

# **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, 1999 and 1998**

**REPORT OF INDEPENDENT ACCOUNTANTS**

The Honorable Michael R. White, Mayor  
and Members of Council  
City of Cleveland, Ohio

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and cash flows present fairly, in all material respects, the financial position of The City of Cleveland, Department of Public Utilities - Division of Cleveland Public Power as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the City's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PricewaterhouseCoopers LLP*

July 27, 2000

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**BALANCE SHEETS**  
**December 31, 1999 and 1998**

		<i>(in thousands of dollars)</i>	
		December 31,	
		1999	1998
<b>ASSETS</b>			
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land	\$	4,863	\$ 4,813
Land Improvements		1,919	1,919
Utility plant in service		323,269	289,213
Buildings, structures and improvements		41,167	31,811
Furniture, fixtures and equipment		23,177	6,139
		<u>394,395</u>	<u>333,895</u>
Less: accumulated depreciation		105,774	92,966
		<u>288,621</u>	<u>240,929</u>
Construction in progress		11,078	50,657
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>		<u>299,699</u>	<u>291,586</u>
<b>RESTRICTED ASSETS</b>			
Cash and cash equivalents		19,834	15,700
Investments at market		3,238	17,698
Accrued interest receivable		104	289
<b>TOTAL RESTRICTED ASSETS</b>		<u>23,176</u>	<u>33,687</u>
<b>UNAMORTIZED BOND ISSUANCE EXPENSE</b>		3,107	2,935
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		9,579	7,085
Investments at market		25,242	18,544
Accounts receivable-net of allowance for doubtful accounts of \$536 in 1999 and \$376 in 1998		19,021	13,864
Unbilled revenue		1,828	1,619
Due from other City of Cleveland departments, divisions or funds		783	1,292
Materials and supplies-at average cost, net of allowance for obsolescence of \$684 in 1999 and 1998		5,468	9,422
Prepaid expenses		54	42
Accrued interest receivable		286	197
<b>TOTAL CURRENT ASSETS</b>		<u>62,261</u>	<u>52,065</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<u><u>388,243</u></u>	<b>\$</b> <u><u>380,273</u></u>

		<i>(in thousands of dollars)</i>	
		December 31,	
		1999	1998
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Contributed capital		\$ 12,183	\$ 12,183
Retained earnings		121,578	108,708
	<b>TOTAL EQUITY</b>	<u>133,761</u>	<u>120,891</u>
<b>LIABILITIES</b>			
<b>LONG TERM DEBT-excluding amounts due within one year:</b>		230,956	234,898
<b>PAYABLE FROM RESTRICTED ASSETS</b>		725	1,817
<b>CURRENT LIABILITIES</b>			
Current portion of long term debt		6,465	6,130
Accounts payable		7,700	7,401
Due to other City of Cleveland departments, divisions or funds		3,114	2,229
Accrued interest payable		1,623	1,747
Accrued wages and benefits		3,029	4,349
Accrued expenses and other liabilities		870	811
	<b>TOTAL CURRENT LIABILITIES</b>	<u>22,801</u>	<u>22,667</u>
	<b>TOTAL LIABILITIES</b>	<u>254,482</u>	<u>259,382</u>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<u>\$ 388,243</u>	<u>\$ 380,273</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, 1999 and 1998**

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31,	
	1999	1998
<b>OPERATING REVENUES</b>	\$ 130,601	\$ 120,280
<b>OPERATING EXPENSES</b>		
Purchased power	70,619	58,686
Operations	13,705	14,154
Maintenance	15,112	14,818
Depreciation	13,646	9,171
<b>TOTAL OPERATING EXPENSES</b>	<u>113,082</u>	<u>96,829</u>
<b>OPERATING INCOME</b>	17,519	23,451
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	2,050	1,616
Interest expense	(12,211)	(12,406)
Amortization of bond issuance expense and discount	(2,597)	(2,704)
Litigation settlement (Note H)	6,500	3,000
State insurance refund	-	1,360
Other	1,609	1,366
<b>TOTAL OTHER (EXPENSE), NET</b>	<u>(4,649)</u>	<u>(7,768)</u>
<b>NET INCOME</b>	12,870	15,683
<b>RETAINED EARNINGS, beginning of year</b>	108,708	93,025
<b>RETAINED EARNINGS, end of year</b>	<u>\$ 121,578</u>	<u>\$ 108,708</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, 1999 and 1998**

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31,	
	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 125,235	\$ 125,119
Cash payments to suppliers for goods or services	(4,587)	(15,247)
Cash payments to employees for services	(20,660)	(18,113)
Cash payments for purchased power	(69,874)	(58,027)
Cash refunds of customer deposits, net	59	66
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>30,173</b>	<b>33,798</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
State insurance refund	-	1,360
Cash received from litigation settlement	6,500	3,000
Other	1,609	1,366
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>8,109</b>	<b>5,726</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(21,895)	(24,384)
Proceeds from bond issue, net of issue cost	44,778	-
Principal paid on mortgage revenue bonds	(6,210)	(6,465)
Cash paid to escrow agent for refunding	(45,793)	-
Interest paid on long-term debt	(13,486)	(14,332)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(42,606)</b>	<b>(45,181)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(41,400)	(49,572)
Proceeds from sale and maturity of investment securities	49,162	50,241
Interest received on investments	3,190	3,073
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>10,952</b>	<b>3,742</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,628</b>	<b>(1,915)</b>
Cash and cash equivalents, beginning of year	22,785	24,700
Cash and cash equivalents, end of year	<b>\$ 29,413</b>	<b>\$ 22,785</b>

*(in thousands of dollars)*  
 For the  
 Years Ended December 31,  
 1999                      1998

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

	\$		\$
<b>OPERATING INCOME</b>	17,519		23,451
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	13,646		9,171
Change in assets and liabilities:			
Accounts receivable, net	(5,157)		(2,056)
Unbilled revenue	(209)		153
Due from other City of Cleveland departments, divisions or funds	509		489
Materials and supplies, net	3,954		274
Prepaid expenses	(12)		(4)
Accounts payable	299		472
Due to other City of Cleveland departments, divisions or funds	885		1,393
Accrued wages and benefits	(1,320)		376
Accrued expenses and other liabilities	59		79
<b>TOTAL ADJUSTMENTS</b>	<u>12,654</u>		<u>10,347</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 30,173</u>		<u>\$ 33,798</u>

See notes to financial statements.



**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 1999 and 1998**

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**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.

*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 Nonexpendable 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, Star Ohio (See Note J) 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:* Effective January 1, 1998, the Division adopted 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.

*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.

*Property, Plant and Equipment:* Property, plant and equipment are stated on the basis of cost. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided on the straight-line method designed to amortize the cost of depreciable assets over their estimated useful lives, which range from 5 to 50 years.

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

The Division's policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Standards No. 62, "Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants," for its 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 1999 and 1998 total interest expense incurred amounted to \$14,211,000 and \$14,797,000 respectively, which was reduced by \$2,000,000 and \$2,391,000, respectively, of interest expense capitalized. Total interest income earned amounted to \$3,094,000 and \$3,170,000, respectively, which was reduced by \$1,044,000 and \$1,554,000, 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 an asset 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 lives of the refunded bonds, with such amortization included within interest expense.

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

*Reclassifications:* Certain reclassifications have been made to the 1998 amounts to conform to the 1999 presentation.

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

**NOTE B—LONG-TERM DEBT**

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

	Interest Rate	Outstanding Principal Amount	
		1999	1998
<i>(in thousands of dollars)</i>			
Power Mortgage Revenue Bonds:			
Series 1991, due through 2017	5.85-7.00%	\$ 44,885	\$ 58,710
Series 1994, due through 2013	7.00	26,575	59,780
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	-
		286,935	289,205
Less:			
Unamortized loss on debt refunding		(16,930)	(11,932)
Unamortized discount - zero coupon bonds		(24,005)	(25,619)
Unamortized discount - current interest bonds		(8,579)	(10,626)
Current portion		(6,465)	(6,130)
Total Long-Term Debt		\$ 230,956	\$ 234,898

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

	Principal	Interest	Total
<i>(in thousands of dollars)</i>			
2000	\$ 6,465	\$ 12,980	\$ 19,445
2001	6,855	12,604	19,459
2002	7,255	12,195	19,450
2003	8,390	11,755	20,145
2004	8,900	11,247	20,147
Thereafter	249,070	126,355	375,425
	\$ 286,935	\$ 187,136	\$ 474,071

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE B—LONG-TERM DEBT—Continued**

In January 1999, Cleveland Public Power issued \$44,840,000 of Power Mortgage Revenue Bonds, Series 1998. The proceeds were used to advance refund certain outstanding Series 1991 and Series 1994 Mortgage Revenue Bonds and to pay costs of issuance. Net proceeds of \$45,793,000 were placed in an irrevocable escrow account which including interest earned, will be used to pay the principal, interest and redemption premium on the refunded bonds. The proceeds are invested in non-callable United States Treasury Obligations. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from long term debt. The total aggregate principal amount of bonds refunded by the Series 1998 Bonds was \$40,900,000.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$5,847,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to interest expense through the year 2025 using a method of amortization which approximates the effective interest method. The City completed the advance refunding and cash defeasance to reduce its total debt service payments over the next 28 years by \$4,985,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,224,000.

*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 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The aggregate amount of defeased debt outstanding at December 31, 1999 is as follows:

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

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.

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE B—LONG-TERM DEBT—Continued**

The indenture requires that at all times the Division will charge rates and fees for the products and services of the public power system. Revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the public power system and 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, 1999, the Division was in compliance with the terms and requirements of the bond indenture. The indenture establishes the following fund accounts for the application of revenues:

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

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

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

*Renewal and Replacement Fund:* The balance in this fund is maintained at \$1,000,000 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, 1999 and 1998, the Division had \$14,057,000 and \$9,542,000, 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.

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE C—EMPLOYEES' RETIREMENT PLAN**

The City utilizes GASB Statement No. 27 "Accounting For Pensions of State and Local Government Employees", which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets and note disclosures in the financial reports of state and local government employers.

The Division contributes to a cost-sharing multiple-employer defined plan, Public Employees Retirement System of Ohio (PERS). The plan provides retirement, disability, health care coverage, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The funding policy for the above plan is as follows: The Ohio Revised Code provides statutory authority for employee and employer contributions. During 1999, PERS employees contributed 8.5% of their salary to the plan and the Division contributed 13.55% of covered payrolls to the plan, of which 4.20% was applied towards the health care program for retirants. The required employer contributions to PERS for the years ending December 31, 1999 and 1998 were \$2,068,000 and \$2,219,000, respectively, equal to 100% of the required contributions for each year.

**NOTE D—OTHER POST EMPLOYMENT BENEFITS**

The Division provides post-employment health care benefits, defined by GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers," through its contribution to PERS.

PERS provides post-retirement health care coverage to service retirants with 10 years or more of qualifying Ohio service credit. The post-retirement health care benefits cover disability recipients and primary survivor recipients. Post-retirement health care coverage is funded by a portion of the Division's contribution to PERS. During 1999, the Division's portion that was used to fund health care was 4.20% of covered payroll. Post-retirement health care benefits are established by state statute.

The post-retirement health care coverage is financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. Expenditures for post-employment health care benefits during 1999 for PERS as a whole were approximately \$524 million. As of December 31, 1999, the unaudited estimated net assets available for future post-employment health care benefit payments for PERS as a whole were approximately \$9.8 billion. The number of benefit recipients eligible for post-employment health care benefits at December 31, 1999 for PERS as a whole was 118,062.

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE E—DEFERRED COMPENSATION**

Eligible employees of the City of Cleveland may elect to participate in the Ohio Public Employees Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. The program allows employees to defer up to 33.3% of their annual salary not to exceed \$8,000 per year until a future date, usually after retirement. The deferred wages and any earned income are not subject to Federal or State income taxes until actually received by the employee.

Effective September 1, 1998, the Ohio Public Employees Deferred Compensation Program board implemented a trust to hold the assets of the program in accordance with Internal Revenue Code Section 457. The program assets are now property of the trust, which holds the assets on behalf of the participants. Therefore, in accordance with GASB 32 "Accounting and Financial Reporting for Internal Revenue Service Code Section 457 Deferred Compensation Plans", the assets of this program are no longer reported in an agency fund of the City.

**NOTE F—IDLE GENERATION FACILITIES**

In April 1977, the Division closed its generation plant and since that time the Division's revenues have been derived primarily from the distribution of purchased power. With the present availability of competitively priced purchased power, the plant will remain idle. The Division continued its past practice of depreciating the plant at rates which completed the amortization of the plant in 1999.

**NOTE G—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:

	<u>1999</u>	<u>1998</u>
	<i>(in thousands of dollars)</i>	
City administration	\$2,031	\$600
Motor vehicle maintenance	342	350
Employee and other services provided		
by the Division of Water	386	391
Utilities Administration and Fiscal Control	443	443
Telephone exchange	233	-

**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
**DIVISION OF CLEVELAND PUBLIC POWER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

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**NOTE H—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 suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

In 1999 and 1998, the Division settled litigation against a contractor related to a construction contract from the mid 1990's resulting in the Division receiving cash payments from the contractor of \$6,500,000 in 1999 and \$3,000,000 in 1998 in full settlement of litigation.

**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. For the years ended December 31, 1999 and 1998 the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$929,000 and \$692,000, respectively.

**NOTE J—DEPOSITS AND INVESTMENTS**

*Deposits:* The Division's carrying amount of deposits at year-end totaled \$1,360,000. The Division's bank balance was \$1,201,000 and was insured or collateralized with securities held by the City or by its agent in the City's name.

*Investments:* GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," required the Division to Categorize its deposits and 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 Counter party's Trust Department or Agent in the City's Name; Category 3 includes Uninsured and Unregistered, with Securities Held by the Counter party, or its Trust Department or Agent but not in the City's Name.



**CITY OF CLEVELAND**  
**DEPARTMENT OF PUBLIC UTILITIES**  
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**NOTES TO FINANCIAL STATEMENTS - Continued**  
**December 31, 1999 and 1998**

**NOTE J—DEPOSITS AND INVESTMENTS—Continued**

The Division's investments at December 31 are as follows:

Type of Investment	Category	Market Value	Cost
		<i>(in thousands of dollars)</i>	
U.S. Agency Obligations	1	\$ 25,242	\$ 25,499
U.S. Treasury Bills	2	3,237	3,237
State Treasurer Asset			
Reserve Fund (Star Ohio)	n/a	1,968	1,968
Investment in Mutual Funds	n/a	26,086	26,086
Total Investments		56,533	56,790
Total Deposits		1,360	1,360
Total Deposits and Investments		\$ 57,893	\$ 58,150

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.

Star Ohio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. Star Ohio 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.