ANNUAL REPORT

1985

north carolina municipal power agency number 1

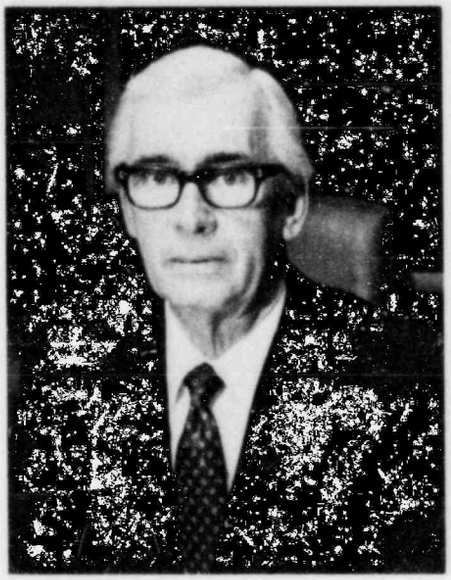
contents

about the cover

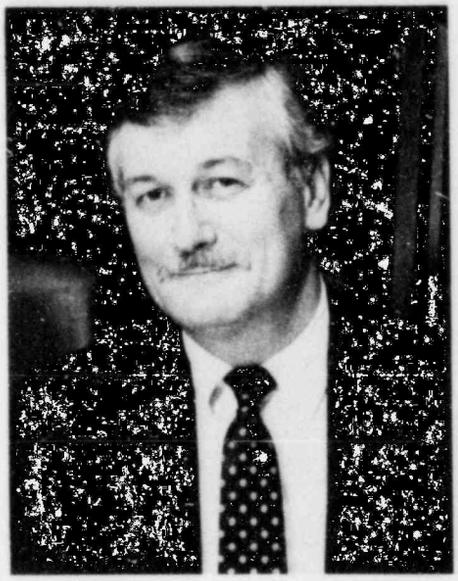
At left, uranium fuel is loaded into the reactor vessel at Unit 1 of Catawba Nuclear Station. At both Catawba Unit 1 and Unit 2, the reactor vessels contain 204 fuel rods, each of which carries 272 enriched uranium fuel pellets with an energy capability equal to more than a ton of coal.

At right is the William B. McGuire Nuclear Station on Lake Norman. Under an exchange agreement with Duke Power Company, NCMPA 1 participants receive electricity from McGuire as well as from the Catawba Station.

1985 . . .
second full year of operation



George W. Clay, Jr., Chairman
Board of Commissioners



James T. Bobo
General Manager

It is a pleasure to bring you this report on the activities and financial status of North Carolina Municipal Power Agency Number 1 (NCMPA 1) for the year 1985, our second full year of providing power to our participating cities and towns (participants).

In many ways, it was a landmark year for the power supply program provided by the agency to the 19 participants. One milestone was reached on June 29 when Catawba Nuclear Station Unit 1 began commercial operation. We also were pleased, of course, by the considerable progress made during the year by Catawba Unit 2, of which the agency has a 75 percent ownership interest. Not only did we see that unit move steadily down the regulatory path nearer the goal of full licensing, but we also saw construction proceed at a pace that permitted its builder, Duke Power Company (Duke), to advance the projected commercial operation date by some six months. We now look forward to the unit going into service in December 1986.

During 1985, the agency initiated load management activities that, when in full operation, will result in significant cost reductions for participating cities. We also installed a central computer system, shared jointly with North Carolina Eastern Municipal Power Agency, that is enabling us to carry out many essential functions for our participants more efficiently and economically.

We also are very pleased that during 1985, the agency was able to reduce its cost of debt service by approximately $3.5 million per year over the next 35 years. This was accomplished by the issuance of bonds to advance refund bonds issued in earlier years when interest rates were higher. Further benefits resulted from our tax-exempt commercial paper program and from the prudent investment of idle funds.

Our state has a rich tradition of municipal power, and our 19 participants continue that tradition in the areas they serve. Our goal continues to be to provide the participants with a reliable supply of electricity at the lowest cost available. The success to date has occurred because of the spirit of cooperation brought to NCMPA 1 by our 19 participants. With the same kind of continued cooperation, we are confident that the agency will continue to meet its challenges in the coming years.

Geo W Clay, Jr.

George W. Clay, Jr., Chairman
Board of Commissioners

James T Bobo

James T. Bobo
General Manager

A BRIEF HISTORY

NCMPA 1 CHARTERED — On January 13, 1976, NCMPA 1 was chartered as a municipal corporation under the enabling act passed by the North Carolina General Assembly in May 1975 (the Joint Municipal Electric Power and Energy Act).

CATAWBA PROJECT APPROVED — On February 27, 1978, after two and a half years of negotiations between NCMPA 1 and Duke, the NCMPA 1 Board of Commissioners approved the Catawba project and authorized execution of joint ownership contracts with Duke.

MUNICIPALITIES APPROVED CONTRACTS — By July 10, 1978, 19 of the agency's 20 member cities had approved the essential contracts between each city and the agency. The City of Concord, an agency member, elected not to participate in the project.

MANAGEMENT SERVICES — In October 1978, NCMPA 1 — along with the state's other power agency — contracted with ElectriCities of North Carolina, Inc., to provide the agency, at cost, with staff and professional management services needed to operate its business. Through this arrangement, the unnecessary and expensive duplication of separate agency staffs was avoided.

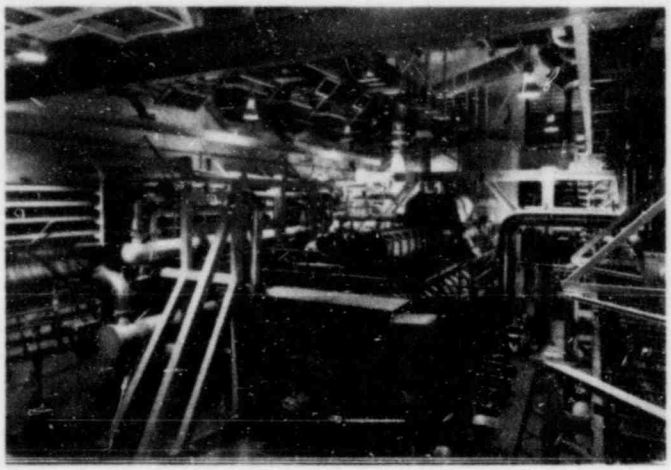
FIRST BONDS SOLD — On November 16, 1978, NCMPA 1 sold a $400 million electric revenue bond issue at a true interest cost of 6.837 percent. It was, at the time, the second largest issue of its kind ever offered by a public utility in this country.

PURCHASE CLOSED — On November 29, 1978, the agency and Duke closed on the agency's purchase of 75 percent, undivided ownership interest in Unit 2 of Catawba Nuclear Station and 37½ percent of the common support facilities.

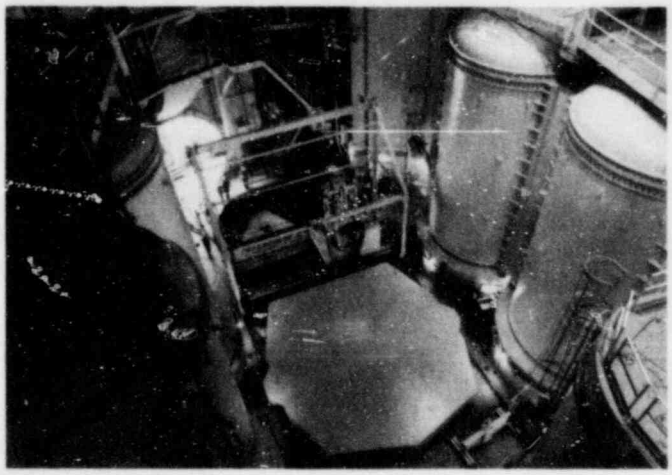
ADDITIONAL FINANCING — NCMPA 1 has issued electric revenue bonds since 1978, and will continue periodically through 1987 to issue debt to finance its share of the construction of Catawba Unit 2.

CATAWBA CONSTRUCTION — Catawba Unit 1 began commercial operation in June 1985. Catawba Unit 2 is scheduled to begin commercial operation in December 1986. At the end of 1985, the project was ahead of that schedule. By contract the power agency has agreed with Duke to exchange 50 percent of the capacity and output from Unit 2 with a like amount from Unit 1. This is called the Catawba Reliability Exchange and remains in effect until both Catawba units are retired.

The interior of the spent fuel building for Catawba Unit 2, showing the spent fuel pool where fuel which has been removed from the reactor will be stored until a federally licensed, permanent repository for high level waste is available.



This is how it looks on the inside of the diesel generator building at Catawba Unit 2. Seen is one of the two diesel generators which supply the 5.75 megawatts of power needed in the event of a loss of offsite power to the plant.



An overhead view of the containment building housing the 1,145 megawatt reactor at Catawba Unit 2. Shown are the four steam generators surrounding the missile shield for the reactor vessel. In front of the missile shield is the crane used for fuel handling.

MCGUIRE STATION — Unit 1 at Duke's William B. McGuire Nuclear Station, a "sister" plant to Catawba, began commercial operation in December 1981. Unit 2 at McGuire began commercial operation in March 1984. NCMPA 1 has reliability exchanges with Duke involving the McGuire plant which enable the agency to receive project power from these units.

POWER DELIVERY BEGINS — On July 1, 1983, by utilizing a provision of the agreements called the Pre-Operational McGuire Reliability Exchange involving McGuire, NCMPA 1 replaced Duke as the all-requirements power supplier for the 19 municipalities participating in the Catawba project.

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Thirty-two municipalities in the eastern part of North Carolina are served by North Carolina Eastern Municipal Power Agency (NCEMPA). This agency was chartered in December 1976 under the state's 1975 enabling act. All of its members are participants in a joint project involving ownership interests in six generating units operated, or being constructed, by Carolina Power & Light Company (CP&L).

On December 30, 1981, NCEMPA became the all-requirements power supplier for 11 participating municipalities that formerly had been wholesale customers of Virginia Electric and Power Company. Then on April 22, 1982, the agency became the all-requirements power supplier for its other 21 participants, which had previously been served by CP&L.

Like NCMPA 1, NCEMPA has contracted with ElectriCities of North Carolina, Inc., to provide it with professional management staff and services.

ORGANIZATION AND MANAGEMENT

NCMPA 1 is governed by a Board of Commissioners, one member of which is appointed by each participant. Each participant may also appoint as many as two alternate commissioners, either of whom may represent the city at board meetings when the commissioner cannot attend. The agency board elects its own officers.

For 1985, the Board of Commissioners re-elected Shelby Mayor George W. Clay, Jr. as its chairman. Others elected were Earle E. Riddle, Lexington utilities commission chairman, as vice chairman, and David E. Lowe, Lincolnton city manager, as secretary-treasurer.

The officers serve on the executive committee along with six at-large representatives, also elected by the board. At-large members for 1985 were Molly M. Darwin, Morganton City Council member; William T. Gill, Statesville city clerk; Jack F. Neel, Albemarle city manager; and R. Duke Whisenant, Newton city manager.

Management staff and services for NCMPA 1 are provided by ElectriCities of North Carolina, Inc., a joint municipal assistance agency. The staff carries out the power agency's daily operations, including the financing and accounting, billing, planning and budgeting programs. In addition, it closely monitors the project agreements and monitors the performance of Duke with regard to the utility's fulfillment of obligations in the project.

During 1985, General Manager James T. Bobo filled two senior management staff positions. William H. Batt was appointed in August as Director-Finance and Administration, and Jack S. Childs was named to the newly created post of Director-Communications in October.

As authorized by the NCMPA 1 Board of Commissioners, a 4.66-acre parcel of land was purchased jointly with NCEMPA, the state's other municipal power agency, as the site of a proposed administration building that also would be jointly owned by the two agencies. An architect was retained to prepare preliminary drawings and cost estimates for the building.

In March 1985, the agencies' staff moved into leased quarters in Smoketree Tower in Raleigh's Highwoods Park. The move helped make possible the installation of a central computer system to support the two power agencies' business activities. Previously, the agencies had been receiving computer services through a more costly time-sharing arrangement.

The agency's role as a power supplier requires the use of integrated computer systems to support its various activities, such as planning and budgeting, accounting, load and energy forecasting, verification of Duke bills to the agency, collection and reporting of monthly load statistics, tax-exempt commercial paper, and rate studies and analyses.

By the end of 1985, projected savings to be realized from the in-house computer center had risen to 45 percent. Combined savings for the two power agencies are now projected at $5.4 million in the first five years, and the investment in these resources is expected to be recovered in 19 months.

BOARD OF COMMISSIONERS*

Jack F. Neel
City Manager
Albemarle

James L. Dorton
Alderman
Concord

Ronnie E. Ransom
Council Member
Gastonia

Ruth K. Stenhouse
Commissioner
Huntersville

David E. Lowe
City Manager
Lincolnton

Molly M. Darwin
Council Member
Morganton

George W. Clay, Jr.
Mayor
Shelby

Nannie Potts
Commissioner
Cornelius

A. W. Huffman, Jr.
Mayor
Granite Falls

Gary E. Miller
Director of Public Utilities
Landis

Marcus C. Midgett
Council Member
Maiden

R. Duke Whisenant
City Manager
Newton

Arthur E. Peterson
Council Member
Statesville

William M. Edwards
Council Member
Cherryville

Seated left to right: Jack F. Neel (Albemarle), Ruth K. Stenhouse (Huntersville), George W. Clay Jr. (Shelby), R. Duke Whisenant (Newton), Arthur E. Peterson (Statesville), Morris Baker (Drexel).

Standing left to right: William M. Edwards (Cherryville), Judith P. Mendenhall (High Point), Molly M. Darwin (Morganton), A. W. Huffman Jr. (Granite Falls), J. E. Hinkel (Monroe), Gary E. Miller (Landis).

H. Max Gunter
Mayor
Bostic

Morris Baker
Manager/Town Clerk
Drexel

Judith P. Mendenhall
Mayor
High Point

Earle E. Riddle
Former Utilities
Commission Chairman
Lexington

J. E. Hinkel
City Manager
Monroe

Margaret S. Wingate
Council Member
Pineville

ALTERNATE COMMISSIONERS*

Pauline T. Helms
Council Member
Albemarle

Preston Page
Administrator
Cornelius

Jack R. Clark
Commissioner
Granite Falls

Drew Saunders
Commissioner
Huntersville

Belvin B. Beck, Jr.
City Manager
Lexington

Douglas O. Bean
City Manager
Morganton

Stephen Royster
Alderman
Shelby

Wayne Sheppard
Council Member
Bostic

Kenneth Harris
Mayor
Drexel

Linda K. Story
Town Manager
Granite Falls

Charles Kenneth Barnes
Alderman
Landis

A. E. Tarr
Council Member
Lincolnton

Wayne Dellinger
Mayor
Newton

Peter T. Connet
City Manager
Statesville

John E. McGinnis
Council Member
Cherryville

Gary D. Hicks
City Manager
Gastonia

H. Lewis Price
City Manager
High Point

Alton K. Patton
Alderman
Landis

F. E. Bazemore
Council Member
Monroe

Joseph E. Baker, Jr.
Town Manager
Pineville

Larry M. Cranford
Utility Director
Statesville

*As of December 31, 1985

NCMPA 1 participants include 19 municipalities in Piedmont North Carolina, a 40-county area stretching from the western edge of the Coastal Plains to the foothills of the Appalachian Mountains. More than half of North Carolina's residents live in the Piedmont, one of the fastest growing areas of the country.

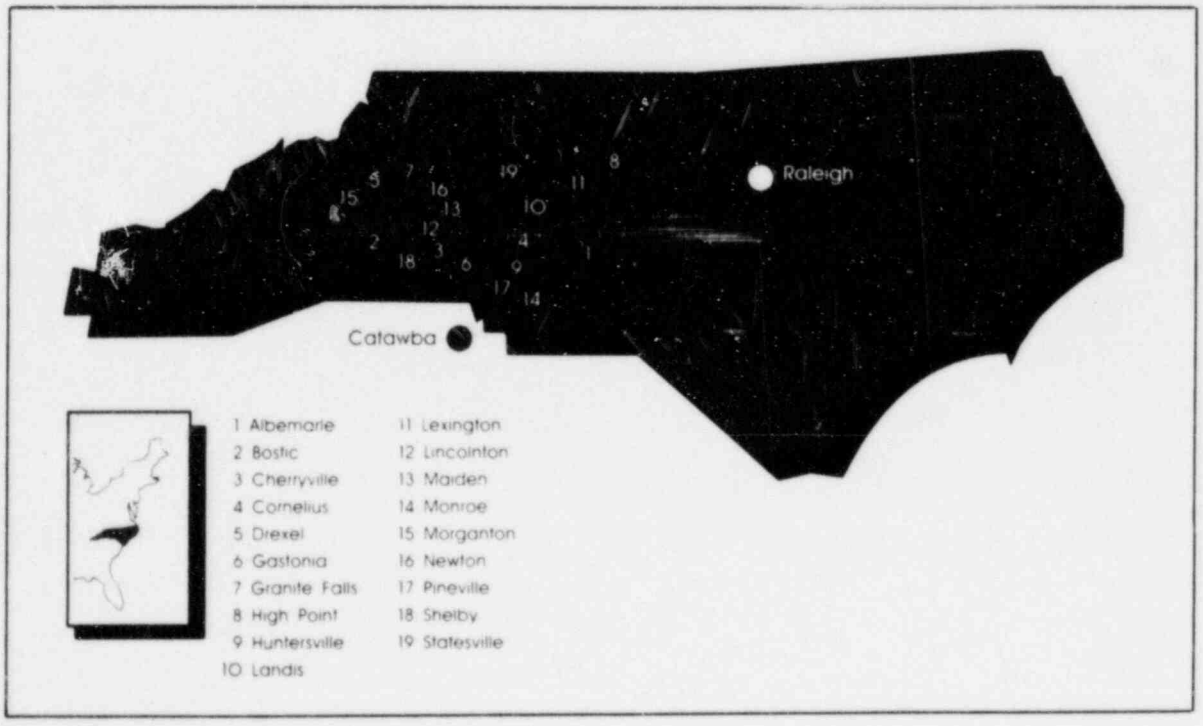
Home to much of the nation's textile, furniture and tobacco industries, the North Carolina Piedmont continues to experience rapid expansion and diversification of its industrial base. More than 30 colleges, universities and technical institutions are located within this region, which has become internationally known as a center of medicine, research and technology. Agriculture, another important component of the region's economy, also has become increasingly diversified in recent years.

NCMPA 1 participants occupy large portions of 14 Piedmont counties. Their combined service areas are home to about 280,000 residents. For the year ended June 30, 1985, sales of power from the 19 NCMPA 1 cities to their customers generated almost $161 million in electric revenues.

Municipal electric systems are North Carolina's oldest electric utilities, and some of the oldest still in existence are among the participants of NCMPA 1. Three were established prior to 1900 and eight were operating by 1910, although none of the 19 now owns any independent generating facility.

Through their joint action in creating NCMPA 1 and participating in the Catawba project, these municipalities are continuing a rich tradition while strengthening their historic role as a full partner in North Carolina's electric power supply community.

THE PARTICIPANTS



OPERATIONS/CONSTRUCTION

The two-unit Catawba Nuclear Station as seen from the air. Located on the west shore of Lake Wylie in York County, S.C., the station is named for the river which long has been identified with the power supply of the Piedmont Carolinas.

A reactor operator monitors activities in the control room for Catawba Nuclear Station Unit 1.

NCMPA 1 has a 75 percent ownership interest in Unit 2 of Catawba. The unit is scheduled for commercial operation in late 1986. The agency's ownership entitlement in the project will be approximately 860 megawatts of capacity.

Under two reliability exchange agreements with Duke, the agency's ownership resources are essentially distributed in equal amounts over each of the four units of the Catawba and McGuire nuclear stations.

Through the McGuire Reliability Exchange, the agency was able to begin full operation on July 1, 1983, by receiving 215 megawatts of project power from McGuire.

The McGuire station is located on Lake Norman in North Carolina, 17 miles north of Charlotte. Construction began in April 1971. The two McGuire units have a maximum net dependable capacity rating of 1150 megawatts each. Unit 1 at McGuire began commercial operation in December 1981 and Unit 2 on March 1, 1984.

Under the agency's contract with Duke, the utility will build, fuel and operate the Catawba plant, and will supply NCMPA 1 additional (supplemental) power to meet the needs of its 19 participants.

Each of the 19 participating municipalities has executed a project sales agreement with the agency. In those contracts, the cities have agreed to pay for 100 percent of the cost of the agency's project. Those agreements are "take-or-pay" contracts and form the security for the agency's bonds.

Each participant also has signed a supplemental power sales agreement with the agency by which it has agreed to purchase all of its electric power and energy from the agency, over and above that provided by the agency's ownership entitlement and excluding any power and energy made available by the Southeastern Power Administration, the regional marketing agent for federal hydroelectric power. Those agreements are in the form of "take-and-pay" contracts.

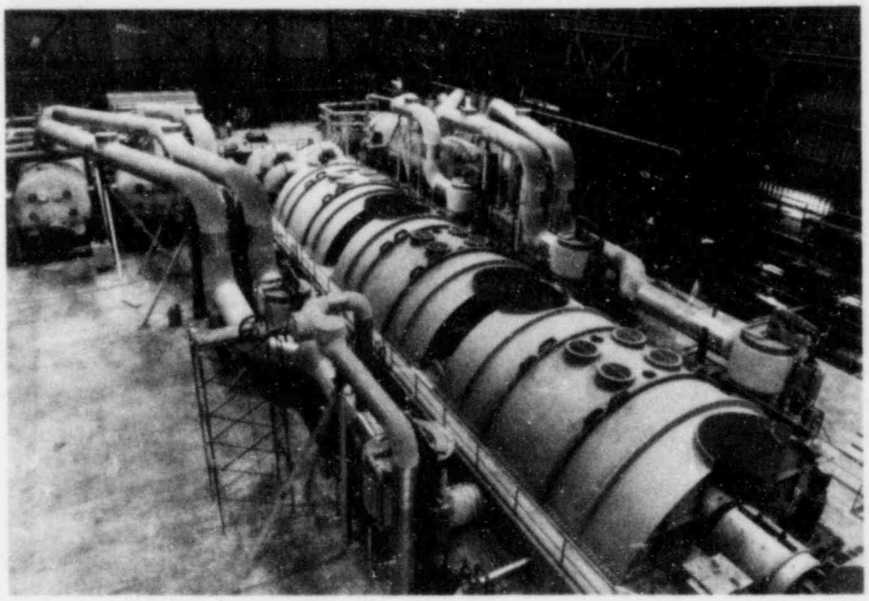
The Catawba Station

The Catawba Station is located on Lake Wylie in York County, South Carolina, 19 miles southwest of Charlotte, North Carolina. Construction of the Catawba Station began in May 1974.

OPERATIONS/CONSTRUCTION (continued)

Catawba is a two-unit station with a maximum net dependable capacity of 1145 megawatts for each unit. Each unit contains a Westinghouse pressurized water reactor system providing steam to a General Electric turbine-generator. The nuclear steam supply system is substantially similar in power rating and general design to the system employed in sixteen other Westinghouse units with construction permits and nine others with operating licenses, including McGuire Units 1 and 2.

In May 1982, Duke announced that the inservice date of Catawba Unit 1 was scheduled for June 1985 and Unit 2 for June 1987. The unit achieved the major milestone of initial criticality on January 7, 1985. Initial criticality occurs in the initial start-up of the chain reaction (the splitting of the atoms continuing on a self-sustaining basis) within the reactor vessel. The unit first generated electricity on a low-level testing basis on January 22, 1985.



In this view inside the Catawba Unit 2 turbine building can be seen the three low pressure turbines and one high pressure turbine, all manufactured by Westinghouse. Also shown on either side are the moisture separator reheaters and crossover piping used to improve the quality of the steam between use in the high pressure and low pressure stages.

After approximately five months of power escalation testing, Unit 1 began commercial operation on schedule on June 29, 1985.

On July 26, 1985, the Appeal Board of the Atomic Safety and Licensing Board issued a ruling resolving all current outstanding issues concerning the operation of Catawba Nuclear Station. Unless new issues could be raised, the ruling meant that all licenses required for the operation of Unit 2 should be issued without any major problems.

On October 14, 1985, hot functional testing (HFT) on Unit 2 was completed. HFT is the heat-up of systems to normal operating temperature and pressure without the presence of nuclear fuel in the reactor. With the unit 99 percent complete, this set the stage for fuel loading to begin in the first quarter of 1986. In January 1986, Duke revised the commercial operation date to December 1986, an improvement of six months.

On June 14, 1985, the Board of Commissioners of NCMPA 1 voted to deliver the required six-month notice to Duke that the agency intended to initiate the McGuire Reliability Exchange with respect to Catawba Unit 2, effective January 1, 1986. Initiation of this exchange meant that NCMPA 1 was entitled to the same capacity and energy output from the McGuire station that it would receive if Catawba Unit 2 were in commercial operation.

NCMPA 1 STATISTICS	1985	1984
Kilowatt-hours sales (thousands)	3,020,916	2,894,769
Maximum Hourly Load (kilowatts)	622,708	605,465
Operating Revenues	$206,195,000	$110,003,000
Excess of Revenues over Expenses	$4,497,000	$2,399,000
Sales to Duke (Revenues)	$83,175,000	$33,000
Average monthly power purchases by cities Kilowatt-hours (thousands)	251,743	241,231
Average monthly billing to cities	$10,251,667	$9,164,167

All-Requirements Power Rates

NCMPA 1's all-requirements power rates are the means by which the agency bills its participants. The rates are designed to recover agency costs, including the costs of project ownership, project operation and maintenance, project finance obligations, administrative and general costs, supplemental power purchases and other special obligations.

The all-requirements rates also include a rate stabilization fund which operates to stabilize the differences between the all-requirements rates and the projected cost of service from Duke. The fund involves the collection of revenues from current billings to pay a portion of project power cost in future periods.

NCMPA 1's all-requirements rates are reviewed and recommended by the agency's six-member rate committee (all of whom are members of the Board of Commissioners) and must be approved by the full board, which includes a representative from each participant. The agency began billing participants using the all-requirements power rates on July 1, 1983. Two rate increases occurred in 1984.

On January 1, 1985, a new rate schedule RS-3A became effective representing a 2.87 percent reduction in the all-requirements rates to reflect the conversion by the North Carolina General Assembly of the state gross receipts tax into a sales tax. On June 1, 1985, all requirements rate schedule RS-3B became effective to more accurately reflect the costs of leased delivery facilities. Although for individual participants this new schedule causes some slight annual change in power costs, for the agency overall there was no change in annual revenues.

Rate schedule RS-4 became effective October 1, 1985, as the result of Catawba Unit 1 becoming commercially operable. This schedule increased overall power costs for participants by 10.1 percent.

Load Management

NCMPA 1 participants representing approximately 75 percent of the agency's total load are receiving load control recommendations from agency staff on days and times of day to implement load control measures. For a recent 12-month period, staff recommended that load control measures be undertaken during 42 days for a total of 96 hours. This represents an average of eight hours per month. As a result of these recommendations, controllable load would have been managed during 10 of the 12 monthly peak periods, representing potential annual power cost reductions in excess of a half million dollars.

At its February 1986 meeting, the board approved a contract with Southern Engineering, Inc., of Atlanta for the development of an agency-wide automated load management system. When completed, this system should greatly increase the accuracy of load control strategies and result in greater cost reductions.

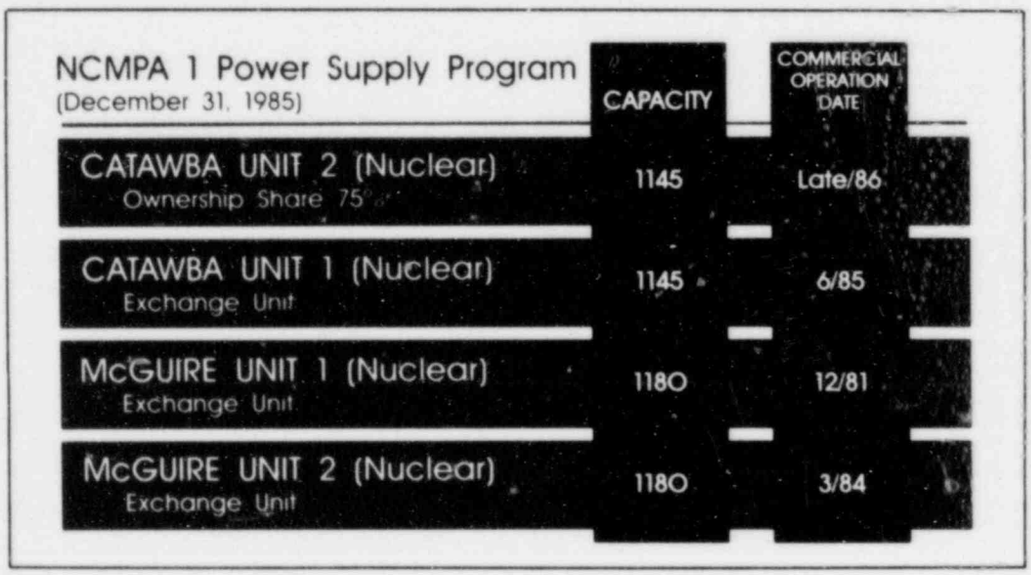
Joint Owners

Subsequent to NCMPA 1's purchase of a 75 percent ownership interest in Catawba Unit 2 (and 37.5 percent interest in the Catawba station's support facilities), in February 1981 Duke sold a 75 percent interest in Catawba Unit 1 to a group of rural electric cooperatives located in the two Carolinas, and in December 1984 sold the remaining 25 percent of Catawba Unit 2 to Piedmont Municipal Power Agency, which represents 10 South Carolina municipalities.

Duke Power Company

Duke Power Company was established in 1904. It is an investor-owned electric utility serving approximately 1.45 million customers in North Carolina and South Carolina. Its power is produced by a balanced generation mix primarily of coal and nuclear plants.

During the 12 months ended December 31, 1985, Duke's electric revenues amounted to approximately $2.9 billion, of which approximately 65 percent was derived from North Carolina customers. Among investor-owned utilities, the company ranks seventh in the United States in kilowatt-hour sales.



FINANCE

Declining interest rates in 1985 afforded NCMPA 1 the opportunity to issue debt at the lowest cost since 1979. During 1985, NCMPA 1 issued three series of bonds. The first, Series 1985 in the amount of $450 million, was issued in June at a true interest cost of 9.657 percent. The proceeds of this issue provided monies to repay at their maturity (January 1, 1986) the entire $100 million principal amount of Series 1983 Bond Anticipation Notes, and to continue financing the agency's portion of the costs of constructing the Catawba project.

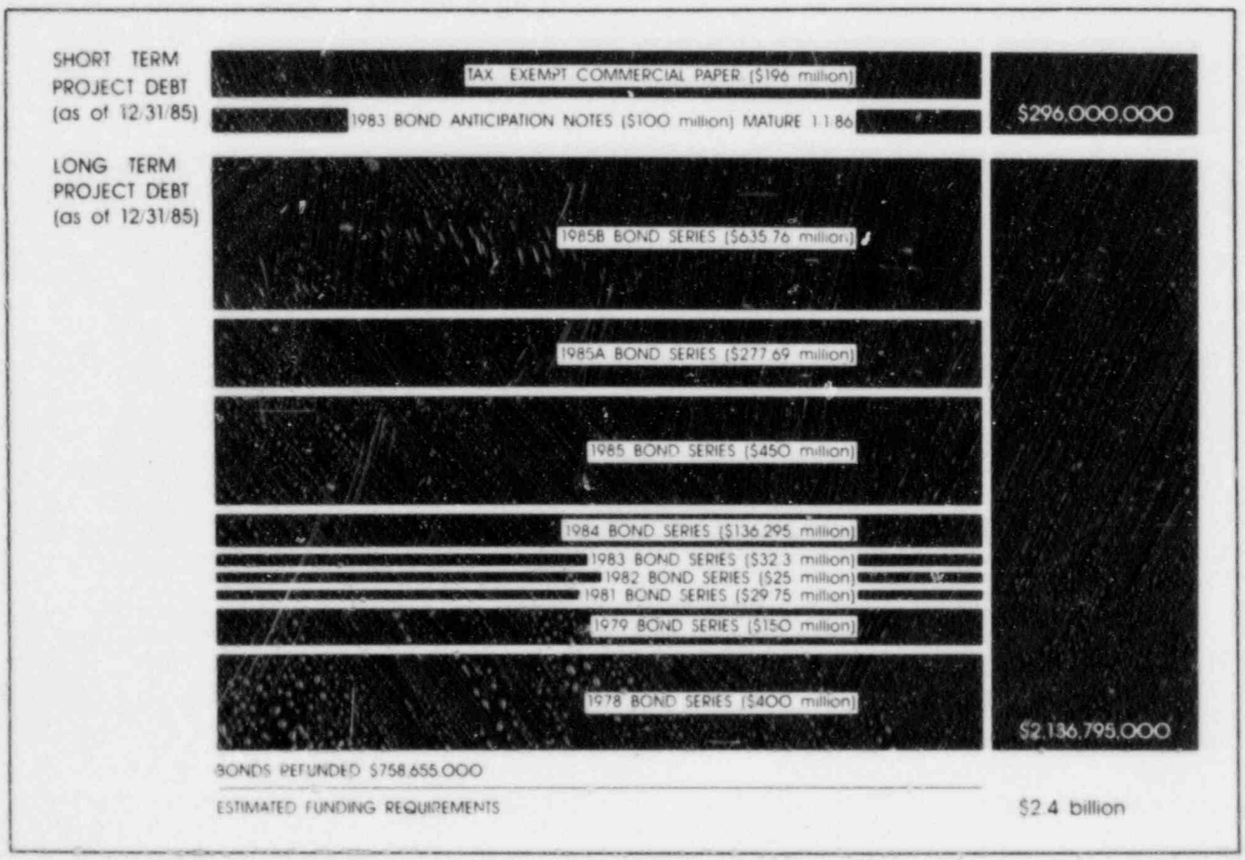
The proceeds of the second and third 1985 issues were used to advance refund bonds previously issued at higher interest costs. These issues, $277.69 million Series 1985A issued in November and $637.76 million Series 1985B issued in December, had true interest costs of 9.795 percent and 9.166 percent, respectively. By the advance refunding of a total of $758.655 million of previously issued bonds, the agency was able to reduce its cost of debt service by approximately $3.5 million per year over the next 35 years.

Another important component of NCMPA 1's financing program, tax-exempt commercial paper (TECP) marked its first full year in 1985. The agency continued to meet the TECP program's goals, which included obtaining funds at a lower cost, expanding the agency's financial flexibility and reaching a new source of investors for the agency. During the year, $196 million of TECP remained outstanding with an average interest cost since inception (November 29, 1984) of 5.196 percent. Since inception of the program, the use of TECP as a financing vehicle has saved the agency in excess of $11 million in interest.

As of December 31, 1985, outstanding debt of the Catawba project included $2,136,795,000 of bonds and $196,000,000 of TECP. Also outstanding was $100,000,000 of bond anticipation notes which were retired on January 1, 1986. NCMPA 1 currently estimates the need to issue $263.2 million of additional bonds to complete the financing of the project, assuming the projected December 1986, commercial operation date for Catawba Unit 2. Approximately $220 million of these bonds will be used to refund outstanding TECP and the remainder will be used to pay construction costs. The total funding requirement for the Catawba project is currently estimated at $2.4 billion, which reflects the June 29, 1985, commercial operation of Unit 1, and the improved projected commercial operation date of December 1986, for Unit 2.

The investment of idle funds is also an important aspect of the agency's operations. During 1985 NCMPA 1 entered into 847 investment transactions totalling $4.092 billion. The investments earned $58.8 million for NCMPA 1 at an average yield of 9.55 percent. As of December 31, 1985, the investment portfolio balance of all NCMPA 1 accounts was $762,944,000.

When reviewing the agency, an important factor is the involvement of the North Carolina Local Government Commission. This unique state body, a division of the Department of the State Treasurer, is involved in all aspects of the agency's financing. The commission actually sells the agency's bonds and has statutory authority to require participating cities to set electric rates at levels sufficient to meet their obligations under the agency's take-or-pay contracts.



MANAGEMENT STAFF

James T. Bobo
General Manager

Fred M. Mills, Jr.
Director—Government Affairs

William G. Wemhoff
Director—Engineering

William H. Batt
Director—Finance and Administration

Jack S. Childs
Director—Communications

CONSULTANTS TRUSTEES

North Carolina Counsel
Poyner & Spruill
Rocky Mount, N.C.

Washington Counsel
Spiegel & McDiarmid
Washington, D.C.

Bond Counsel
Wood Dawson Smith & Hellman
New York, N.Y.

Engineering Consultant
R. W. Beck and Associates
Orlando, Fla.

Bond Fund Trustee
Chemical Bank
New York, N.Y.

Construction Fund Trustee
Wachovia Bank and Trust Company, N.A.
Winston-Salem, N.C.

PAYING AGENTS

Chemical Bank
New York, N.Y.

Continental Illinois National Bank and Trust Company of Chicago
Chicago, Ill.

Wachovia Bank and Trust Company, N.A.
Winston-Salem, N.C.

auditors' opinion

Touche Ross

Board of Commissioners
North Carolina Municipal Power
Agency Number 1
Raleigh, North Carolina

We have examined the balance sheets of North Carolina Municipal Power Agency Number 1 as of December 31, 1985 and 1984, and the related statements of revenues and expenses and changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of North Carolina Municipal Power Agency Number 1 at December 31, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 22, 23, and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Touche Ross & Co.

Certified Public Accountants
Raleigh, North Carolina
March 13, 1986

balance sheets

($000s)	December 31, 1985	1984
ASSETS		
ELECTRIC UTILITY PLANT (Notes B, C, and E):		
Electric plant in service, net of accumulated depreciation of $10,424	$ 708,850	$
Construction work in progress	710,543	1,214,546
Nuclear fuel, net of accumulated amortization of $8,826 in 1985	104,064	88,515
	1,523,457	1,303,061
NON-UTILITY PROPERTY AND EQUIPMENT (Notes B and G)	1,350	
SPECIAL FUNDS INVESTED (Notes B and E):		
Construction fund	330,230	114,580
Bond fund	275,913	240,470
Reserve and contingency fund	21,322	17,084
Decommissioning fund	4,278	2,270
Special reserve fund	1,153	1,135
Commercial paper account	33,699	128,029
	666,595	503,569
CURRENT ASSETS:		
Funds invested (Notes B and E):		
Revenue fund	53,791	13,821
Operating fund	13,775	2,468
Supplemental fund	28,783	31,703
	96,349	47,992
Participant accounts receivable	11,087	9,845
Receivable from Duke Power Company	10,797	
Prepaid expenses	2,171	99
	120,404	57,936
DEFERRED COSTS:		
Unamortized debt issuance costs (Note B)	44,219	34,632
Net costs to be recovered from future billings to participants (Note D)	34,949	
Development costs		20
	$2,390,974	$1,899,218

See notes to financial statements.

north carolina municipal power agency number 1

	December 31, 1985	1984
LIABILITIES AND FUND BALANCE		
LONG-TERM DEBT:		
Bonds (Notes C and E)	**$2,132,205**	$1,532,000
Bond anticipation notes (Note F)		100,000
Notes payable (Note G)	**1,097**	
Unamortized discount	**(121,648)**	(37,382)
	2,009,654	1,594,618
SPECIAL FUNDS LIABILITIES:		
Construction payables	**523**	6,807
Current maturities of bonds (Note E)	**4,590**	
Bond anticipation notes (Note F)	**100,000**	
Tax-exempt commercial paper (Note H)	**196,000**	196,000
Accrued interest on bonds	**60,086**	69,218
Accrued interest on bond anticipation notes	**3,250**	3,250
Accrued interest on commercial paper	**1,693**	896
	366,142	276,171
CURRENT LIABILITIES:		
Notes payable (Note G)	**254**	
Accounts payable	**196**	9,734
Accrued taxes	**977**	91
	1,427	9,825
DEFERRED REVENUES (Note D)		9,350
COMMITMENTS AND CONTINGENCIES (Notes C, H, I, and J)		
FUND BALANCE	**13,751**	9,254
	$2,390,974	$1,899,218

statements of revenues and expenses and changes in fund balance

($000s)	Year Ended December 31, 1985	1984
OPERATING REVENUES:		
Sales of electricity to participants	**$123,020**	$109,970
Sales of electricity to utilities	**83,175**	33
	206,195	110,003
OPERATING EXPENSES:		
Operation and maintenance	**15,090**	
Nuclear fuel	**10,490**	
Interconnection services:		
Purchased power	**108,450**	79,144
Transmission and distribution	**13,309**	12,491
Other	**315**	347
	122,074	91,982
Administrative and general	**5,087**	1,477
Gross receipts tax	**3,899**	6,488
Depreciation	**10,512**	
	167,152	99,947
NET OPERATING INCOME	**39,043**	10,056
INTEREST CHARGES (CREDITS):		
Interest expense	**175,899**	146,359
Amortization of debt discount and issuance costs	**3,700**	2,674
Investment income	**(58,777)**	(46,466)
Net interest capitalized (Note C)	**(81,731)**	(103,976)
	39,091	(1,409)
NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS (DEFERRED REVENUES) (Note D)	**44,299**	(9,066)
EXCESS OF REVENUES OVER EXPENSES BEFORE EXTRAORDINARY ITEM	**44,251**	2,399
EXTRAORDINARY ITEM:		
Loss on bond refundings (Note E)	**39,754**	
EXCESS OF REVENUES OVER EXPENSES	**4,497**	2,399
FUND BALANCE, beginning of year	**9,254**	6,855
FUND BALANCE, end of year	**$ 13,751**	$ 9,254

See notes to financial statements.

statements of changes in financial position

north carolina municipal power agency number 1

($000s)	Year Ended December 31, 1985	1984
SOURCE OF FUNDS:		
Operations:		
Excess of revenues over expenses before extraordinary item	$ 44,251	$ 2,399
Depreciation and amortization	14,212	2,674
Amortization of nuclear fuel	10,490	
(Net costs to be recovered from future billings to participants) deferred revenues	(44,299)	9,066
Funds provided by operations	24,654	14,139
Extraordinary item	(39,754)	
Proceeds from sale of bonds	1,363,450	432,000
Increase in special funds liabilities	89,971	97,679
Proceeds from notes payable	1,510	
Decrease (increase) in development costs	20	(20)
	1,439,851	543,798
APPLICATION OF FUNDS:		
Bonds refunded	758,655	275,000
Additions to electric utility plant	241,310	286,123
Increase (decrease) in special funds invested	163,026	(44,404)
Provision for retirement of bond anticipation notes	100,000	
Net additions to unamortized debt discount and issuance costs	99,553	14,284
Provision for retirement of bonds	4,590	
Additions to non-utility property and equipment	1,438	
Provision for retirement of notes payable	413	
	1,368,985	531,003
INCREASE IN WORKING CAPITAL	$ 70,866	$ 12,795
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase in current assets:		
Funds invested	$ 48,357	$ 14,569
Participant accounts receivable	1,242	1,462
Receivable from Duke Power Company	10,797	
Prepaid expenses	2,072	41
	62,468	16,072
(Increase) decrease in current liabilities:		
Notes payable	(254)	
Accounts payable	9,538	(3,416)
Accrued taxes	(886)	139
	8,398	(3,277)
INCREASE IN WORKING CAPITAL	$ 70,866	$ 12,795

See notes to financial statements.

notes to financial statements

Years Ended December 31, 1985 and 1984

A GENERAL MATTERS

North Carolina Municipal Power Agency Number 1 (agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipalities owning electric distribution systems, through the organization of the agency, to finance, construct, operate, and maintain electric generation and transmission facilities. The agency has twenty members, nineteen (participants) which receive power from the agency and one which receives power from Duke Power Company (Duke).

The agency has entered into several agreements with Duke which govern the purchase, ownership, construction, operation, and maintenance of the project:

The Purchase, Construction, and Ownership Agreement provides, among other things, for the agency to purchase a 75% undivided ownership interest in Unit 2 of the Catawba Nuclear Station (station) and a 37.5% undivided ownership interest in certain support facilities of the station. However, by virtue of various provisions in the Interconnection Agreement and the Operation and Fuel Agreement, the agency (1) bears the costs of acquisition, construction, operation, and maintenance of 37.5% of Unit 1 and 37.5% of Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units. The agency's share of costs associated with Unit 1 and the support facilities were transferred from construction work in progress to electric plant in service after Unit 1 began commercial operation on June 29, 1985.

The Interconnection Agreement provides for the interconnection between Duke's electric power system and the agency's project and for the exchange of power between Unit 1 and Unit 2 of the station and between the Catawba units and Duke's McGuire Nuclear Station. The agreement also provides for the purchase and sale of capacity and energy, and the transmission of energy to the agency's participants.

The Operation and Fuel Agreement provides for Duke to operate, maintain, and fuel the station; to make renewals, replacements, and capital additions as approved by the agency; and for the ultimate decommissioning of the station at the end of its useful life.

The agency's acquisition of its ownership interest is being financed by the issuance of electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (resolution) of the Board of Commissioners of the agency. The resolution establishes special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the project, and to establish certain reserves. The resolution also establishes special funds in which project revenues are deposited and from which project operating costs, debt service, and other payments relating to the project are made.

The agency has entered into a Project Power Sales Agreement and a Supplemental Power Sales Agreement with each of the participants. These agreements provide for each participant to purchase from the agency its all requirements bulk power supply, in excess of power allotments from Southeastern Power Administration (SEPA), which includes its total share of project output (as defined by the Project Power Sales Agreement). The agency is obligated to provide all electric power required by each participant at the respective delivery points. Each participant is obligated to pay its share of the operating and debt service costs of the project.

In July 1983, the agency's participants began receiving their total electric power, exclusive of power allotments from SEPA, from the agency. Such power is provided by project output together with supplemental purchases of power from Duke. Pursuant to two "Reliability Exchanges" contained in the Interconnection Agreement, project output will be provided in essentially equal amounts from Catawba Unit 2 and three other nuclear units (Catawba Unit 1, McGuire Unit 1, and McGuire Unit 2) in operation on the Duke system, all of which are of similar size and capacity. The reliability exchanges are intended to make more reliable the supply of capacity and energy to the agency in the amount to which the agency is entitled pursuant to its ownership interest in Catawba Unit 2, and to mitigate potential adverse economic effects on the agency and the participants from unscheduled outages of Catawba Unit 2. Correspondingly, the agency bears risks resulting from unscheduled outages of any Catawba or McGuire Unit.

B SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounts of the agency are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with generally accepted accounting principles (GAAP).

Electric Plant in Service

All direct and indirect expenditures associated with the development and construction of the agency's 37.5% cost responsibility associated with Catawba Unit 1 now in commercial operation, and its related interest in certain support facilities of the station, including interest expense net of investment income on funds not yet expended, have been transferred from construction work in progress to electric plant in service at original cost. Depreciation commenced as of June 29, 1985, the date of commercial operation of Catawba Unit 1, and is calculated on a straight-line basis over thirty-five years.

Construction Work in Progress

All direct and indirect expenditures associated with the development and construction of Catawba Unit 2, including interest expense net of investment income on funds not yet expended, are capitalized as construction work in progress until such time as Unit 2 becomes operational. Depreciation expense will be recognized on Unit 2 when operations commence, currently scheduled for late 1986.

Nuclear Fuel

All direct and indirect expenditures related to the purchase and construction of nuclear fuel cores, including interest expense net of investment income on funds not yet expended, are capitalized until such time as the cores are placed in the reactor and the reactor becomes operational. At that time, they are amortized and charged to fuel expense on the units of production method. Amortization of nuclear fuel costs began for the agency's share of Catawba Unit 1 when it became operational on June 29, 1985 and includes a provision of $1,664,000 for estimated disposal costs.

Non-Utility Property and Equipment

All direct and indirect expenditures related to purchasing and installing an in-house computer, jointly owned with North Carolina Eastern Municipal Power Agency (NCEMPA), are capitalized and are being depreciated over four years. Also included is the land, jointly owned with NCEMPA, to be used as the site for administrative offices for both agencies and ElectriCities of North Carolina, Inc. (ElectriCities).

B SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments included in the funds invested categories are stated at amortized cost, which approximates market value, plus accrued interest. Investments include securities of the U.S. Government and governmental agencies and securities collateralized by securities of the U.S. Government and governmental agencies.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs, shown net of accumulated amortization, are deferred and amortized on a straight-line basis over the term of the related debt.

Taxes

Income of the agency is exempt from Federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the agency from property and franchise or other privilege taxes. In lieu of North Carolina property taxes, the agency will pay an amount which would otherwise be assessed on the non-utility property and equipment of the agency. South Carolina does not require the payment of property taxes on generating units until they begin commercial operation. Property taxes will be due on Catawba Unit 1 beginning in 1986. During 1984, in lieu of a franchise or privilege tax, the agency paid to North Carolina an amount equal to 6% of the gross receipts from sales of electricity to participants. Effective January 1, 1985, the gross receipts tax rate was reduced to 3.22%.

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to classifications used in the current year.

C CONSTRUCTION PROGRAM

The agency has substantial commitments to Duke in connection with the construction of the station. The agency's direct costs of construction, including nuclear fuel but excluding capitalized interest and agency expenses, are presently estimated to be $1,117,520,000. These costs, together with provisions for working capital and debt service costs during the construction period, will require the use of the proceeds from the issuance of up to an estimated $2,400,000,000 of Catawba Electric Revenue Bonds (bonds). Any future changes in the construction schedule may affect the cost of such facilities and therefore affect the amount of bonds to be issued.

Interest costs of $135,336,000 and $146,093,000 were capitalized as part of the cost of power plants under construction during 1985 and 1934, respectively. The capitalized interest costs were offset by $53,605,000 and $42,117,000 in interest earned on related unexpended bond proceeds for 1985 and 1984, respectively.

D NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS

Rates for power billings to participants are designed to cover the agency's "costs" as defined by (1) the resolution, (2) the Project Power Sales Agreements, and (3) the Supplemental Power Sales Agreements. The agency's rates are structured to systematically provide for the debt requirements, operating funds, and reserves as specified by the resolution and power sales agreements. Recognition of "expenses" (defined according to GAAP) which are not included as "costs," is deferred to such period as it is intended that such "expenses" be covered by rates. Recognition of those "revenues," which under the resolution and the power sales agreements, are collected to cover "costs" that are not "expenses," is deferred to such period as it is intended that such "revenues" cover "expenses."

All rates must be approved by the board. Rates are designed on an annual basis and are reviewed quarterly. If determined to be inadequate, rates may be revised.

Net costs to be recovered from future billings to participants include the following (in thousands of dollars):

	Year Ended December 31,		Inception to December 31,	
	1985	**1984**	**1985**	**1984**
GAAP Items Not Included in Billings to Participants:				
Interest costs not capitalizable	**$43,047**	$ 2,940	**$47,457**	$ 4,410
Loss on bond refundings	**39,754**		**39,754**	
Depreciation	**10,512**		**10,512**	
Amortization of debt discount and issuance costs	**930**		**930**	
TECP dealer and bank fees	**197**		**197**	
	94,440	2,940	**98,850**	4,410
Bond Resolution Requirements Included in Billings to Participants:				
Special funds deposits	**48,297**	11,334	**61,374**	13,077
Debt service	**159**		**159**	
Investment income not available for operating purposes	**2,290**	672	**2,973**	683
Reserve and contingency fund valuation	**(605)**		**(605)**	
	50,141	12,006	**63,901**	13,760
Net costs to be recovered from future billings to participants (deferred revenues)	**$44,299**	$(9,066)	**$34,949**	$(9,350)

notes to financial statements

Years Ended December 31, 1985 and 1984

E BONDS

The agency has been authorized to issue bonds in accordance with the terms, conditions, and limitations of the resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the project, as defined, and/or for other purposes set forth in the resolution. On November 6, 1985, the Local Government Commission of the State of North Carolina (LGC) approved the issuance of such bonds up to a maximum principal amount of $2,400,000,000; additional LGC approval must be obtained for the issuance of bonds in excess of this amount.

As of December 31, 1984, the agency had issued $1,532,000,000 of the total authorized bonds. During 1985, an additional $1,363,450,000 was issued (Series 1985, 1985A, and 1985B) with $758,655,000 (portions of Series 1981, 1982, 1983, and 1984, and the remainder of Series 1981A) refunded, bringing the total outstanding bonds at December 31, 1985 to $2,136,795,000 as follows (in thousands of dollars):

SERIES 1978	
5.2% to 6.45% maturing annually from 1986 to 2000	$ 77,905
6.6% maturing in 2003 with annual sinking fund requirements beginning in 2001	25,870
6.7% maturing in 2008 with annual sinking fund requirements beginning in 2004	55,935
6.875% maturing in 2020 with annual sinking fund requirements beginning in 2009	240,290
	400,000
SERIES 1979	
5.75% to 6.9% maturing annually from 1986 to 2000	27,200
7.1% maturing in 2004 with annual sinking fund requirements beginning in 2001	12,905
7.375% maturing in 2020 with annual sinking fund requirements beginning in 2005	109,895
	150,000
SERIES 1981	
9.4% to 10% maturing annually from 1991 to 1995	4,750
8.5% maturing in 2017 with annual sinking fund requirements beginning in 2011	25,000
	29,750
SERIES 1982	
7.5% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000
SERIES 1983	
8% to 9.25% maturing annually from 1991 to 1996	7,300
7% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000
	32,300
SERIES 1984	
8.5% to 10.2% maturing annually from 1991 to 1998	36,295
10% maturing in 2014 with annual sinking fund requirements beginning in 2011	50,000
7.5% maturing in 2019 with annual sinking fund requirements beginning in 2017	50,000
	136,295
SERIES 1985	
7.25% to 9.1% maturing annually from 1991 to 2000	$ 52,445
9.375% maturing in 2005 with annual sinking fund requirements beginning in 2001	40,000
9% maturing in 2013 with annual sinking fund requirements beginning in 2005	136,760
9.5% maturing in 2019 with annual sinking fund requirements beginning in 2014	170,795
7% maturing in 2020 with annual sinking fund requirements beginning in 2019	50,000
	450,000
SERIES 1985A	
7.3% to 9.2% maturing annually from 1991 to 2000	8,510
9.375% maturing in 2005 with annual sinking fund requirements beginning in 2001	21,005
9% maturing in 2014 with annual sinking fund requirements beginning in 2006	95,270
9.625% maturing in 2019 with annual sinking fund requirements beginning in 2015	113,360
7% maturing in 2020	39,545
	277,690
SERIES 1985B	
7.4% to 8.75% maturing annually from 1991 to 2002	109,865
8.75% maturing in 2005 with annual sinking fund requirements beginning in 2003	61,935
8.5% maturing in 2017 with annual sinking fund requirements beginning in 2006	338,345
6% maturing in 2020 with annual sinking fund requirements beginning in 2018	125,615
	635,760
	2,136,795
Less current maturities of bonds	4,590
	$2,132,205

Certain proceeds of the Series 1985A and 1985B Bonds were used to establish trusts for refunding portions of the Series 1981, 1981A, 1982, 1983, and 1984 Bonds, totalling $95,250,000; $25,000,000; $175,000,000; $167,700,000; and $295,705,000, respectively. Under both Refunding Trust Agreements, obligations of or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the respective Refunding Trust Funds, along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due and to redeem all refunded bonds at various dates prior to their original maturities, in amounts ranging from par to a maximum redemption price of 103%. The monies on deposit in each Refunding Trust Fund, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the agency.

Under GAAP, the agency is required to recognize a loss on refundings, aggregating $93,300,000 for both refundings. Of this amount, $53,546,000 has been capitalized as construction work in progress. The remaining $39,754,000 has been recorded as an extraordinary item, is included in net costs to be recovered from future billings to participants, and is to be recovered through the principal payments of debt service on the Series 1985A and 1985B Bonds. As a result of the refundings, the agency will benefit from reduced debt service costs over the lives of the Series 1985A and 1985B Bonds.

E BONDS (continued)

Interests on the bonds is payable semi-annually. The bonds are subject to redemption prior to maturity at the option of the agency, on or after the following dates at a maximum of 103% of the respective principal amounts:

Series 1978	January 1, 1989
Series 1979	January 1, 1990
Series 1981	January 1, 1991
Series 1982 and 1983	January 1, 1993
Series 1984	January 1, 1994
Series 1985	January 1, 1995
Series 1985A and 1985B	January 1, 1996

The bonds are special obligations of the agency, payable solely from and secured solely by (1) project revenues (as defined by the resolution) after payment of project operating expenses (as defined by the resolution) and (2) other monies and securities pledged for payment thereof by the resolution.

The resolution requires the agency to deposit into special funds all proceeds of bonds issued and all project revenues (as defined by the resolution) generated as a result of the Project Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the resolution.

Maturities of outstanding bonds through 1990 and thereafter are as follows (in thousands of dollars):

1986	$ 4,590
1987	4,840
1988	5,100
1989	5,385
1990	5,690
Thereafter	2,111,190
	$2,136,795

F BOND ANTICIPATION NOTES

Bond anticipation notes in the aggregate principal amount of $100,000,000 matured January 1, 1986 and were retired from the proceeds of the Series 1985 Bonds.

G NOTES PAYABLE

In March 1985, the agency, together with NCEMPA, borrowed $1,600,000 to finance the acquisition of a computer jointly owned by the agency and NCEMPA. The agency's obligation to repay this borrowing, which is currently not collateralized, is limited to $800,000, plus accrued interest thereon at a rate of 7.85% per annum, and is being repaid in equal monthly installments, including interest, of $20,000 through April 1989.

In April 1985, the agency, together with NCEMPA, borrowed $1,420,000 to finance the acquisition of real estate jointly owned with NCEMPA, which is proposed to be the site of administrative offices for the two agencies and ElectriCities. The agency's obligation to repay this borrowing, which is currently not collateralized, is limited to $710,000, plus accrued interest thereon at the rate of 8.15% per annum, and is being repaid in equal monthly installments, including interest, of $10,000 through April 1989 with a payment of $410,000 in May 1989.

The outstanding balance on these notes is $1,351,000 at December 31, 1985.

H TAX-EXEMPT COMMERCIAL PAPER

The agency has authorized the issuance of tax-exempt commercial paper (TECP) to provide interim financing in an amount not to exceed $200,000,000. As of December 31, 1985, the agency had $196,000,000 TECP outstanding with an average maturity of 112 days and an average interest rate of 5.167%. To provide funds to pay principal and interest on the TECP when due, the agency has a letter of credit with a bank for which the agency pays a fee of approximately $625,000 per year. There were no borrowings against the letter of credit at December 31, 1985.

I COMMITMENTS

The agency has a contractual agreement with ElectriCities whereby ElectriCities provides, at cost, general management services to the agency. This agreement is for three years continuing through December 31, 1986, and shall be automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term. Such notice has not been tendered by either party.

For the years ended December 31, 1985 and 1984, the agency paid ElectriCities $1,932,000 and $1,463,000, respectively, of which $212,000 and $231,000, respectively, has been capitalized as construction work in progress.

J CONTINGENCIES

A full power license for Catawba Unit 1 was issued by the Nuclear Regulatory Commission (NRC) on January 17, 1985. Duke has applied to the NRC for an operating license for Catawba Unit 2. The license is expected to be received prior to the end of the construction period. However, there is no assurance that the NRC will issue a license and Catawba Unit 2 cannot be placed into service without it.

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to $655,000,000, which amount is to be covered by private insurance and agreements of indemnity with the NRC. Such private insurance and agreements of indemnity are carried by Duke on behalf of all co-owners of the station. The terms of this coverage require the owners of all licensed facilities to provide up to $5,000,000 per year per unit owned in the event of any nuclear incident involving any licensed facility in the nation with a maximum of $10,000,000 per year per unit owned in the event of more than one incident. If any such payments are required after the station has received its operating license, the agency would be liable for 37.5% of those payments applicable to the station.

Property damage insurance coverage presently available for the station has a maximum benefit limited to $1,090,000,000. Such available coverage has been obtained.

schedules of changes in assets of funds invested

($000s)	Funds Invested January 1, 1984	Bond and Note Proceeds	Power Billing Receipts	Investment Income	Disbursements
CONSTRUCTION FUND:					
Construction account	$120,873	$ 86,859	$	$ 7,733	$(234,856)
Construction interest account	151,755	2,032		10,694	
Construction revolving account	102			9	(2)
Note interest account	14,908			457	(11,500)
Note interest 1983 account	17,572			1,169	(6,500)
	305,210	88,891		20,062	(252,858)
BOND FUND:					
Interest account	65,624	5,440		491	(134,702)
Reserve account	160,200	8,612		18,194	
Principal account					
	225,824	14,052		18,685	(134,702)
RESERVE AND CONTINGENCY FUND	15,299	861		1,716	
DECOMMISSIONING FUND	613			150	
SPECIAL RESERVE FUND	1,027			109	
COMMERCIAL PAPER ACCOUNT		196,000		1,583	(210)
REVENUE FUND:					
Revenue account	3,218		22,037	413	(377)
Rate stabilization account	663			672	
	3,881		22,037	1,085	(377)
OPERATING FUND:					
Working capital account	2,245			171	(11,496)
Fuel account					
	2,245			171	(11,496)
SUPPLEMENTAL FUND	[illegible]		86,566	2,905	(85,065)
	[illegible]	$299,804	$108,603	$46,466	$(484,708)

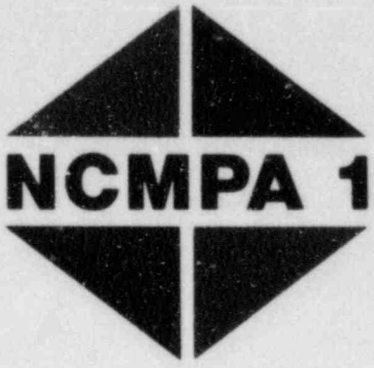
north carolina municipal power agency number 1

Transfers	Funds Invested December 31, 1984	Bond and Note Proceeds	Power Billing Receipts	Investment Income	Disbursements	Transfers	Funds Invested December 31, 1985
$ 38,423	$ 19,032	$197,742	$	$ 7,627	$(118,702)	$ 57,913	$163,612
(80,248)	84,233	162,943		12,746		(97,288)	162,634
(5)	104			7		(10)	101
(3,865)							
(1,030)	11,211			520	(6,500)	(1,348)	3,883
(46,725)	114,580	360,685		20,900	(125,202)	(40,733)	330,230
132,466	69,319	(21,255)		235	(138,436)	148,262	58,125
(15,855)	171,151	40,700		20,687		(19,400)	213,138
				186		4,464	4,650
116,611	240,470	19,445		21,108	(138,436)	133,326	275,913
(792)	17,084	4,070		1,955	(9)	(1,778)	21,322
1,507	2,270			289		1,719	4,278
	1,136			116		(99)	1,153
(69,344)	128,029			9,407	(10,456)	(93,281)	33,699
(21,954)	3,337		22,606	365	18,814	(40,089)	5,033
9,149	10,484			2,291		35,983	48,758
(12,805)	13,821		22,606	2,656	18,814	(4,106)	53,791
11,548	2,468			349	(26,947)	30,720	6,590
						7,185	7,185
11,548	2,468			349	(26,947)	37,905	13,775
	31,703	1,510	99,314	1,997	(72,788)	(32,953)	28,783
$	$551,561	$385,710	$121,920	$58,777	$(355,024)	$	$762,944

schedules of revenues and expenses per bond resolution and other agreements

north carolina municipal power agency number 1

($000s)	Year Ended December 31, 1985			Year Ended December 31, 1984		
	Project	Supplemental	Total	Project	Supplemental	Total
REVENUES:						
Sales of electricity to participants	$ (3,120)	$126,135	$123,015	$22,880	$87,084	$109,964
Sales of electricity to utilities	83,175		83,175	33		33
Investment revenue available for operations	770	2,112	2,882	770	2,907	3,677
Other revenues		5	5	1	5	6
	80,825	128,252	209,077	23,684	89,996	113,680
EXPENSES:						
Operation and maintenance	15,090		15,090			
Nuclear fuel	10,490		10,490			
Interconnection services:						
Purchased power	3,854	104,596	108,450	10,307	68,837	79,144
Transmission and distribution		13,309	13,309		12,491	12,491
Other		315	315		347	347
	3,854	118,220	122,074	10,307	81,675	91,982
Administrative and general-Duke	2,873		2,873			
Administrative and general-agency	926	1,288	2,214	670	807	1,477
Gross receipts tax	(100)	3,999	3,899	1,373	5,115	6,488
Debt service	4,590	248	4,838			
Reserve and contingency fund valuation	(605)		(605)			
Special funds deposits:						
Decommissioning fund	1,769		1,769	1,507		1,507
Revenue fund	349		349	171		171
Rate stabilization fund	40,919		40,919	9,656		9,656
Reserve and contingency fund	670		670			
	43,707		43,707	11,334		11,334
	80,825	123,755	204,580	23,684	87,597	111,281
EXCESS OF REVENUES OVER EXPENSES	$	$ 4,497	$ 4,497	$	$ 2,399	$ 2,399



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