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, 2013 and 2012

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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:

Report on the Financial Statements

We have audited the accompanying 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, 2013 and 2012 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note A to the basic financial statements, the financial statements present only the Division and do not purport to, and do not present fairly the financial position of the City of Cleveland as of December 31, 2013 and 2012, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note M to the basic financial statements, in 2013, the Division adopted GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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 26, 2014

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, 2013 and 2012. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 14.

The Division was created in 1906 and charged with the responsibility for 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's long-term base load supply will include a mix of power provided by participation in American Municipal Power (AMP) Inc. hydroelectric projects, the Fremont Energy Center, the Prairie State Energy Campus project and new/emerging alternative energy technologies.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The Division's net position was $208,402,000, $208,545,000 and $205,650,000 at December 31, 2013, 2012 and 2011, respectively. Of these amounts, $41,764,000, $49,824,000 and $55,289,000 are unrestricted net position at December 31, 2013, 2012 and 2011, respectively, that may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net position decreased by $143,000 in 2013 and increased by $2,895,000 in 2012. Total net position at December 31, 2012 and 2011 was decreased by $2,646,000 and $2,947,000 respectively, when unamortized bond issuance costs were removed from the Statements of Net Position due to restatement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- Operating revenue increased by $5,115,000 or 3.1%. Purchased power increased by $5,141,000 or 5.4% and total operating expenses increased by $5,329,000 or 3.5% for 2013. In addition, investment income decreased by $21,000 or 26.3%, interest expense increased by $346,000 or 3.6% and amortization of bond premiums and discounts decreased by $10,000 or 12.8%.

- During 2013, the Division had an increase in capital assets, net of accumulated depreciation of $5,394,000 or 1.6%. The principal capital expenses in 2013 were for the Lake Road Project. These additions were offset by current year depreciation.

- The Division's total long-term bonded debt decreased by $12,710,000 and $10,705,000 for the years ended December 31, 2013 and 2012, respectively. The decrease in both years is attributed mainly 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). Seams are price inefficiencies arising from operational or rate schedule differences in markets that cross borders. 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, 2013. The remaining amounts will be billed to customers in future years.

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 14 – 19 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION

Provided below is condensed statement of net position information for the Division as of December 31, 2013, 2012 and 2011.

	2013	Restated 2012	Restated 2011
		(In thousands)	
Assets:			
Capital assets, net of accumulated depreciation	$ 341,021	$ 335,627	$ 332,052
Restricted assets	46,456	54,862	59,031
Current assets	79,284	80,470	85,253
Deferred outflows of resources	12,459	14,189	15,640
Total assets and deferred outflows of resources	479,220	485,148	491,976
Net Position and Liabilities:			
Net Position:			
Net investment in capital assets	162,124	153,436	145,158
Restricted for capital projects	473	1,309	1,309
Restricted for debt service	4,041	3,976	3,894
Unrestricted	41,764	49,824	55,289
Total net position	208,402	208,545	205,650
Liabilities:			
Long-term obligations	234,806	242,658	252,791
Current liabilities	36,012	33,945	33,535
Total liabilities	270,818	276,603	286,326
Total net position and liabilities	$ 479,220	$ 485,148	$ 491,976

***Restricted assets**:* The Division's restricted assets decreased by $8,406,000 and $4,169,000 in 2013 and 2012 respectively. The decreases for both years are primarily related to use of revenue bond funds for capital project expenses.

Current assets: The Division's current assets decreased by $1,186,000 in 2013 and decreased by $4,783,000 in 2012, respectively. The decrease in 2013 is mainly due to a decrease of $10,235,000 in cash and cash equivalents and a decrease of $1,012,000 in materials and supplies, offset by an increase of $10,063,000 in recoverable costs of purchased power, of which $3,045,000 is for Energy Adjustment Charge, $5,144,000 for SECA and $1,874,000 for AMP. For additional information on SECA see Note L.

The decrease in 2012 is mainly due to a decrease in net accounts receivable of $3,155,000 as a result of decreased billings. There was also a net decrease of $1,348,000 in cash and cash equivalents and investments as well as a decrease of restricted cash and cash equivalents of $620,000. These items were offset by a $755,000 increase in due from other City of Cleveland departments, divisions and funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

Capital assets: The Division's capital assets as of December 31, 2013 amounted to $341,021,000 (net of accumulated depreciation). The total increase in the Division's net capital assets for the current year was $5,394,000. A summary of the activity in the Division's capital assets during the year ended December 31, 2013 is as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
	(In thousands)			
Land	$ 5,249	$	$ (220)	$ 5,029
Land improvements	305			305
Utility plant	495,234	22,281	(4,759)	512,756
Buildings, structures and improvements	21,413	6	(71)	21,348
Furniture, fixtures, equipment and vehicles	81,036	2,215	(1,058)	82,193
Construction in progress	46,583	20,944	(19,440)	48,087
Total	649,820	45,446	(25,548)	669,718
Less: Accumulated depreciation	(314,193)	(18,106)	3,602	(328,697)
Capital assets, net	$ 335,627	$ 27,340	$ (21,946)	$ 341,021

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

A summary of the activity in the Division's capital assets during the year ended December 31, 2012 is as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
	(In thousands)			
Land	$ 4,863	$ 386	$	$ 5,249
Land improvements	305			305
Utility plant	473,921	21,313		495,234
Buildings, structures and improvements	20,080	1,333		21,413
Furniture, fixtures, equipment and vehicles	79,996	2,980	(1,940)	81,036
Construction in progress	52,049	18,246	(23,712)	46,583
Total	631,214	44,258	(25,652)	649,820
Less: Accumulated depreciation	(299,162)	(16,971)	1,940	(314,193)
Capital assets, net	$ 332,052	$ 27,287	$ (23,712)	$ 335,627

The principal capital additions during 2013 included the following:

- Lake Road Project - $7,737,000
- Flats East Bank - $1,193,000
- Emergency Transformer Repair - $1,018,000
- 800 MGHz Radio System - $592,000
- New Vehicles - $1,086,000

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 $2,067,000 in 2013 is mainly due to the increase of $1,894,000 in accounts payable. The rise is primarily attributed to increased purchased power costs.

Long-term obligations: The long-term obligation decrease of $7,852,000 in 2013 is mainly attributed to scheduled debt service payments, offset by an increase in other of $3,498,000.

At December 31, 2013, the Division had total bonded debt outstanding of $232,403,000. 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. In 2006, 2010 and 2012, the Division issued bonds to refinance a portion of its long-term debt. This outstanding debt is being retired in accordance with repayment schedules through 2038.

Accreted interest payable will increase every year until 2025 due to interest accruing on the Division's 2008B Capital Appreciation Bonds (CABs). Payments of the accreted amount will begin in 2025.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2013, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

	Balance January 1, 2013	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2013
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 7,325	$	$	$ (7,325)	$ -
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	43,795			(940)	42,855
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,915			(445)	23,470
Revenue Bonds 2012	13,510			(4,000)	9,510
Total	$ 245,113	$ -	$ -	$ (12,710)	$ 232,403

The activity in the Division's debt obligations outstanding during the year ended December 31, 2012, is summarized in the following table (excluding unamortized discounts, premiums and accreted interest):

	Balance January 1, 2012	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2012
			(In thousands)		
Revenue Bonds:					
Mortgage Revenue Bonds 1994 A	$ 14,650	$	$	$ (7,325)	$ 7,325
Revenue Bonds 2001	15,980		(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			(910)	43,795
Revenue Bonds 2008 B-2	27,903				27,903
Revenue Bonds 2010	23,915				23,915
Revenue Bonds 2012		15,325		(1,815)	13,510
Total	$ 255,818	$ 15,325	$ (15,980)	$ (10,050)	$ 245,113

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED STATEMENT OF NET POSITION INFORMATION (Continued)

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

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

Effective November 26, 2013 Standard & Poor's Ratings Services changed its outlook on Cleveland Public Power's bonds from stable to negative.

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 2013, 2012 and 2011 was 130%, 143% and 140%, respectively. Additional information on the Division's long-term debt can be found in Note B to the basic financial statements on pages 25 - 29.

Net Position: Net position serves as a useful indicator of a government's financial position. In the case of the Division, assets and deferred outflows exceeded liabilities by $208,402,000, $208,545,000 and $205,650,000 at December 31, 2013, 2012 and 2011, respectively.

Of the Division's net position at December 31, 2013, $162,124,000 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, $473,000 denotes funds restricted for use in capital projects and $4,041,000 represents resources subject to debt service restrictions. The remaining $41,764,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

Of the Division's net position at December 31, 2012, $153,436,000 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 $3,976,000 represents resources subject to debt service restrictions. The remaining $49,824,000 reflects unrestricted funds available to meet the Division's ongoing obligations to customers and creditors.

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

The Division decreased its net position by $143,000 in 2013, compared to a $2,895,000 increase in net position in 2012. Provided below are key elements of the Division's results of operations as of and for the years ended December 31, 2013, 2012 and 2011:

	2013	Restated 2012	Restated 2011
		(In thousands)	
Operating revenues	$ 170,342	$ 165,227	$ 168,448
Operating expenses	159,287	153,958	156,528
Operating income (loss)	11,055	11,269	11,920
Non-operating revenue (expense):			
Investment income	59	80	151
Interest expense	(10,023)	(9,677)	(11,170)
Amortization of bond premiums and discounts	68	78	120
Gain (loss) on disposal of assets	(2,224)		
Other	536	164	1,006
Total non-operating revenue (expense), net	(11,584)	(9,355)	(9,893)
Income (loss) before capital and other contributions	(529)	1,914	2,027
Capital and other contributions	386	981	158
Increase (decrease) in net position	(143)	2,895	2,185
Net position, beginning of year	208,545	205,650	203,465
Net position, end of year	$ 208,402	$ 208,545	$ 205,650

- In 2013, operating revenues increased by $5,115,000, mostly from deferred costs carried through to revenue in the Energy Adjustment Charge. There was a 0.2% increase in KWH sold.

- In 2012, operating revenues decreased by $3,221,000. This decrease is related to cooler summer weather. The summer of 2011 was the second warmest summer on record. The weather normalized in 2012.

- In 2013, the cost of purchased power increased $5,141,000 due to the increased price of purchased power on the market. This increase in the cost of purchased power is passed through to customers via an Energy Adjustment Charge.

- In 2012, the cost of purchased power increased $5,274,000 due to the increased price of purchased power on the market. This increase in the cost of purchased power is passed through to customers via an Energy Adjustment Charge.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

- Operating expenses decreased by $5,329,000 in 2013. The majority of this is due to an increase of $2,428,000 in wages and benefits that were capitalized. The Division is using the Safe Harbor method in 2013 to calculate this; in 2012 an itemized figure was used. This was offset by an increase in Worker's Compensation expense in 2013 of $849,000, other supplies increased by $2,565,000, other contractual increased by $338,000 and professional services decreased by $648,000.

- In 2012, operating expenses decreased by $2,570,000. This decrease is mainly related to street light upgrades and higher raw materials costs in 2011.

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. The Division has concluded its 5-year Strategic Business Plan (SBP) for the period of 2007 – 2012 and is currently evaluating strategic options to address competitive factors likely to impact the division over the period of 2013-2018.

The Capacity Expansion Program has been an ongoing project for the Division. Two major components remain and are expected to be completed in the future. The Capacity Expansion Program is designed to support and improve the Division's electric system reliability and provide for future load growth opportunities.

<u>Southern Project</u>: This component of the Capacity Expansion Program includes the extension of the southern 138kV transmission system and the addition of a 138/13.8kV 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. CPP is currently bidding out the construction of the substation, which is anticipated to be in service in summer 2015. An underground section of the transmission line is currently under construction and CPP is acquiring easements for the overhead section. This project is anticipated to be in service in spring 2016.

<u>Lake Road Project</u>: This 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 underway with an anticipated in-service date of 2nd quarter 2014.

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

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 is reducing 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 approximately 50 MW from the AMP Inc.'s hydroelectric projects, which are expected to be in operation in 2014-2015. The Division purchases 25 MW from AMP Inc.'s share of the Prairie State Energy Campus project, an Illinois coal-fired generating plant that came on-line in November 2012. The Division also purchases 60-80 MW of the Fremont Energy Center, a 707 MW natural gas-fired generating plant, which came on-line in January 2012. Like other power expenses, 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 through the Energy Adjustment Charge.

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 8 years to September 2016, 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 future increases in CEI's 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. In accordance to Ordinance No. 1560-10 passed in November 2010, the General Fund retained 100% of the tax remittance in 2011 and also retained 100% during the calendar year 2012. Under Ordinance No. 193-13 passed in March 2013, the General Fund retained 100% of the tax remittance in 2013 and will also retain 50% during the calendar year 2014.

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
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	(*In thousands*) 2013	Restated 2012
ASSETS		
CAPITAL ASSETS		
Land	$ 5,029	$ 5,249
Land improvements	305	305
Utility plant	512,756	495,234
Buildings, structures and improvements	21,348	21,413
Furniture, fixtures, equipment and vehicles	82,193	81,036
	621,631	603,237
Less: Accumulated depreciation	(328,697)	(314,193)
	292,934	289,044
Construction in progress	48,087	46,583
CAPITAL ASSETS, NET	341,021	335,627
RESTRICTED ASSETS		
Cash and cash equivalents	46,456	51,122
Investments		3,739
Accrued interest receivable		1
TOTAL RESTRICTED ASSETS	46,456	54,862
CURRENT ASSETS		
Cash and cash equivalents	47,862	58,097
Restricted cash and cash equivalents	1,415	1,310
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of $10,522,000 in 2013 and $9,407,000 in 2012	6,962	6,903
Recoverable costs of purchased power	10,063	
Unbilled revenue	2,346	1,931
Due from other City of Cleveland departments, divisions or funds	2,655	3,313
Materials and supplies - at average cost	7,814	8,826
Prepaid expenses	167	90
TOTAL CURRENT ASSETS	79,284	80,470
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on debt refunding	12,459	14,189
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 479,220	$ 485,148

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	(In thousands)	
		Restated
	2013	**2012**
NET POSITION AND LIABILITIES		
NET POSITION		
Net investment in capital assets	$ 162,124	$ 153,436
Restricted for capital projects	473	1,309
Restricted for debt service	4,041	3,976
Unrestricted	41,764	49,824
TOTAL NET POSITION	208,402	208,545
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year		
Revenue bonds	221,127	234,391
Accreted interest payable	9,686	7,768
Accrued wages and benefits	495	499
Other	3,498	
TOTAL LONG-TERM OBLIGATIONS	234,806	242,658
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	13,195	12,710
Accounts payable	10,626	8,732
Current payable from restricted assets	1,415	1,310
Due to other City of Cleveland departments, divisions or funds	4,656	4,499
Accrued interest payable	1,205	1,221
Current portion of accrued wages and benefits	3,370	3,855
Other accrued expenses	445	507
Customer deposits and other liabilities	1,100	1,111
TOTAL CURRENT LIABILITIES	36,012	33,945
TOTAL LIABILITIES	270,818	276,603
TOTAL NET POSITION AND LIABILITIES	$ 479,220	$ 485,148

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 POSITION
For the Years Ended December 31, 2013 and 2012

	(In thousands)	
		Restated
	2013	**2012**
OPERATING REVENUES		
Charges for services	$ 170,342	$ 165,227
TOTAL OPERATING REVENUES	170,342	165,227
OPERATING EXPENSES		
Purchased power	100,929	95,788
Operations	21,338	21,379
Maintenance	18,849	19,820
Depreciation	18,171	16,971
TOTAL OPERATING EXPENSES	159,287	153,958
OPERATING INCOME (LOSS)	11,055	11,269
NON-OPERATING REVENUE (EXPENSE)		
Investment income	59	80
Interest expense	(10,023)	(9,677)
Amortization of bond premiums and discounts	68	78
Gain (loss) on disposal of assets	(2,224)	
Other	536	164
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(11,584)	(9,355)
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(529)	1,914
Capital and other contributions	386	981
INCREASE (DECREASE) IN NET POSITION	(143)	2,895
NET POSITION, BEGINNING OF YEAR	208,545	205,650
NET POSITION END OF YEAR	$ 208,402	$ 208,545

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, 2013 and 2012

	(In thousands) 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 171,139	$ 168,740
Cash payments to suppliers for goods or services	(15,350)	(15,640)
Cash payments to employees for services	(19,172)	(22,056)
Cash payments for purchased power	(106,074)	(95,152)
Electric excise tax payments to agency fund and other	(5,407)	(4,813)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	25,136	31,079
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grants	989	89
Other	(5)	
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	984	89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds		15,325
Acquisition and construction of capital assets	(22,255)	(16,620)
Principal paid on long-term debt	(12,710)	(10,050)
Interest paid on long-term debt	(9,767)	(9,746)
Cash paid to escrow agent for refunding		(16,294)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(44,732)	(37,385)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(39,987)	(28,731)
Proceeds from sale and maturity of investment securities	43,726	30,010
Interest received on investments	77	120
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	3,816	1,399
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,796)	(4,818)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	110,529	115,347
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 95,733	$ 110,529

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF CLEVELAND PUBLIC POWER
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	(In thousands) 2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ 11,055	$ 11,269
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	18,171	16,971
Changes in assets and liabilities:		
Accounts receivable, net	(59)	3,155
Unbilled revenue	(415)	149
Recoverable costs of purchased power	(10,063)	
Due from other City of Cleveland departments, divisions or funds	658	(755)
Materials and supplies, net	1,012	263
Prepaid expenses	(77)	3
Accounts payable	1,894	135
Due to other City of Cleveland departments, divisions or funds	157	(423)
Accrued wages and benefits	(489)	206
Other accrued expenses	(62)	87
Customer deposits and other liabilities	(144)	19
Other long-term liabilities	3,498	
TOTAL ADJUSTMENTS	14,081	19,810
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 25,136	$ 31,079

See notes to financial statements. (Concluded)

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NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2013 and 2012

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 March of 2012, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Recognized as Assets and Liabilities* was issued. This Statement is effective for fiscal periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As required, the Division implemented GASB Statement No. 65 and restated its comparative financial statements for 2012.

In March of 2012, Governmental Accounting Standards Board (GASB) Statement No. 66, *Technical Corrections – 2012 as amendment of GASB Statements No. 10 and No. 62* was issued. This Statement is effective for fiscal periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Division has determined that GASB Statement No. 66 has no impact on its financial statements as of December 31, 2013.

In November of 2010, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* was issued. This Statement is effective for fiscal periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. GASB Statement No. 61 requires reporting a component unit as if they were part of the primary government (that is, blending) in circumstances where the component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The Division has determined that GASB Statement No. 61 has no impact on its financial statements as of December 31, 2013.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Division's net position is accounted for in the accompanying statement of net position and the net position is divided into the following categories:

- Net investment in capital assets
- Amount restricted for capital projects
- Amount restricted for debt service
- Remaining unrestricted amount

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.

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.

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 Fund 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in STAROhio during fiscal year 2013 and 2012. 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, 2013 and 2012.

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.

Recoverable Costs of Purchased Power: The Division passes through certain power costs to the customer as Energy Adjustment Charges. The power costs related to recoverable costs of purchased power will be billed to customers in future billing periods.

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

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 GASB 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 2013 and 2012 total interest costs incurred amounted to $13,399,000 and $13,227,000 respectively, of which $3,359,000 and $3,533,000, respectively, was capitalized, net of interest income of $17,000 in 2013 and $17,000 in 2012.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Issuance Costs, Discounts, Premiums and Unamortized Losses on Debt Refundings: Bond issuance costs are expensed when incurred. Deferred bond discounts/premiums are netted against long-term debt. The discounts/premiums are amortized over the lives of the applicable bonds. Unamortized loss on debt refundings are categorized as a deferred outflow and is amortized over the shorter of the defeased bond or the newly issued bond.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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 statement of net position. 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.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2013 and 2012

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2013 and 2012 is as follows:

	Interest Rate	Original Issuance	2013	2012
			(In thousands)	
Revenue Bonds:				
Series 1994 A, due through 2013	Zero Coupon	$ 219,105	$	$ 7,325
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	3.75%-5.00%	44,705	42,855	43,795
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	23,470	23,915
Series 2012 , due through 2016	2.00%	15,325	9,510	13,510
		$ 459,618	$ 232,403	$ 245,113
Less:				
Unamortized discount-zero coupon bonds			(768)	(1,690)
Unamortized premium (discount)-current interest bonds (net)			2,687	3,678
Current portion			(13,195)	(12,710)
Total Long-Term Debt			$ 221,127	$ 234,391

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

Summary: Changes in long-term obligations for the year ended December 31, 2013 are as follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 7,325	$	$ (7,325)	$	$
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	43,795		(940)	42,855	975
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,915		(445)	23,470	8,145
Series 2012, due through 2016	13,510		(4,000)	9,510	4,075
Total revenue bonds	245,113		(12,710)	232,403	13,195
Accrued wages and benefits	4,354	3,366	(3,855)	3,865	3,370
Total	$ 249,467	$ 3,366	$ (16,565)	$ 236,268	$ 16,565

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

Summary: Changes in long-term obligations for the year ended December 31, 2012 are as follows:

	Balance January 1, 2012	Increase	Decrease	Balance December 31, 2012	Due Within One Year
			(In thousands)		
Revenue Bonds:					
Series 1994 A, due through 2013	$ 14,650	$	$ (7,325)	$ 7,325	$ 7,325
Series 2001, refunded in 2012	15,980		(15,980)	-	
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		(910)	43,795	940
Series 2008 B-2, due through 2038	27,903			27,903	
Series 2010, due through 2017	23,915			23,915	445
Series 2012, due through 2016		15,325	(1,815)	13,510	4,000
Total revenue bonds	255,818	15,325	(26,030)	245,113	12,710
Accrued wages and benefits	4,148	3,841	(3,635)	4,354	3,855
Total	$ 259,966	$ 19,166	$ (29,665)	$ 249,467	$ 16,565

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

	Principal	Interest	Total
		(In thousands)	
2014	$ 13,195	$ 9,638	$ 22,833
2015	13,105	9,111	22,216
2016	13,710	8,591	22,301
2017	14,325	7,974	22,299
2018	14,990	7,295	22,285
2019 - 2023	85,955	24,999	110,954
2024- 2028	36,434	25,112	61,546
2029 - 2033	20,152	29,307	49,459
2034- 2038	20,537	28,939	49,476
Total	$ 232,403	$ 150,966	$ 383,369

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

The City has pledged future power system revenues, net of specified operating expenses, to repay $232,403,000 in various Public Power System Revenue Bonds issued in various years since 2006. 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 77 percent of net revenues. The total principal and interest remaining to be paid on the various Power System Revenue Bonds is $383,369,000. Principal and interest paid for the current year and total net revenues were $22,477,000 and $29,267,000, respectively.

Effective February 24, 2012, the City issued $15,325,000 Public Power System Revenue Refunding Bonds, Series 2012, to refund all of the outstanding $15,980,000 Public Power System Refunding Revenue Bonds, Series 2001. Net proceeds of the Series 2012 Bonds and amounts on deposit in the Series 2001 Bond Fund together totaling $16,293,627 were placed in an irrevocable trust account to pay the principal and interest on the refunded Series 2001 Bonds on March 26, 2012. 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 $1,169,000 or an economic gain (the difference between the present values of the old and new debt service) of approximately $1,148,000 or 7.18%. These bonds were sold through a private sale to Wells Fargo Bank, National Association.

The Division has, at various times, 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, 2013.

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.

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 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, 2013 and 2012, 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.

NOTE B - DEBT AND OTHER LONG-TERM OBLIGATIONS (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 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 a minimum of $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, 2013 and 2012, the Division had $42,011,000 and $46,195,000, 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, 2013 and 2012, the Division’s carrying amount of deposits totaled $13,543,000 and $14,096,000, respectively, and the Division’s bank balances totaled $13,029,000 and $14,002,000, respectively. The differences represent positions in pooled bank accounts and normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3,* $13,029,000 and $14,002,000 of the bank balances at December 31, 2013 and 2012, respectively, were insured or collateralized with securities held by the City or by its agent in the City’s name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division’s deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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.

Generally, investments are recorded 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 both short and long-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the table on the following page.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. 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, 2013 and 2012 include U.S. Treasury Bills, STAROhio, commercial paper and mutual funds. The Division maintains the highest ratings for its investments. Investments in STAROhio and First American Government Obligations mutual funds carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division's investment in U.S. Bank N.A. Open Commercial Paper carries a Standard & Poor's rating of A-1+.

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, 2013 and 2012, which include those classified as cash and cash equivalents in the Statement of Net Position in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

Type of Investment	2013 Fair Value	2013 Cost	2012 Fair Value	2012 Cost	Investment Maturities Less than One Year
			(In thousands)		
U.S. Treasury Bills	$	$	$ 3,739	$ 3,739	$
STAROhio	35,182	35,182	45,475	45,475	35,182
Commercial Paper	1,134	1,134	1,133	1,133	1,134
Investment in Mutual Funds	45,874	45,874	49,825	49,825	45,874
Total Investments	82,190	82,190	100,172	100,172	82,190
Total Deposits	13,543	13,543	14,096	14,096	13,543
Total Deposits and Investments	$ 95,733	$ 95,733	$ 114,268	$ 114,268	$ 95,733

These amounts are monies invested by the City Treasurer on behalf of the Division and are used in daily operations with excess monies invested daily in STAROhio and mutual funds. These investments are carried at cost which approximates market value.

As of December 31, 2013, the investments in STAROhio, commercial paper and mutual funds are approximately 43%, 1% and 56%, respectively, of the Division’s total investments. As of December 31, 2012, the investments in U.S. Agency Treasury Bills, STAROhio, commercial paper and mutual funds are approximately 4%, 45%, 1% and 50%, respectively, of the Division’s total investments.

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 5,249	$	$ (220)	$ 5,029
Construction in progress	46,583	20,944	(19,440)	48,087
Total capital assets, not being depreciated	51,832	20,944	(19,660)	53,116
Capital assets, being depreciated:				
Land improvements	305			305
Utility plant	495,234	22,281	(4,759)	512,756
Buildings, structures and improvements	21,413	6	(71)	21,348
Furniture, fixtures, equipment and vehicles	81,036	2,215	(1,058)	82,193
Total capital assets, being depreciated	597,988	24,502	(5,888)	616,602
Less: Accumulated depreciation	(314,193)	(18,106)	3,602	(328,697)
Total capital assets being depreciated, net	283,795	6,396	(2,286)	287,905
Capital assets, net	$ 335,627	$ 27,340	$ (21,946)	$ 341,021

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NOTE D - CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 4,863	$ 386	$	$ 5,249
Construction in progress	52,049	18,246	(23,712)	46,583
Total capital assets, not being depreciated	56,912	18,632	(23,712)	51,832
Capital assets, being depreciated:				
Land improvements	305			305
Utility plant	473,921	21,313		495,234
Buildings, structures and improvements	20,080	1,333		21,413
Furniture, fixtures, equipment and vehicles	79,996	2,980	(1,940)	81,036
Total capital assets, being depreciated	574,302	25,626	(1,940)	597,988
Less: Accumulated depreciation	(299,162)	(16,971)	1,940	(314,193)
Total capital assets being depreciated, net	275,140	8,655	-	283,795
Capital assets, net	$ 332,052	$ 27,287	$ (23,712)	$ 335,627

Commitments: The Division has outstanding commitments of approximately $53,669,000 and $59,544,000 for future capital expenditures at December 31, 2013 and 2012, 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, by 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 2013, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2013, 2012 and 2011. The employer contribution rates were 14.00% of covered payroll in 2013, 2012 and 2011.

The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2013, 2012 and 2011 were \$2,513,000, \$2,037,000 and \$2,012,000 each year, respectively. The required payments due in 2013, 2012 and 2011 have been made.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting standard replaces GASB Statement No. 27, and it is effective for employer fiscal years beginning after June 15, 2014.

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 No. 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, by 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 2013, 2012, and 2011. 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 1.00% for members of the Traditional Plan in 2013 and 4.00% in 2012 and 2011, 1.00% for members of the Combined Plan in 2013 and 6.05% for 2012 and 2011. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2.00% for both plans, as recommended by the OPERS Actuary. 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 $193,000 in 2013, $815,000 in 2012 and $804,000 in 2011. The required payments due in 2013, 2012 and 2011 have been made.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: The Division is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Division's share was 80,000 kilowatts of a total 771,281 kilowatts, giving the Division a 10.37 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Division's estimated share at March 31, 2014 of the impaired costs is $13,813,694. The Division received a credit of $6,447,719 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of $3,617,994 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of $3,747,981. Because payment is now probable and reasonably estimable, the Division is reporting a payable to AMP for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Division's liability. These amounts will be recorded as they become estimable.

The Division intends to recover fifty-percent of these costs and repay AMP over the next 15 years through a power cost adjustment, thus this incurred cost has been capitalized and reported as a recoverable cost of purchased power, as allowed by GASB Statement No. 65.

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 2013. There were no significant decreases in any insurance coverage in 2013.

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. As the result of a claim incurred in 2013, the expense for workers compensation increased.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

The Division suffered a loss of a transformer amounting to $1,120,000 in 2012. The Division submitted a claim with their insurance company and expects to receive reimbursement for a portion of the loss in 2014.

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, 2013 and 2012 are as follows:

	2013	2012
	(In thousands)	
City Administration	$ 1,109	$ 1,092
Telephone Exchange	994	727
Division of Water	414	435
Utilities Administration and Fiscal Control	1,128	947
Motor Vehicle Maintenance	611	700

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately $1,048,000 and $1,023,000 for the years ended December 31, 2013 and 2012, 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 $5,304,000 and $5,284,000 for this tax in 2013 and 2012, of which $6,593 and $6,563 was remitted to the State. As directed by City Ordinance the General Fund retained 100% of the tax remittance during calendar years 2011, 2012 and 2013. In accordance with Ordinance No. 193-13 passed in March 2013, the General Fund will retain 50% of the tax remittance during the calendar year 2014.

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. Council made the incremental charge permanent by Ordinance No. 216-12 effective April 20, 2012. The incremental charges billed were $13,575,000 and $13,448,000 in 2013 and 2012, respectively.

NOTE L – SEAMS ELIMINATION COST ADJUSTMENT (SECA) PAYMENTS

Seams are price inefficiencies arising from operational or rate schedule differences in markets that cross borders. 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.

The FERC has issued a SECA order requiring compliance filing, which the Division has filed, 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. At December 31, 2013, it was determined the Division will not receive any further reimbursements for the remaining SECA charges of $5,144,000. The Division will bill 50% of this amount to customers as part of future Energy Adjustment Charges beginning July 2014.

NOTE M – RESTATEMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 65 effective for periods beginning after December 15, 2012. The Statement changed the treatment of bond issuance costs. Previously, the costs were recorded as assets and amortized over the life of the related debt issue. The GASB evaluated these costs and concluded that with the exception of prepaid insurance, the costs relate to services provided in the current period and thus they should be expensed in the current period. As a result, the following restatements are necessary:

Impact on Statements of Net Position	December 31, 2012	Restatement	Restated December 31, 2012
		(In thousands)	
Unamortized Bond Issuance Costs	$ 2,646	$ (2,646)	$ -
Unrestricted net position	52,470	(2,646)	49,824
Deferred Outflows of Resources			
Unamortized Loss on Debt Refunding	-	14,189	14,189
Long-Term Obligations			
Revenue Bonds	220,202	14,189	234,391

Impact on Statements of Revenues, Expenses and Changes in Net Position	2012	Restatement	Restated 2012
		(In thousands)	
Amortization of bond issuance costs and discounts	$ (276)	$ 354	$ 78
Other	217	(53)	164
Total Non-Operating Revenue (Expense), Net	(9,656)	301	(9,355)
Increase (Decrease) in Net Position	2,594	301	2,895
Net Position, Beginning of Year	208,597	(2,947)	205,650

NOTE N – SUBSEQUENT EVENTS

On May 19, 2014, City Council approved Ordinance No. 572-14 authorizing the issuance of one or more series of bonds to refund outstanding public power system revenue bonds for the purpose of restructuring the Division's debt.