMATION (Continued)

A large portion of the Division's net assets (46 percent) 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 (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $86,037,000 or (52 percent), 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 2002 and 2001 increased its net assets by $19,569,000 and $7,288,000, respectively. Key elements of these increases are summarized below:

	2002	2001	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 141,690	$ 132,095	$ 9,595
Operating expenses	118,735	114,130	4,605
Operating income	22,955	17,965	4,990
Non-Operating Revenue (Expense):			
Investment income	1,693	2,537	(844)
Electric excise tax	7,974		7,974
Interest expense	(11,879)	(12,423)	544
Amortization of bond issuance costs and discount	(2,236)	(2,374)	138
Workers compensation refund	119	617	(498)
Other	943	966	(23)
Total non-operating revenue (expense), net	(3,386)	(10,677)	7,291
Increase in net assets	19,569	7,288	12,281
Net assets, beginning of year	147,465	140,177	7,288
Net assets, end of year	$ 167,034	$ 147,465	$ 19,569

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

Cleveland Public Power recorded income of $7,974,000 in 2002 for the portion of the electric excise tax which was earmarked for accelerated debt reduction or pole replacement.

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

Cleveland Public Power (CPP) 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 CPP competes with First Energy in these areas, density is measured as the number of CPP customers on a given street versus the total customers available on that street. Additional customers can be added and serviced with little extra expense.

CPP purchases a large percentage 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 CPP financially unless actual power costs push CPP'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, CPP 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, CPP expects to be able to renew them at billing rates that will contribute positively to CPP's operating margins in the future.

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

The difficult economy is having its impact on CPP in the form of increased bankruptcies within its customer base. In addition to being aggressive, but fair, in its collection of accounts receivable, CPP has raised its allowance for doubtful accounts to 3.5% of revenues billed to non-City accounts from its historical level of about 2.0% of such revenues.

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, 2002 and 2001

	(In thousands) 2002	2001
ASSETS		
CAPITAL ASSETS		
Land	$ 4,863	$ 4,863
Land improvements	2,313	2,304
Utility plant	350,783	338,490
Buildings, structures and improvements	41,336	41,209
Furniture, fixtures and equipment	28,160	28,297
	427,455	415,163
Less: Accumulated depreciation	(153,292)	(137,740)
	274,163	277,423
Construction in progress	16,349	15,474
CAPITAL ASSETS, NET	290,512	292,897
RESTRICTED ASSETS		
Cash and cash equivalents	17,571	20,635
Investments	3,121	
Accrued interest receivable	16	25
TOTAL RESTRICTED ASSETS	20,708	20,660
UNAMORTIZED BOND ISSUANCE COSTS	2,351	2,787
CURRENT ASSETS		
Cash and cash equivalents	11,071	39,045
Investments	47,739	
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $400,000 in 2002 and $2,543,000 in 2001	21,738	24,492
Unbilled revenue	1,551	1,616
Due from other City of Cleveland departments, divisions or funds	4,600	6,836
Accrued interest receivable	183	
Materials and supplies - at average cost, net of allowance for obsolescence of $1,098,000 in 2002 and 2001	6,754	2,926
Prepaid expenses	54	54
TOTAL CURRENT ASSETS	93,690	74,969
TOTAL ASSETS	$ 407,261	$ 391,313

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2002 and 2001

	(In thousands) 2002	2001
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 76,938	$ 76,711
Restricted for debt service	4,059	3,807
Unrestricted	86,037	66,947
TOTAL NET ASSETS	167,034	147,465
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
Revenue bonds	218,161	223,102
Accrued wages and benefits	834	808
TOTAL LONG-TERM OBLIGATIONS	218,995	223,910
PAYABLE FROM RESTRICTED ASSETS	401	278
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	7,865	6,620
Accounts payable	6,778	5,969
Due to other City of Cleveland departments, divisions or funds	335	583
Accrued interest payable	1,361	1,953
Current portion of accrued wages and benefits	2,909	3,165
Other accrued expenses	454	444
Customer deposits and other liabilities	1,129	926
TOTAL CURRENT LIABILITIES	20,831	19,660
TOTAL LIABILITIES	240,227	243,848
TOTAL NET ASSETS AND LIABILITIES	$ 407,261	$ 391,313

See notes to financial statements.

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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, 2002 and 2001

	(In thousands) 2002	2001
OPERATING REVENUES		
Charges for services	$ 141,690	$ 132,095
TOTAL OPERATING REVENUES	141,690	132,095
OPERATING EXPENSES		
Purchased power	72,174	65,283
Operations	14,525	16,133
Maintenance	16,351	16,418
Depreciation	15,685	16,296
TOTAL OPERATING EXPENSES	118,735	114,130
OPERATING INCOME	22,955	17,965
NON-OPERATING REVENUE (EXPENSE)		
Investment income	1,693	2,537
Interest expense	(11,879)	(12,423)
Amortization of bond issuance costs and discounts	(2,236)	(2,374)
Workers compensation refund	119	617
Electric excise tax	7,974	
Other	943	966
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(3,386)	(10,677)
INCREASE IN NET ASSETS	19,569	7,288
NET ASSETS, beginning of year	147,465	140,177
NET ASSETS, end of year	$ 167,034	$ 147,465

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, 2002 and 2001

	(In thousands) 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 148,384	$ 124,280
Cash payments to suppliers for goods or services	(12,653)	(13,112)
Cash payments to employees for services	(18,375)	(21,578)
Cash payments for purchased power	(71,461)	(66,366)
Electric excise tax payments to agency fund	(6,049)	
Receipt of customer deposits, net	203	(424)
NET CASH PROVIDED BY OPERATING ACTIVITIES	40,049	22,800
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Electric excise tax	7,974	
Workers compensation refund	54	617
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	8,028	617
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(11,404)	(12,087)
Principal paid on long-term debt	(6,620)	(6,855)
Interest paid on long-term debt	(11,803)	(11,133)
Cash paid to escrow agent for refunding		(43,743)
Proceeds of refunding bonds		43,036
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(29,827)	(30,782)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(90,033)	(14,441)
Proceeds from sale and maturity of investment securities	39,397	40,387
Interest received on investments	1,348	2,837
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(49,288)	28,783
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(31,038)	21,418
CASH AND CASH EQUIVALENTS, beginning of year	59,680	38,262
CASH AND CASH EQUIVALENTS, end of year	$ 28,642	$ 59,680

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2002 and 2001

	(In thousands) 2002	2001
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME	$ 22,955	$ 17,965
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,685	16,296
Changes in assets and liabilities:		
Accounts receivable, net	2,754	(2,284)
Unbilled revenue	65	563
Due from other City of Cleveland departments, divisions or funds	2,235	(5,350)
Materials and supplies, net	(3,827)	139
Accounts payable	809	(3,801)
Due to other City of Cleveland departments, divisions or funds	(248)	(72)
Accrued wages and benefits	(592)	(676)
Other accrued expenses	10	(424)
Customer deposits and other liabilities	203	444
TOTAL ADJUSTMENTS	17,094	4,835
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 40,049	$ 22,800

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2002 and 2001

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), Ma*nagement'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 affect 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001

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 2002 and 2001. 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, 2002 and 2001.

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 fixed 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, and equipment 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 and equipment	5 to 33 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 2002 and 2001, total interest costs incurred amounted to $12,334,000 and $12,460,000 respectively, of which $453,000 and $31,000, respectively, was capitalized, net of interest income of $2,000 in 2002 and $6,000 in 2001.

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 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 current wage rates, with the balance being forfeited.

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2002 and 2001 is as follows:

	Interest Rate	Original Issuance	2002	2001
			(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 2004	7.00%	39,330	11,560	16,850
Series 1996, due through 2024	5.00%-6.00%	123,720	122,380	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	40,595	41,925
		$ 429,590	267,630	274,250
Less:				
Unamortized discount-zero coupon bonds			(19,164)	(20,778)
Unamortized discount-current interest bonds			(5,585)	(5,880)
Unamortized loss on debt refunding			(16,855)	(17,870)
Current portion			(7,865)	(6,620)
Total Long-Term Debt			$ 218,161	$ 223,102

Summary: Changes in long-term obligations for the year ended December 31, 2002 are as follows:

	Balance January 1, 2002	Increase	Decrease	Balance December 31, 2002	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	16,850		(5,290)	11,560	5,610
Series 1996, due through 2024	122,380			122,380	695
Series 1998, due through 2017	44,760			44,760	
Series 2001, due through 2016	41,925		(1,330)	40,595	1,560
Total revenue bonds	274,250		(6,620)	267,630	7,865
Accrued wages and benefits	3,973		(230)	3,743	2,909
Total	$ 278,223	$	$ (6,850)	$ 271,373	$ 10,774

NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2003	$ 7,865	$ 10,887	$ 18,752
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
2008-2012	60,435	41,722	102,157
2013-2017	70,070	32,790	102,860
2018-2022	59,480	16,269	75,749
2023-2027	28,170	2,130	30,300
Total	$ 267,630	$ 142,687	$ 410,317

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, 2002 and December 31, 2001 is as follows:

Bond Issue	2002	2001
	(In thousands)	
Series 1994	$ 131,440	$ 131,440

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2002 and 2001

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, 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, 2002 and 2001, the Division had $12,456,000 and $14,157,000, 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, 2002 and December 31, 2001, the Division's carrying amount of deposits totaled ($38,000) and $121,000, respectively, and the Division's bank balances totaled $835,000 and $555,000, respectively. 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 it's 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, 2002 and 2001

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Type of Investment	Risk Category	2002 Fair Value	2002 Cost	2001 Fair Value	2001 Cost
		(In thousands)			
U.S. Agency Obligations	1	$ 47,723	$ 47,514	$	$
U.S. Treasury Bills	2	3,137	3,122	3,078	3,087
STAROhio	n/a	12,044	12,044	41,329	41,329
Investment in Mutual Funds	n/a	16,636	16,636	15,152	15,152
Total Investments		79,540	79,316	59,559	59,568
Total Deposits		(38)	(38)	121	121
Total Deposits and Investments		$ 79,502	$ 79,278	$ 59,680	$ 59,689

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, 2002 was as follows:

	Balance January 1, 2002	Additions	Reductions	Balance December 31, 2002
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	15,474	13,244	(12,369)	16,349
Total capital assets, not being depreciated	20,337	13,244	(12,369)	21,212
Capital assets, being depreciated:				
Land improvements	2,304	9		2,313
Utility plant	338,490	12,293		350,783
Buildings, structures and improvements	41,209	127		41,336
Furniture, fixtures and equipment	28,297		(137)	28,160
Total capital assets, being depreciated	410,300	12,429	(137)	422,592
Less: Accumulated depreciation	(137,740)	(15,552)		(153,292)
Total capital assets being depreciated, net	272,560	(3,123)	(137)	269,300
Capital assets, net	$ 292,897	$ 10,121	$ (12,506)	$ 290,512

NOTE D – CAPITAL ASSETS (Continued)

Commitments: The Division has outstanding commitments at December 31, 2002 for approximately $3,886,000 of future capital expenditures. 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, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board (the "Board"). OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 and 2001 employer pension contribution rate for the Division was 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were $2,510,000, $2,323,000 and $2,417,000, respectively. The required payments due in 2002, 2001, and 2000 have been made.

NOTE F - OTHER POST EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten 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 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 based on authority granted by State statute. The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent in 2002 and 4.30 percent in 2001 was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no-change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

NOTE F - OTHER POST EMPLOYMENT BENEFITS (Continued)

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The number of active contributing participants was 402,041 at December 31, 2001. The Division's actual contributions for 2002, which were used to fund postretirement benefits were $926,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $16.4 billion and $4.8 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 under OPERS 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. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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 2002. There were no significant decreases in any insurance coverages in 2002. 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. The City participates in the State of Ohio workers' compensation program to provide workers' compensation benefits to its employees.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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 immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

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

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro rata basis. The more significant costs for the years ended December 31, 2002 and 2001 are as follows:

	2002	2001
	(In thousands)	
Division of Water	$ 493	$ 387
City Administration	1,029	950
Motor Vehicle Maintenance	270	336
Telephone Exchange	590	291
Utilities Administration and Fiscal Control	443	443
Data Processing	21	151

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 $1,397,000 and $1,441,000 for the years ended December 31, 2002 and 2001, 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 continued its past practice of depreciating the plant at rates which completed the depreciation of the plant in 1999.

NOTE K - KILOWATT PER HOUR TAX

In May of 2001, Cleveland Public Power started billing, for the State of Ohio, electric deregulation kilowatt per hour tax. Cleveland Public Power billed $6,077,000 and $3,780,000 for this tax in 2002 and 2001, respectively, of which $13,883 and $8,841 was remitted to the State. Fifteen percent of the difference belongs to the General Fund of the City of Cleveland, with the eighty-five percent balance to be used for accelerated debt reduction and pole replacement by Cleveland Public Power. In October 2002, City Council passed ordinance 1886-02, which allocated the entire difference between the amount collected and the amount remitted to the State, in 2003 only, to the General Fund of the City of Cleveland. This tax is reported as electric excise tax under non-operating revenues on the Statements of Revenue, Expenses and Changes in Net Assets.

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