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, 2011 and 2010

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-13
Balance Sheets	15-16
Statements of Revenues, Expenses and Changes in Net Assets	18
Statements of Cash Flows	19-20
Notes to Financial Statements	21-39

INDEPENDENT AUDITORS' REPORT

To the Honorable Frank G. Jackson, Mayor, Members of Council and the Audit Committee
Division of Cleveland Public Power
Department of Public Utilities
City of Cleveland, Ohio:

We have audited the accompanying basic financial statements of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Ohio (the Division) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Division'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 audit 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 described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2011 and 2010, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Division of Cleveland Public Power, Department of Public Utilities, City of Cleveland, Ohio as of December 31, 2011 and 2010, 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 25, 2012

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 years ended December 31, 2011 and 2010. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 15.

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-ninth largest in the United States. The Division serves an area that is bound by the City limits and presently serves approximately 74,000 customers.

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

According to the 2010 census reports, the City's population is 397,000 people. There are approximately 208,000 residential dwelling units and 11,000 commercial units. The Division has distribution facilities in about 60% of the geographical area of the City, primarily on the east side.

The Division obtains substantially all of its power and energy requirements through agreements with various regional utilities and other power suppliers for power delivered through CEI interconnections. The balance of the Division's power and energy requirements are satisfied with production from the Division's three combustion turbine generating units and various arrangements for the exchange of short-term power and energy. To reduce its reliance on the wholesale market, the Division has entered into contracts with American Municipal Power (AMP), a non-profit corporation comprised of municipal utilities, to participate in five AMP hydroelectric projects on the Ohio River. These plants, if constructed, are expected to be completed and operational by 2014.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by $208,597,000, $206,758,000 and $203,679,000 at December 31, 2011, 2010 and 2009, respectively. Of these amounts, $58,236,000, $58,291,000 and $59,902,000 are unrestricted net assets at December 31, 2011, 2010 and 2009, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets increased by $1,839,000 and $3,079,000 in 2011 and 2010, respectively. Operating revenue increased by $1,783,000, or 1.1%. Purchased power decreased by $4,105,000, or 4.3% and total operating expenses increased by $2,307,000 or 1.5% for 2011. In addition, investment income increased by $55,000, or 57.3%, interest expense increased by $204,000, or 1.9%, and amortization of bond issuance costs and discounts decreased by $513,000, or 69.4%.

FINANCIAL HIGHLIGHTS (Continued)

- During 2011, the Division had a decrease in capital assets, net of accumulated depreciation of $2,443,000 or 0.7%. The principal capital expenditures in 2011 were for Lake Road project, engineering and overhead related to duct line underground project, 138 KV loop circuit installation, new vehicles, transformers, pole replacements, Flats East Bank, Southern Service Center and system expansion. These additions were offset by current year depreciation.

- The Division's total long-term bonded debt decreased by $10,495,000 and $10,555,000 for the years ended December 31, 2011 and 2010, respectively. The decrease in 2011 and 2010 is attributed to scheduled debt service payments made to bondholders.

- In 2005, the Division was impacted by the introduction of Seams Elimination Cost Adjustment (SECA), which was mandated by the Federal Energy Regulatory Commission (FERC). For additional information see Note L. The Division paid SECA charges totaling $10,800,000 to Midwest Independent System Operator from December 2004 to March 2006 and has been refunded $5,655,000 as of December 31, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Division can be found on pages 15 – 20 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 21 - 39 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is condensed balance sheet information for the Division as of December 31, 2011, 2010 and 2009.

	2011	2010	2009
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 332,052	$ 334,495	$ 326,225
Restricted assets	59,031	63,448	72,717
Unamortized bond issuance costs	2,947	3,293	3,485
Current assets	85,253	83,389	81,065
Total assets	479,283	484,625	483,492
Net Assets and Liabilities:			
Net Assets:			
Invested in capital assets, net of related debt	145,158	144,257	139,260
Restricted for capital projects	1,309		
Restricted for debt service	3,894	4,210	4,517
Unrestricted	58,236	58,291	59,902
Total net assets	208,597	206,758	203,679
Liabilities:			
Long-term obligations	231,203	240,565	247,572
Current liabilities	39,483	37,302	32,241
Total liabilities	270,686	277,867	279,813
Total net assets and liabilities	$ 479,283	$ 484,625	$ 483,492

Restricted assets*:* The Division's restricted assets decreased by $4,417,000 and $9,269,000 in 2011 and 2010 respectively. The decreases for both years are primarily related to reductions in revenue bond funds for capital project expenditures.

Current assets: The Division's current assets increased by $1,864,000 and $2,324,000 in 2011 and 2010 respectively. The increase in 2011 is mainly due to an investment of $5,059,000, an increase in cash and cash equivalents of $174,000 and an increase of restricted cash and cash equivalents of $659,000; offset by a decrease in accounts receivable of $3,600,000 as a result of increased billings and collections.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Capital assets: The Division's investment in capital assets as of December 31, 2011 amounted to $332,052,000 (net of accumulated depreciation). The total decrease in the Division's net capital assets for the current year was $2,443,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2011 is as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Land	$ 4,863	$	$	$ 4,863
Land improvements	305			305
Utility plant	472,178	1,743		473,921
Buildings, structures and improvements	18,699	1,381		20,080
Furniture, fixtures, equipment and vehicles	78,502	1,602	(108)	79,996
Construction in progress	42,642	14,132	(4,725)	52,049
Total	617,189	18,858	(4,833)	631,214
Less: Accumulated depreciation	(282,694)	(16,576)	108	(299,162)
Capital assets, net	$ 334,495	$ 2,282	$ (4,725)	$ 332,052

A summary of the activity in the Division's capital assets during the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Recategor-ization *	Additions	Reductions	Balance December 31, 2010
	(In thousands)				
Land	$ 4,875	$ (12)	$	$	$ 4,863
Land improvements	2,759	(2,454)			305
Utility plant	466,242	(129)	6,065		472,178
Buildings, structures and improvements	43,335	(24,636)			18,699
Furniture, fixtures, equipment and vehicles	46,781	27,231	4,512	(22)	78,502
Construction in progress	28,759		24,226	(10,343)	42,642
Total	592,751	-	34,803	(10,365)	617,189
Less: Accumulated depreciation	(266,526)		(16,191)	23	(282,694)
Capital assets, net	$ 326,225	$ -	$ 18,612	$ (10,342)	$ 334,495

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The principal capital expenditures during 2011 included the following:

- Lake Road - $10,801,000
- Engineering and overhead expense - $4,634,000
- Duct Line Underground Project - $840,000
- 138 KV Loop Circuit Installation - $672,000
- Vehicles - $518,000
- Transformers - $438,000
- Pole replacements - $400,000
- Flats East Bank - $385,000
- Southern Service Center - $286,000
- System expansion - $181,000

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

Current liabilities: The increase in current liabilities of $2,181,000 in 2011 is mainly due to the increase of $1,145,000 in the current portion of long-term debt due in one year according to predetermined schedules and an increase of $1,703,000 in accrued interest payable. Accrued interest payable will increase every year until 2025, mainly due to scheduled interest payments related to the Division's 2008B Capital Appreciation Bonds (CABs).

Long-term obligations: The long-term obligation decrease of $9,362,000 in 2011 is mainly attributed to scheduled debt service payments.

At December 31, 2011, the Division had total debt outstanding of $255,818,000. All bonds are backed by the revenues generated by the Division.

The Division issued revenue bonds in the public capital markets in the late 1980's and early 1990's to finance a substantial expansion to its service territory. The Division also issued bonds in April 2008 for system expansion and in 2006 and 2010 to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2011 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2011	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2011
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 21,185	$	$	$ (6,535)	$ 14,650
Mortgage Revenue Bonds 1996	1,050			(1,050)	-
Revenue Bonds 2001	18,890			(2,910)	15,980
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	44,705				44,705
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,915				23,915
Total	$ 266,313	$ -	$ -	$ (10,495)	$ 255,818

The activity in the Division's debt obligations outstanding during the year ended December 31, 2010 is summarized in the following table (excluding unamortized discounts, premiums and losses on debt refundings):

	Balance January 1, 2010	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2010
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 25,095	$	$	$ (3,910)	$ 21,185
Mortgage Revenue Bonds 1996	2,045			(995)	1,050
Revenue Bonds 1998	26,425		(26,425)		-
Revenue Bonds 2001	22,030			(3,140)	18,890
Revenue Bonds 2006 A-1	95,265				95,265
Revenue Bonds 2006 A-2	12,295				12,295
Revenue Bonds 2008 A	21,105				21,105
Revenue Bonds 2008 B-1	44,705				44,705
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010		23,915			23,915
Total	$ 276,868	$ 23,915	$ (26,425)	$ (8,045)	$ 266,313

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

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 2011, 2010 and 2009 was 140%, 160%, and 157%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 24 - 29.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $208,597,000, $206,758,000 and $203,679,000 at December 31, 2011, 2010 and 2009, respectively.

Of the Division's net assets at December 31, 2011, $145,158,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $1,309,000 denotes funds restricted for use in capital projects and $3,894,000 represents resources subject to debt service restrictions. The remaining $58,236,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net assets at December 31, 2010, $144,257,000 reflects the Division's investment in capital assets (e.g., land, buildings, utility plant, furniture, fixtures, vehicles and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. In addition, $4,210,000 represents resources subject to external restrictions. The remaining $58,291,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

The Division's operations during 2011 increased its net assets by $1,839,000 as compared to an increase in net assets of $3,079,000 in 2010. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
		(In thousands)	
Operating revenues	$ 168,448	$ 166,665	$ 155,865
Operating expenses	156,528	154,221	146,221
Operating income (loss)	11,920	12,444	9,644
Non-operating revenue (expense):			
Investment income	151	96	169
Interest expense	(11,170)	(10,966)	(11,579)
Amortization of bond issuance costs and discount	(226)	(739)	(947)
Workers' compensation refund			4
Other	1,006	1,223	609
Total non-operating revenue (expense), net	(10,239)	(10,386)	(11,744)
Income (loss) before other contributions	1,681	2,058	(2,100)
Capital and other contributions	158	1,021	
Increase (decrease) in net assets	1,839	3,079	(2,100)
Net assets, beginning of year	206,758	203,679	205,779
Net assets, end of year	$ 208,597	$ 206,758	$ 203,679

- In 2011, operating revenues increased by $1,783,000. This increase is related to warmer than normal summer weather, as the City experienced its second warmest July on record. As a result the Division recorded its highest system peak along with increased seasonal electric sales.

- In 2010, operating revenues increased by $10,800,000. The increase was related to a very hot summer that resulted in more power consumption.

- In 2011, operating expenses increased by $2,307,000. This increase is mainly related to the rises in operations and maintenance expenses offset by a decrease in cost of purchased power.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

In 2010, operating expenses increased by $8,000,000. The increase was mainly related to rises in purchased power costs, allowance for bad debts, professional services and electricity costs paid to CEI for CEI supplied street lights.

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

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

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

> Fourth Interconnect: The first component is the addition of the fourth 138kV interconnection with the FirstEnergy transmission system. Increased capacity from the new distribution substations and their distribution circuits will allow the Division to transfer load from the existing distribution system to new circuits and provide electric service to future customers. Construction activities began in October 2009 and the interconnection was completed and energized in January 2011.
>
> Southern Project: The second component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the addition of a 138/13.8 kV substation (the Southern Project). The proposed extension will complete a continuous transmission ring around the Division's system. The Southern Project also includes the construction of a new distribution substation. It will allow the Division to extend its electric service to serve potential customers in parts of the southern and western areas of the City that are outside the Division's current footprint as well as areas that are within the Division's current footprint but presently lack sufficient capacity. The substation and transmission line are currently in final design phase with an anticipated in-service date of the 4th quarter of 2014.

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

> Lake Road Project: The third component of the Capacity Expansion Program is the expansion of the Lake Road 11.5kV Substation and the 11.5kV system downtown (the Lake Road Project). The proposed expansion will allow the Division to serve new customers throughout the downtown areas including the Quadrangle, Flats and Warehouse districts. Construction on the Lake Road Project is 50% complete with an anticipated in-service date of 2013.

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

The Division purchases most of its power requirements via contracts in the power markets. The Division intends to reduce its dependence on the purchased power market by acquiring interests in certain generating facilities. The Division's long-term base load supply will include a mix of power provided by participation in AMP Inc. hydroelectric projects, the Prairie State Energy Campus project, and new/emerging alternative energy technologies. The Division is currently scheduled to purchase a total of about 50 MW from the AMP Inc.'s hydroelectric projects, which are expected to be in operation by 2014. The Division will also purchase up to 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant that is projected to be on-line in 2012. In 2011, AMP purchased the Fremont Energy Center, a 707 MW natural gas-fired generating plant, construction of which was nearly complete. The plant is scheduled to be in commercial operation early in 2012 and the Division has contracted to receive 60 MW of the plant's output. The Division's payments for the Prairie State and Fremont project power will be an operating expense for CPP, the cost of which will be passed through to its customers via an Energy Adjustment Charge on its bills. As power costs rise, sales revenue will also increase commensurately.

The Division owns and operates approximately 67,000 street lights, including 18,000 that were purchased in 2008 from CEI for $4,000,000. The Division provides street lighting service to its customer, the City of Cleveland, under a published rate schedule. CEI will continue to provide the power to street lights where the Division lacks distribution facilities but will charge an energy-based rate under CEI's tariff for municipally-owned street lights. The Division intends to continue to charge the City the current CEI rate for the newly acquired lights for a transition period, after which the lights will be billed at the Division's then-current standard rate. In addition to adding a new revenue stream, the transfer will enable the City to avoid CEI's proposed new street lighting tariff charges, potentially affecting the General Fund and will allow for improved maintenance of the new lights by increasing responsiveness.

In early 2001, Ohio Electric Choice legislation created a new kilowatt-hour excise tax on electric power distributed to end users of electricity in the State by both investor-owned and municipal utilities. For municipal utilities, the state law requires the utility to remit the tax receipts to the municipality's General Fund. Under Ordinance No. 1768-07 passed in late 2007, the General Fund transferred annually 50% of the kWh tax receipts to the Division beginning in 2008. However, per Ordinance No. 1248-09 passed in 2009, the General Fund retained 100% of the tax remittances collected during calendar years 2009 and 2010. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance in 2011 and will also retain 100% during the calendar year 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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, 2011 and 2010

	(*In thousands*) 2011	2010
ASSETS		
CAPITAL ASSETS		
Land	$ 4,863	$ 4,863
Land improvements	305	305
Utility plant	473,921	472,178
Buildings, structures and improvements	20,080	18,699
Furniture, fixtures, equipment and vehicles	79,996	78,502
	579,165	574,547
Less: Accumulated depreciation	(299,162)	(282,694)
	280,003	291,853
Construction in progress	52,049	42,642
CAPITAL ASSETS, NET	332,052	334,495
RESTRICTED ASSETS		
Cash and cash equivalents	59,031	59,876
Investments		3,572
TOTAL RESTRICTED ASSETS	59,031	63,448
UNAMORTIZED BOND ISSUANCE COSTS	2,947	3,293
CURRENT ASSETS		
Cash and cash equivalents	54,386	54,212
Restricted cash and cash equivalents	1,930	1,271
Investments	5,059	
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $6,889,000 in 2011 and $4,647,000 in 2010	10,058	13,658
Unbilled revenue	2,080	2,492
Due from other City of Cleveland departments, divisions or funds	2,558	2,505
Materials and supplies - at average cost	9,089	9,135
Prepaid expenses	93	116
TOTAL CURRENT ASSETS	85,253	83,389
TOTAL ASSETS	$ 479,283	$ 484,625

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2011 and 2010

	(*In thousands*) 2011	2010
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 145,158	$ 144,257
Restricted for capital projects	1,309	
Restricted for debt service	3,894	4,210
Unrestricted	58,236	58,291
TOTAL NET ASSETS	208,597	206,758
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	230,690	240,005
Accrued wages and benefits	513	560
TOTAL LONG-TERM OBLIGATIONS	231,203	240,565
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	11,640	10,495
Accounts payable	8,598	9,544
Current payable from restricted assets	1,930	1,271
Due to other City of Cleveland departments, divisions or funds	4,922	5,164
Accrued interest payable	7,246	5,543
Current portion of accrued wages and benefits	3,635	3,781
Other accrued expenses	420	452
Customer deposits and other liabilities	1,092	1,052
TOTAL CURRENT LIABILITIES	39,483	37,302
TOTAL LIABILITIES	270,686	277,867
TOTAL NET ASSETS AND LIABILITIES	$ 479,283	$ 484,625

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, 2011 and 2010

	(In thousands)	
	2011	**2010**
OPERATING REVENUES		
Charges for services	$ 168,448	$ 166,665
TOTAL OPERATING REVENUES	168,448	166,665
OPERATING EXPENSES		
Purchased power	90,514	94,619
Operations	29,542	24,199
Maintenance	19,896	19,212
Depreciation	16,576	16,191
TOTAL OPERATING EXPENSES	156,528	154,221
OPERATING INCOME (LOSS)	11,920	12,444
NON-OPERATING REVENUE (EXPENSE)		
Investment income	151	96
Interest expense	(11,170)	(10,966)
Amortization of bond issuance costs and discounts	(226)	(739)
Other	1,006	1,223
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(10,239)	(10,386)
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	1,681	2,058
Capital and other contributions	158	1,021
INCREASE (DECREASE) IN NET ASSETS	1,839	3,079
NET ASSETS, BEGINNING OF YEAR	206,758	203,679
NET ASSETS, END OF YEAR	$ 208,597	$ 206,758

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, 2011 and 2010

	(In thousands) 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 172,078	$ 166,981
Cash payments to suppliers for goods or services	(20,615)	(15,862)
Cash payments to employees for services	(24,018)	(21,825)
Cash payments for purchased power	(90,960)	(95,227)
Electric excise tax payments to agency fund	(5,334)	(5,205)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	31,151	28,862
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	158	1,021
Other	689	1,136
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	847	2,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds		27,243
Acquisition and construction of capital assets	(9,618)	(20,343)
Principal paid on long-term debt	(10,495)	(8,045)
Interest paid on long-term debt	(10,573)	(10,456)
Cash paid to escrow agent for refunding		(27,081)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(30,686)	(38,682)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(5,019)	(8,572)
Proceeds from sale and maturity of investment securities	3,572	8,163
Interest received on investments	123	106
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(1,324)	(303)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12)	(7,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,359	123,325
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 115,347	$ 115,359

(Continued)

CITY OF CLEVELAND, OHIO

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

For the Years Ended December 31, 2011 and 2010

	(In thousands) 2011	2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 11,920	$ 12,444
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	16,576	16,191
Changes in assets and liabilities:		
Accounts receivable, net	3,600	15
Unbilled revenue	412	(195)
Due from other City of Cleveland departments, divisions or funds	(53)	47
Materials and supplies, net	46	(471)
Prepaid expenses	23	(7)
Accounts payable	(946)	618
Due to other City of Cleveland departments, divisions or funds	(242)	777
Accrued wages and benefits	(193)	(552)
Other accrued expenses	(32)	(15)
Customer deposits and other liabilities	40	10
TOTAL ADJUSTMENTS	19,231	16,418
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 31,151	$ 28,862

See notes to financial statements. (Concluded)

NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which is effective for the year ended December 31, 2010. The City has determined that GASB Statement No. 51 has no impact on its financial statements as of December 31, 2011. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* was issued in June 2008. The City has determined that GASB Statement No. 53 has no impact on its financial statements as of December 31, 2011.

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

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

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

Basis of Accounting: The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities,* all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) guidance 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 guidance, or 2) continuing to follow new FASB guidance (unless they conflict with GASB pronouncements). The Division has chosen not to apply future FASB guidance.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury Bills, State Treasury Asset Reserve of Ohio (STAROhio), commercial paper, mutual funds 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 2011 and 2010. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2011 and 2010.

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 an item with a useful life in excess of one year and an individual cost of more than $5,000 for land, furniture, fixtures, equipment and vehicles and $10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant	5 to 100 years
Land improvements	15 to 100 years
Buildings, structures and improvements	5 to 60 years
Furniture, fixtures, equipment and vehicles	3 to 60 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 FASB guidance pertaining to capitalization of interest cost for its revenue bonds. This guidance 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 2011 and 2010 total interest costs incurred amounted to $14,715,000 and $14,429,000 respectively, of which $3,533,000 and $3,452,000, respectively, was capitalized, net of interest income of $12,000 in 2011 and $11,000 in 2010.

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

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

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover vacation from one year to the next. 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 base salary rate, with the balance being forfeited.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2011 and 2010 is as follows:

	Interest Rate	Original Issuance	2011	2010
			(In thousands)	
Revenue Bonds:				
Series 1994 A, due through 2013	Zero Coupon	$ 219,105	$ 14,650	$ 21,185
Series 1996, due through 2011	6.00%	123,720		1,050
Series 2001, due through 2016	4.25%-5.50%	41,925	15,980	18,890
Series 2006 A-1, due through 2024	4.25%-5.00%	95,265	95,265	95,265
Series 2006 A-2, due through 2017	5.00%	12,295	12,295	12,295
Series 2008 A, due through 2024	4.00%-4.50%	21,105	21,105	21,105
Series 2008 B-1, due through 2038	3.00%-5.00%	44,705	44,705	44,705
Series 2008 B-2, due through 2038	5.13%-5.40%	27,903	27,903	27,903
Series 2010 , due through 2017	3.00%-5.00%	23,915	23,915	23,915
		$ 609,938	255,818	266,313
Less:				
Unamortized discount-zero coupon bonds			(2,612)	(3,534)
Unamortized premium-current interest bonds (net)			4,764	5,800
Unamortized loss on debt refunding			(15,640)	(18,079)
Current portion			(11,640)	(10,495)
Total Long-Term Debt			$ 230,690	$ 240,005

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 21,185	$	$ (6,535)	$ 14,650	$ 7,325
Series 1996, due through 2011	1,050		(1,050)	-	
Series 2001, due through 2016	18,890		(2,910)	15,980	3,405
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	44,705			44,705	910
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,915			23,915	
Total revenue bonds	266,313	-	(10,495)	255,818	11,640
Accrued wages and benefits	4,341	3,588	(3,781)	4,148	3,635
Total	$ 270,654	$ 3,588	$ (14,276)	$ 259,966	$ 15,275

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2011 and 2010

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2010 are as follows:

	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 25,095	$	$ (3,910)	$ 21,185	$ 6,535
Series 1996, due through 2011	2,045		(995)	1,050	1,050
Series 1998, due through 2017	26,425		(26,425)	-	
Series 2001, due through 2016	22,030		(3,140)	18,890	2,910
Series 2006 A-1, due through 2024	95,265			95,265	
Series 2006 A-2, due through 2017	12,295			12,295	
Series 2008 A, due through 2024	21,105			21,105	
Series 2008 B-1, due through 2038	44,705			44,705	
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010 , due through 2017		23,915		23,915	
Total revenue bonds	276,868	23,915	(34,470)	266,313	10,495
Accrued wages and benefits	4,893	3,667	(4,219)	4,341	3,781
Total	$ 281,761	$ 27,582	$ (38,689)	$ 270,654	$ 14,276

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

	Principal	Interest	Total
		(In thousands)	
2012	$ 11,640	$ 10,386	$ 22,026
2013	12,290	10,188	22,478
2014	12,895	9,943	22,838
2015	12,930	9,289	22,219
2016	13,670	8,632	22,302
2017 - 2021	78,645	32,716	111,361
2022 - 2026	64,771	21,164	85,935
2027 - 2031	20,415	29,050	49,465
2032 - 2036	20,207	29,263	49,470
2037 - 2038	8,355	11,434	19,789
Total	$ 255,818	$ 172,065	$ 427,883

NOTE B – DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

The City has pledged future power system revenues, net of specified operating expenses, to repay $255,818,000 in various Public Power System Revenue Bonds issued in various years since 1994. Proceeds from the bonds provided financing for Public Power System improvements. The bonds are payable from Public Power System net revenues and are payable through 2038. Annual principal and interest payments on the bonds are expected to require less than 72 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $427,883,000. Principal and interest paid for the current year and total net revenues were $21,068,000 and $28,647,000, respectively.

On September 8, 2010, the City issued $23,915,000 of Public Power System Revenue Bonds, Series 2010. Proceeds of these bonds were used to refund all of the outstanding $26,425,000 Public Power System Bonds, Series 1998. Net proceeds of the Series 2010 Bonds in the amount of $27,081,033 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 1998 Bonds on October 8, 2010. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding in order to achieve debt service savings of approximately $3,138,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $3,055,000.

The City entered into a basis swap on a portion of the Series 2006A-1 Bonds when the bonds were issued.

***Interest Rate Swap Transaction*:**

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

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

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

Basis Risk: By entering into a swap based upon the three month LIBOR rate of interest, the City undertook basis risk associated with a change in tax rates and structure. While the average relationship between SIFMA (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. As a result of the turmoil in the financial markets since 2008, the SIFMA/LIBOR ratio has been significantly higher than 67% for extended periods. The payments received from the counterparty could have been less than the amount owed to the counterparty, resulting in an increase in debt service over the fixed rate on the bonds. A reduction in federal income tax rates might also have increased the percentage relationship between SIFMA and LIBOR and may have potentially increased the cost of the financing.

Counterparty Risk: The City selected a highly rated counterparty in order to minimize this risk. However, in September 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. This event did not trigger an automatic termination which would have required a payment on the part of the City. Throughout 2009 and part of 2010, at the City's option, Lehman Brothers and the City were negotiating either the assignment of the swap to another highly rated counterparty or the termination of the swap.

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

On September 15, 2008, Lehman Brothers instituted bankruptcy proceedings. Under the hedge agreement, the City had the right to terminate the swap. The City chose to exercise its right to terminate. After more than a year of negotiations with the Lehman bankruptcy estate, the City and Lehman Brothers consensually agreed to terminate the swap on April 6, 2010. No payments were exchanged as part of the termination and the City agreed to withdraw its claim on the bankruptcy estate.

Fair Value: As stated above, the swap was terminated effective April 6, 2010, with no payment required by either party.

The Division has defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. The division has no defeased debt outstanding at December 31, 2011.

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

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS (Continued)

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, 2011 and 2010, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

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

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

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

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

Construction Fund**:** The proceeds from Series 1991, Series 1994 and Series 2008 Bonds of $12,050,000, $79,386,000, and $72,608,000, 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, 2011 and 2010, the Division had $47,456,000 and $25,689,000, respectively, of outstanding commitments for future constructions that will be funded by available bond proceeds and operating revenue. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding bonds to the extent that amounts in all other funds are insufficient. No payment needs to be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

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

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: At December 31, 2011 and 2010, the Division's carrying amount of deposits totaled $17,695,000 and $7,169,000, respectively, and the Division's bank balances totaled $18,132,000 and $7,905,000, respectively. The differences represent positions in pooled bank accounts 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.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

At year end, the Division's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; State Treasurer Asset Reserve Fund (STAROhio); commercial paper; US Government Money Market Mutual Funds; guaranteed investment contracts; manuscript debt; bonds and other State of Ohio obligations; certificates of deposit; 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, commercial paper, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the banks' commercial or trust department and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

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

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

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

Credit Risk: The Division's investments as of December 31, 2011 and 2010 include U.S. Agency Obligations, U.S. Treasury Bills, STAROhio, commercial paper and mutual funds. The U.S. Agency Obligations and U.S. Treasury Bills are rated AA+ by Standard and Poor's (S&P). Investments in both STAROhio and mutual funds carry a rating of AAAm, which is the highest money market fund rating given by S&P. The investment in commercial paper is rated A-1 by S&P.

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

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to help minimize the concentration of credit risk. The Division had the following investments at December 31, 2011 and 2010, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2011 Fair Value	2011 Cost	2010 Fair Value	2010 Cost	Investment Maturities Less than One Year
			(In thousands)		
U.S. Agency Obligations	$ 5,059	$ 5,019	$	$	$ 5,059
U.S. Treasury Bills			3,572	3,571	
STAROhio	38,322	38,322	48,461	48,461	38,322
Commercial Paper	1,131	1,131			1,131
Investment in Mutual Funds	58,199	58,199	59,729	59,729	58,199
Total Investments	102,711	102,671	111,762	111,761	102,711
Total Deposits	17,695	17,695	7,169	7,169	17,695
Total Deposits and Investments	$ 120,406	$ 120,366	$ 118,931	$ 118,930	$ 120,406

As of December 31, 2011, the investments in U.S. Agency Obligations, STAROhio, commercial paper and mutual funds are approximately 5%, 37%, 1% and 57%, respectively, of the Division's total investments. As of December 31, 2010, the investments in U.S. Treasury Bills, STAROhio and mutual funds are approximately 3%, 43% and 54%, respectively, of the Division's total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$	$	$ 4,863
Construction in progress	42,642	14,132	(4,725)	52,049
Total capital assets, not being depreciated	47,505	14,132	(4,725)	56,912
Capital assets, being depreciated:				
Land improvements	305			305
Utility plant	472,178	1,743		473,921
Buildings, structures and improvements	18,699	1,381		20,080
Furniture, fixtures, equipment and vehicles	78,502	1,602	(108)	79,996
Total capital assets, being depreciated	569,684	4,726	(108)	574,302
Less: Accumulated depreciation	(282,694)	(16,576)	108	(299,162)
Total capital assets being depreciated, net	286,990	(11,850)	-	275,140
Capital assets, net	$ 334,495	$ 2,282	$ (4,725)	$ 332,052

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NOTE D - CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1, 2010	Recategor-ization *	Additions	Reductions	Balance December 31, 2010
			(In thousands)		
Capital assets, not being depreciated:					
Land	$ 4,875	$ (12)	$	$	$ 4,863
Construction in progress	28,759		24,226	(10,343)	42,642
Total capital assets, not being depreciated	33,634	(12)	24,226	(10,343)	47,505
Capital assets, being depreciated:					
Land improvements	2,759	(2,454)			305
Utility plant	466,242	(129)	6,065		472,178
Buildings, structures and improvements	43,335	(24,636)			18,699
Furniture, fixtures, equipment and vehicles	46,781	27,231	4,512	(22)	78,502
Total capital assets, being depreciated	559,117	12	10,577	(22)	569,684
Less: Accumulated depreciation	(266,526)		(16,191)	23	(282,694)
Total capital assets being depreciated, net	292,591	12	(5,614)	1	286,990
Capital assets, net	$ 326,225	$ -	$ 18,612	$ (10,342)	$ 334,495

* Some Capital Assets were moved to more exact categories when assets were entered into the City's new Advantage Accounting System as of January 1, 2010.

Commitments: The Division has outstanding commitments of approximately $51,775,000 and $38,954,000 for future capital expenditures at December 31, 2011 and 2010, 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 - DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System**:** All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2011, 2010 and 2009. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2011, 2010 and 2009 were $2,012,000, $1,939,000 and $1,789,000 each year, respectively. The required payments due in 2011, 2010 and 2009 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2011, 2010 and 2009. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates used to fund postemployment benefits were 4.00% for members of the Traditional Plan in 2011, 6.05% for members of the Combined Plan in 2011, 5.50% from January 1, 2010 through February 28, 2010 and 5.00% from March 1, 2010 through December 31, 2010 and 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009. The portion of employer contributions allocated to health care beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during 2012. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions to OPERS to fund postemployment benefits were $804,000 in 2011, $1,105,000 in 2010 and $1,294,000 in 2009.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: In November 2009, participants in the American Municipal Power Generating Station (AMP) voted to terminate development of the 1,000 MW coal-fired generating station that was to be located on the Ohio River in Meigs County, Ohio. The Division was one of 81 member participants in the project and had committed to receive an 80 MW share of the project's output.

The Division and the other members participated in the project through "take or pay" contracts with AMP and are obligated to pay for the project's sunk costs based on each member's allocation. The Division's share of the incurred project costs is $13,084,418. AMP anticipates that any such costs that are not recovered through participation in a replacement project will be financed by AMP and recovered from the AMP participants over a period of time yet to be determined. AMP has rolled over a portion of the Meigs County facility cost into the Fremont Energy Center (Fremont), a new natural gas generating station that AMP purchased in July 2011. AMP has provided the Division a Development Cost Credit of $6,281,769. These credits cut the Division's risk of loss in half. None of these credits have been recorded in the Division's financial statements through December 31, 2011.

Cleveland City Council passed legislation in 2011 allowing the Division to pass through 50% of the costs to customers in their monthly electricity bills over time. Through this legislation, the Division will purchase power from the Fremont project, pay about half of its allocable share in AMP costs as power costs purchased from Fremont and include the costs in bills to customers over time. The legislation directs the Division to pay its remaining share of the costs due to AMP, estimated at $3,401,325, from operating funds over a period of time yet to be determined.

The Division has not paid any monies to AMP towards the project's sunk costs. Furthermore, the Division has not reported the stranded costs in the financial statements as the Division's communication received from AMP to date is that the actual amount of incurred costs that are not recoverable from the vendor is undeterminable.

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

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division carries insurance to cover particular liabilities and property protection. Otherwise, the Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2011 or 2010. There were no significant decreases in any insurance coverage in 2011. In addition, there were no insurance settlements in excess of insurance coverage during the past three years.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

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

NOTE H - RELATED PARTY TRANSACTIONS

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

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In thousands)	
City Administration	$ 1,054	$ 1,119
Telephone Exchange	565	604
Division of Water	427	334
Utilities Administration and Fiscal Control	871	780
Motor Vehicle Maintenance	630	367

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 $746,000 and $1,159,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE J - KILOWATT PER HOUR TAX

In May 2001, the Division started billing its customers the electric deregulation kilowatt-hour tax according to the laws of the State of Ohio. This law requires the Division to remit the proceeds to the City's General Fund, except for any proceeds attributable to sales outside the City which are remitted to the State of Ohio. The Division billed $5,308,000 and $5,221,000 for this tax in 2011 and in 2010 respectively, of which $5,131 and $5,372 was remitted to the State. As noted previously, City Council passed Ordinance No. 1768-07, which required the General Fund to remit 50% of the proceeds back to the Division in 2008. However, City Council subsequently passed Ordinance No. 1248-09, which allocated 100% of the proceeds to the General Fund in 2009 and 2010. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance during calendar year 2011 and will also retain 100% during 2012.

NOTE K – INCREMENTAL CHARGES

In 2000, Cleveland City Council passed Ordinance No. 910-98, which increased rates to CPP customers. The rate increase was originally scheduled to expire December 31, 2005, but was extended through legislation several times, most recently to June 30, 2012. The legislation originally restricted the use of the rate increase proceeds to the payment of bonded indebtedness. In recent years, City Council authorized additional uses and in December 2005, Council removed the restriction related to bond indebtedness. The Division retained a rates consultant in 2011 to support the Division's request to make the incremental charge permanent. The incremental charges billed were $13,670,000 and $13,125,000 in 2011 and 2010, respectively.

NOTE L – SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

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

Through December 31, 2011, the Division received $5,655,000 as reimbursements for SECA payments. The Division is also pursuing an additional reimbursement of $1,600,000 from MISO TOs and another $1,200,000 from BG&E and PJM, which they are contesting.

The FERC has issued a SECA order requiring compliance filing that the Division did, but so far it has not acted on the compliance filings. There have been appeals of the SECA orders and the parties involved have been negotiating the briefing schedule.

NOTE M – SUBSEQUENT EVENT

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Bonds, Series 2012. Proceeds of these bonds were used to refund all of the outstanding $15,980,000 Public Power System Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the 2001 bond fund in the total amount of $16,293,627 were placed in an irrevocable escrow account to pay the principal and interest on the refunded 2001 Bonds on March 26, 2012. The City completed the refunding in order to achieve debt service savings of approximately $1,169,000 or an economic gain (the difference between the present values of the old and new debt service payments) of approximately $1,148,000 or 7.2%. These bonds were purchased by Wells Fargo at a fixed rate of 2% and were not resold in a public offering.