



**CITY OF CLEVELAND - DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF CLEVELAND - DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
CUYAHOGA COUNTY**

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Balance Sheets	4
Statements of Income and Retained Earnings	7
Statements of Cash Flows	8
Notes to Financial Statements	10

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REPORT OF INDEPENDENT ACCOUNTANTS

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, 2001 and December 31, 2000. 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 are not intended to present fairly the financial position of the City of Cleveland and the results of the City of Cleveland's operations and cash flows of its proprietary fund types 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, 2001 and December 31, 2000, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

August 16, 2002

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
BALANCE SHEETS
December 31, 2001 and 2000

		<i>(in thousands of dollars)</i>	
		December 31,	
		2001	2000
ASSETS			
PROPERTY, PLANT AND EQUIPMENT			
Land		\$ 4,863	\$ 4,863
Land improvements		2,304	2,134
Utility plant in service		338,490	329,828
Buildings, structures and improvements		41,209	42,453
Furniture, fixtures and equipment		28,297	25,127
		<hr/>	<hr/>
		415,163	404,405
Less: accumulated depreciation		137,740	120,540
		<hr/>	<hr/>
		277,423	283,865
Construction in progress		15,474	12,936
		<hr/>	<hr/>
	PROPERTY, PLANT AND EQUIPMENT, NET	292,897	296,801
RESTRICTED ASSETS			
Cash and cash equivalents		20,635	14,134
Investments at market			8,102
Accrued interest receivable		25	103
	TOTAL RESTRICTED ASSETS	<hr/>	<hr/>
		20,660	22,339
UNAMORTIZED BOND ISSUANCE EXPENSE			
		2,787	2,748
CURRENT ASSETS			
Cash and cash equivalents		39,045	24,128
Investments at market			17,529
Accounts receivable-net of allowance for doubtful accounts of \$2,543,000 in 2001 and \$536,000 in 2000		24,492	22,098
Unbilled revenue		1,616	2,179
Due from other City of Cleveland departments, divisions or funds		6,836	1,486
Materials and supplies-at average cost, net of allowance for obsolescence of \$1,099,000 in 2001 and \$1,099,000 in 2000		2,926	3,065
Prepaid expenses		54	54
Accrued interest receivable			264
	TOTAL CURRENT ASSETS	<hr/>	<hr/>
		74,969	70,803
	TOTAL ASSETS	<hr/> <hr/>	<hr/> <hr/>
		\$ 391,313	\$ 392,691

	<i>(in thousands of dollars)</i>	
	December 31,	
	2001	2000
EQUITY AND LIABILITIES		
EQUITY		
Contributed capital	\$ 12,183	\$ 12,183
Retained earnings	135,282	127,994
TOTAL EQUITY	<u>147,465</u>	<u>140,177</u>
LIABILITIES		
LONG TERM DEBT-excluding amounts due within one year:		
Mortgage revenue bonds	223,102	227,099
PAYABLE FROM RESTRICTED ASSETS	278	560
CURRENT LIABILITIES		
Current portion of long-term debt	6,620	6,855
Accounts payable	5,969	9,770
Due to other City of Cleveland departments, divisions or funds	583	656
Due to other governments	444	
Accrued interest payable	1,953	1,575
Accrued wages and benefits	3,973	4,649
Accrued expenses and other liabilities	926	1,350
TOTAL CURRENT LIABILITIES	<u>20,468</u>	<u>24,855</u>
TOTAL EQUITY AND LIABILITIES	<u>\$ 391,313</u>	<u>\$ 392,691</u>

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 2001 and 2000

		<i>(in thousands of dollars)</i>	
		For the	
		Years Ended December 31,	
		2001	2000
OPERATING REVENUES			
Charges for services		\$ 132,095	\$ 134,152
TOTAL OPERATING REVENUES		<u>132,095</u>	<u>134,152</u>
OPERATING EXPENSES			
Purchased power		65,283	68,597
Operations		16,133	13,403
Maintenance		16,418	22,889
Depreciation		16,296	14,885
TOTAL OPERATING EXPENSES		<u>114,130</u>	<u>119,774</u>
	OPERATING INCOME	17,965	14,378
NON-OPERATING INCOME (EXPENSE)			
Interest income		2,537	3,255
Interest expense		(12,423)	(13,809)
AEP refund per FERC ruling			2,864
Amortization of bond issuance expense and discount		(2,374)	(2,508)
Workers compensation refund		617	
Other		966	2,236
TOTAL NON-OPERATING INCOME (EXPENSE), NET		<u>(10,677)</u>	<u>(7,962)</u>
	NET INCOME	7,288	6,416
RETAINED EARNINGS, beginning of year		127,994	121,578
RETAINED EARNINGS, end of year		<u>\$ 135,282</u>	<u>\$ 127,994</u>

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 124,280	\$ 134,426
Cash payments to suppliers for goods or services	(13,112)	(16,049)
Cash payments to employees for services	(21,578)	(21,708)
Cash payments for purchased power	(66,366)	(67,701)
Cash refunds of customer deposits, net	(424)	139
NET CASH PROVIDED BY OPERATING ACTIVITIES	22,800	29,107
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Workers compensation refund	617	
AEP refund per FERC-ruling		2,864
Other		2,235
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	617	5,099
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(12,087)	(13,804)
Proceeds from refunding bond issue	43,036	
Principal paid on long-term debt	(6,855)	(6,465)
Cash paid to escrow agent for refunding	(43,743)	
Interest paid on long-term debt	(11,133)	(11,669)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(30,782)	(31,938)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(14,441)	(14,576)
Proceeds from sale and maturity of investment securities	40,387	17,782
Interest received on investments	2,837	3,375
NET CASH PROVIDED BY INVESTING ACTIVITIES	28,783	6,581
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,418	8,849
Cash and cash equivalents, beginning of year	38,262	29,413
Cash and cash equivalents, end of year	<u>\$ 59,680</u>	<u>\$ 38,262</u>

(in thousands of dollars)
For the
Years Ended December 31,
2001 2000

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	\$		\$
OPERATING INCOME	17,965		14,378
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	16,296		14,885
Change in assets and liabilities:			
Accounts receivable, net	(2,284)		(3,070)
Unbilled revenue	563		(358)
Due from other City of Cleveland departments, divisions or funds	(5,350)		(702)
Materials and supplies, net	139		2,402
Accounts payable	(3,801)		2,072
Due to other City of Cleveland departments, divisions or funds	(72)		(2,459)
Due to other governments	444		
Accrued wages and benefits	(676)		1,620
Accrued expenses and other liabilities	(424)		339
TOTAL ADJUSTMENTS	4,835		14,729
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 22,800		\$ 29,107

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2001 and 2000

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. To provide electrical services to its customers, the Division purchases electrical power under the terms of various short-term, limited-term and long-term contracts. The following is a summary of the more significant accounting policies.

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 and commercial customers based upon actual consumption. Electricity rates are authorized by City Council and billings are made on a cycle basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board (“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 investing 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, STAROhio (See Note I) 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 values of investments at year-end are based on market quotes, where available.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2001 and 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 2001 and 2000. 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, 2001 and 2000.

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.

Fixed Assets and Depreciation: Property, plant and equipment are stated on the basis of historical cost, or if contributed, at fair market value at the date received. Depreciation is determined by allocating the cost of fixed 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 of five years or more and a value equal to or greater than \$5,000, with the exception of computer equipment and software which have a value equal to or greater than \$1,500. When property is disposed of, 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 in service	6 to 100 years
Buildings, structures and improvements	10 to 65 years
Furniture, fixtures and equipment	5 to 33 years

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62, "Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants", for its Mortgage Revenue Bonds. This statement requires capitalization of interest cost of the 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 2001 and 2000 total interest expense incurred amounted to \$12,460,000 and \$13,819,000 respectively, which was reduced by \$37,000 and \$10,000, respectively, of interest expense capitalized. Total interest income earned amounted to \$2,543,000 and \$3,476,000, respectively, which was reduced by \$5,900 and \$221,000, respectively, of interest income capitalized.

Bond Issuance Expense and Discount and Unamortized Loss on Debt Refunding: Bond issuance expense is carried on the Division's books as deferred expense and unamortized bond discounts are netted against long-term debt. Both are amortized over the lives of the applicable bonds. Unamortized loss on debt refunding is netted against long-term debt and is amortized over the shorter life of the old bond or the new bond.

Contributed Capital: Contributed capital represents federal grants and contributions from the City of Cleveland which are not subject to mandatory repayment.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Interest Rate	Outstanding Principal Amount	
		2001	2000
		<i>(in thousands of dollars)</i>	
Cleveland Public Power Mortgage Revenue Bonds:			
Series 1991, due through 2017	5.85%-7.00%	\$ -	\$ 43,145
Series 1994, due through 2013	7.00%	16,850	21,850
Series 1994, Zero Coupon bonds due through 2015		48,335	48,335
Series 1996, due through 2024	5.00%-6.00%	122,380	122,380
Series 1998, due through 2017	4.00%-5.25%	44,760	44,760
Series 2001, due through 2016	3.55%-5.50%	41,925	
		\$ 274,250	\$ 280,470
Less:			
Unamortized discount - zero coupon bonds		(20,778)	(22,391)
Unamortized discount - current interest bonds		(5,880)	(8,044)
Unamortized loss on debt refunding		(17,870)	(16,081)
Current portion		(6,620)	(6,855)
Total Long-Term Debt		\$ 223,102	\$ 227,099

Minimum principal and interest payments on mortgage revenue bonds for the next five years and thereafter are as follows:

	Principal	Interest	Total
	<i>(in thousand of dollars)</i>		
2002	\$ 6,620	\$ 11,803	\$ 18,423
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
Thereafter	229,620	101,946	331,566
	\$ 274,250	\$ 154,490	\$ 428,740

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES

DIVISION OF CLEVELAND PUBLIC POWER

NOTES TO FINANCIAL STATEMENTS-Continued

For the Years Ended December 31, 2001 and 2000

NOTE B-LONG-TERM DEBT-Continued

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 Division’s financial statements. The aggregate amount of defeased debt outstanding at December 31, 2001 and December 31, 2000 is as follow:

<u>Bond Issue</u>	<u>2001</u>	<u>2000</u>
	<i>(in thousand of dollars)</i>	
Series 1994	\$ 131,440	\$ 131,440
Series 1991		12,170

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 due in that year. As of December 31, 2001, 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.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE B - LONG-TERM DEBT - Continued

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

Renewal and Replacement Fund: The balance in this fund is maintained at \$1,000,000 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, 2001 and 2000, the Division had \$14,157,000 and \$18,750,000, 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-EMPLOYEE'S RETIREMENT PLAN

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS 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. PERS issues a stand-alone financial report which may be obtained by writing to the Public 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 2001 and 2000 employer pension contribution rates for the Division were 13.55 and 10.84 percent of covered payroll, respectively. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$2,323,000, \$2,417,000, and \$2,068,000, respectively. The required amounts have been contributed for 2001, 2000, and 1999.

NOTE D-OTHER POST EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) 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 Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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 411,076. The Division's actual contributions for 2001 which were used to fund postemployment benefits were \$737,177. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

NOTE E-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, management believes the plant will remain idle. The Division continued its past practice of depreciating the plant at rates which completed the amortization of the plant in 1999.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE F-RELATED PARTY TRANSACTIONS

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

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual usage or on a reasonable pro rata basis. The more significant of these costs, included in the statements of income, for the years ended December 31 were as follows:

	2001	2000
	<i>(in thousands of dollars)</i>	
City administration	\$ 950	\$ 950
Motor vehicle maintenance	336	423
Employee and other services provided by the Division of Water	387	325
Utilities Administration and Fiscal Control	443	443
Telephone exchange	291	293
Data Processing	151	

NOTE G-CONTINGENCIES

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.

NOTE H-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. For the years ended December 31, 2001 and 2000, the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$1,441,000 and \$1,352,000, respectively.

NOTE I- DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at years ended December 31, 2001 and December 31, 2000 totaled \$121,000 and \$368,000 and the Division's bank balances were \$555,000 and \$333,000. The differences represent warrants payable and normal reconciling items. These amounts were insured or collateralized with securities held by the City or by its agent in the City's name.

Investments: The City's investment policies are governed by state statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; State Treasury Asset Reserve Fund (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 State Treasury

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
 DIVISION OF CLEVELAND PUBLIC POWER
 NOTES TO FINANCIAL STATEMENTS-Continued
 For the Years Ended December 31, 2001 and 2000

NOTE I- DEPOSITS AND INVESTMENTS - Continued

Asset Reserve Fund (STAROhio). Generally, investments are recorded in segregated accounts by way of book entry through the bank’s commercial or trust department and are kept at the Federal Reserve Bank in the depository institution’s 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 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 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.

Category3: includes uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the City’s name.

The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9:

Type of Investment	Category	2001	2001	2000	2000
		Fair Value	Cost	Fair Value	Cost
<i>(in thousands of dollars)</i>					
U.S. Agency Obligations	1	\$ -	\$ -	\$ 17,438	\$ 17,428
U.S. Treasury Bills	2	3,078	3,087	14,803	14,712
State Treasury Asset					
Reserve Fund (STAROhio)	n/a	41,329	41,329	25,499	25,499
Investment in Mutual Funds	n/a	15,152	15,152	5,785	5,785
Total Investments		\$ 59,559	\$ 59,568	\$ 63,525	\$ 63,424
Total Deposits		121	121	368	368
Total Deposits and Investments		\$ 59,680	\$ 59,689	\$ 63,893	\$ 63,792

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE I-DEPOSITS AND INVESTMENTS-Continued

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. 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 as defined by GASB Statement No. 3.

NOTE J - AEP REFUND PER FERC RULING

On January 12, 2000, the Federal Energy Regulatory Commission (FERC) granted American Electric Power Services (AEP) permission to issue an interim refund for amounts collected in excess of a load ratio share of annual revenue requirements. This resulted in a refund to Cleveland Public Power in the amount of \$2,864,000 which includes interest of \$779,000.

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 \$3,780,000 for this tax in 2001, of which \$8,841 was remitted to the state, fifteen percent of the difference is attributable to the General Fund, with the balance to be used for accelerated debt reduction by Cleveland Public Power.