



**NORTH CAROLINA EASTERN MUNICIPAL  
POWER AGENCY**

Annual Financial Report  
(With Independent Auditors' Report Thereon)

December 31, 2011 and 2010

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**North Carolina Eastern Municipal Power Agency  
Annual Financial Report  
Years Ended December 31, 2011 and 2010**

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## Independent Auditors' Report

The Board of Directors  
North Carolina Eastern Municipal Power Agency  
Raleigh, North Carolina

We have audited the accompanying balance sheets of North Carolina Eastern Municipal Power Agency as of December 31, 2011 and 2010, and the related statements of revenues and expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Eastern Municipal Power Agency as of December 31, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis section listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and, accordingly, express no opinion thereon.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information as listed in the table of contents as of and for the years ended December 31, 2011 and 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**CHERRY, BEKAERT & HOLLAND, L.L.P.**

*Cherry, Bekaert & Holland JP*

April 1, 2012,  
Raleigh, North Carolina

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## **Management's Discussion and Analysis (MD&A)**

As management of North Carolina Eastern Municipal Power Agency (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2011 and 2010. We encourage you to read this information in conjunction with the information furnished in the Agency's financial statements that follow this narrative.

### **Financial Highlights**

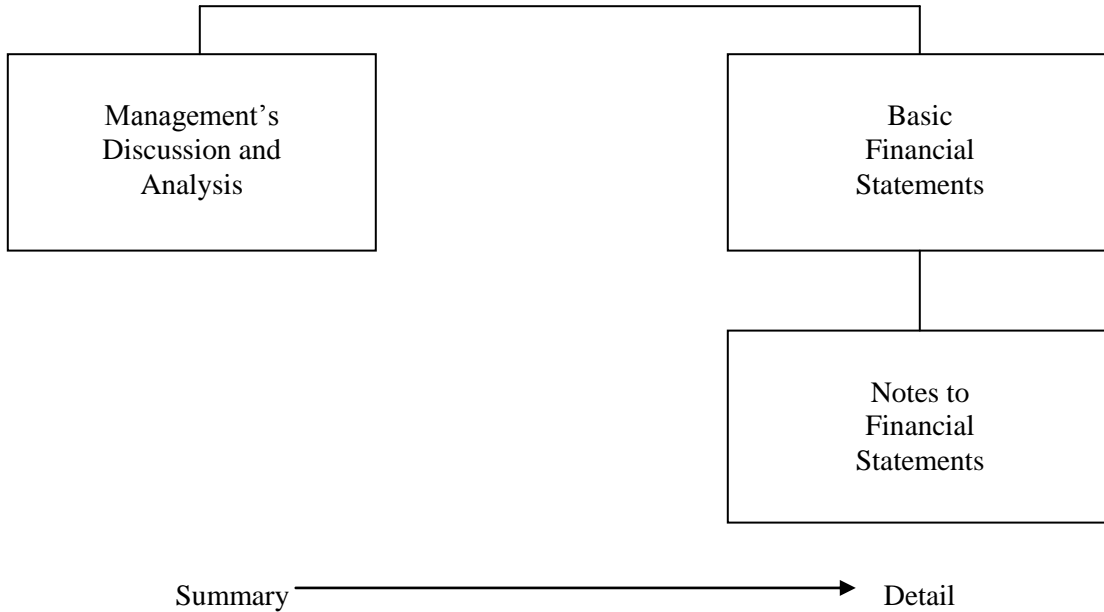
- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2011 and 2010, the Agency's assets exceeded its liabilities by \$81,296,000 and \$65,183,000, respectively (fund equity).
- The Agency's fund equity increased by \$16,113,000 and \$10,754,000 for 2011 and 2010, respectively.
- Year-end 2011 and 2010 unrestricted fund equity was \$484,570,000 and \$571,447,000, respectively, and decreased \$86,877,000 and \$75,843,000 during 2011 and 2010, respectively.
- The Agency's total debt decreased \$141,820,000 and \$169,930,000 during 2011 and 2010, respectively, as follows:
  - Decreased \$141,820,000 and \$124,915,000 in 2011 and 2010, respectively, due to principal paid January 1, 2011 and 2010 in accordance with debt service schedules.
  - Decreased \$45,015,000 in 2010 due to a refunding.
- In September 2010, the Agency refinanced some of its existing debt to take advantage of low interest rates.
  - In September 2010, the Agency issued \$146,145,000 of Series 2010 A Refunding Bonds to refund \$191,160,000 of previously issued bonds. Net present value savings realized were \$25,273,000 with debt service savings of \$1,611,000 in 2011 and ranging from \$495,000 to \$15,920,000 per year thereafter through 2023.
- The bond ratings increased or remained the same as follows:
  - Standard and Poor's – Unchanged at A- (stable).
  - Moody's – Unchanged at Baa1 (stable).
  - Fitch – Increased to A- (stable) from BBB+ (positive) in August 2010.
- There were no rate increases in 2011 or 2010.

### **Overview of the Financial Statements**

This MD&A is an introduction to the Agency's basic financial statements and notes to the financial statements (see Exhibit 1). In addition to the basic financial statements, this report contains other supplemental information designed to enhance your understanding of the financial condition of the Agency.



**Required Components of the Annual Financial Report  
Exhibit 1**



**Basic Financial Statements**

The Agency is a special purpose municipal corporation that accounts for its activities as a business type entity. The first section of the basic financial statements is the Agency's single proprietary fund that focuses on the business activities of the electric enterprise. The statements are designed to provide a broad overview of the Agency's finances, similar in format to private sector business statements, and provide short and long-term information about the Agency's financial status, operations and cash flow. The statements report fund equity and how it has changed during the period. Fund equity is the difference between total assets and total liabilities. Analyzing the various components of fund equity is one way to gauge the Agency's financial condition.

The second section of the basic financial statements is the notes that explain in more detail some of the data contained in the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are on pages 14 to 35 of this report.

After the notes, supplemental information is provided to show how the Agency's rates recovered its expenses as defined by the Bond Resolution, to show the Agency's performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 36 to 41 of this report.

**Financial Analysis**

The electric enterprise fund financial statements for the years ended December 31, 2011 and 2010 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

**Fund Equity**  
**Exhibit 2**  
**(\$000s)**

	December 31,		
	2011	2010	2009
<b>Assets</b>			
Capital assets	\$ 719,886	\$ 701,865	\$ 682,586
Current and other assets	2,201,917	2,302,372	2,344,121
Total assets	2,921,803	3,004,237	3,026,707
<b>Liabilities</b>			
Long-term liabilities outstanding	2,721,679	2,830,993	2,861,682
Other liabilities	118,828	108,061	110,596
Total liabilities	2,840,507	2,939,054	2,972,278
<b>Fund Equity</b>			
Invested in capital assets, net of related debt (deficit)	(485,485)	(594,671)	(706,824)
Restricted for debt service	82,211	88,407	113,963
Unrestricted	484,570	571,447	647,290
Total fund equity	<u>\$ 81,296</u>	<u>\$ 65,183</u>	<u>\$ 54,429</u>

The various components of fund equity may serve over time as a useful indicator of the Agency's financial condition. The assets of the Agency exceeded liabilities by \$81,296,000, \$65,183,000, and \$54,429,000 at December 31, 2011, 2010 and 2009, respectively, representing an increase of \$16,113,000 and \$10,754,000 for 2011 and 2010, respectively.

The deficit portion of fund equity of \$(485,485,000), \$(594,671,000) and \$(706,824,000) at December 31, 2011, 2010 and 2009, respectively, reflects the Agency's investments in capital assets (e.g. land, buildings, generation facilities, nuclear fuel and equipment), less any related debt outstanding that was issued to acquire or refinance those items. The deficit occurs because depreciation is expensed on a straight line basis over the life of the plant while debt repayment is structured similar to a home mortgage where early debt payments include more interest than principal and later payments include more principal than interest. This deficit was reduced during 2011 and 2010 because the payment of principal debt service on January 1 and the payment of capital additions from current operating funds exceeded depreciation expense.

These capital assets are used to provide electric power to Agency Participants. Consequently, these assets are not available for future spending. While the Agency's investments in capital assets are reported net of the outstanding related debt, the resources needed to repay that debt will be provided through future rates and certain reserve funds since the capital assets cannot be used to liquidate the liabilities.

An additional portion of the Agency's fund equity of \$82,211,000, \$88,407,000, and \$113,963,000 at December 31, 2011, 2010 and 2009, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$484,570,000, \$571,447,000, and \$647,290,000 at December 31, 2011, 2010 and 2009, respectively, is unrestricted fund equity.

**Changes in Fund Equity**  
**Exhibit 3**  
**(\$000s)**

	Years Ended December 31,		
	2011	2010	2009
<b>Revenues:</b>			
Operating revenues	\$ 704,040	\$ 729,042	\$ 692,723
Nonoperating revenues	16,519	17,195	21,871
Total Revenues	<u>720,559</u>	<u>746,237</u>	<u>714,594</u>
<b>Expenses:</b>			
Operating expenses	427,110	445,951	406,322
Interest on long-term debt	120,625	130,146	140,953
Other nonoperating expenses	156,711	159,386	147,638
Total Expenses	<u>704,446</u>	<u>735,483</u>	<u>694,913</u>
Increase in fund equity	16,113	10,754	19,681
Fund equity, Beginning of year	65,183	54,429	34,748
Fund equity, End of year	<u>\$ 81,296</u>	<u>\$ 65,183</u>	<u>\$ 54,429</u>

**Financial Highlights**

- There were no rate increases in 2011 or 2010.

**Capital Assets and Debt Administration**

**Capital Assets**

Investments in capital assets at December 31, 2011, 2010 and 2009 totaled \$719,886,000, \$701,865,000, and \$682,586,000, respectively, (net of accumulated amortization and depreciation) for an increase of \$18,021,000 and \$19,279,000 in 2011 and 2010, respectively. These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2011 and 2010 include the following:

- CWIP increased \$28,883,000 and \$43,729,000 in 2011 and 2010, respectively, due to capital additions projects at the joint units.
- Electric Plant in Service (EPIS) increased and CWIP decreased \$13,788,000 and \$53,241,000 in 2011 and 2010, respectively, due to the transfer of completed capital additions projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$29,818,000 and \$30,420,000 for 2011 and 2010, respectively.
- Nuclear Fuel was amortized \$22,505,000 and \$21,528,000 for 2011 and 2010, respectively.

**Capital Assets**  
**Exhibit 4**  
**(\$000s)**

Electric Utility Plant, Net

	December 31, 2010	Additions	Transfers	Retirements	December 31, 2011
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,661,354	\$ 2,168	\$ 13,788	\$ (5,246)	\$ 1,672,064
Nuclear Fuel	110,362	39,293	(17,114)		132,541
Total Depreciable Utility Plant	1,771,716	41,461	(3,326)	(5,246)	1,804,605
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,039,467)	(29,732)		5,246	(1,063,953)
Nuclear Fuel	(51,171)	(22,505)	17,114		(56,562)
Total Accumulated Depreciation and Amortization	(1,090,638)	(52,237)	17,114	5,246	(1,120,515)
Depreciable Utility Plant, Net	681,078	(10,776)	13,788	-	684,090
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	5,243	28,883	(13,788)		20,338
Total Electric Utility Plant, Net	\$ 700,508	\$ 18,107	\$ -	\$ -	\$ 718,615

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,616,440	\$ 1,938	\$ 53,241	\$ (10,265)	\$ 1,661,354
Nuclear Fuel	94,202	25,559	(9,399)		110,362
Total Depreciable Utility Plant	1,710,642	27,497	43,842	(10,265)	1,771,716
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,019,415)	(30,317)		10,265	(1,039,467)
Nuclear Fuel	(39,042)	(21,528)	9,399		(51,171)
Total Accumulated Depreciation and Amortization	(1,058,457)	(51,845)	9,399	10,265	(1,090,638)
Depreciable Utility Plant, Net	652,185	(24,348)	53,241	-	681,078
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	14,755	43,729	(53,241)		5,243
Total Electric Utility Plant, Net	\$ 681,127	\$ 19,381	\$ -	\$ -	\$ 700,508

## Non-Utility Plant and Equipment, Net

	December 31,				December 31,
	2010	Additions	Transfers	Retirements	2011
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242	\$ -	\$ -	\$ -	\$ 2,242
Accumulated Depreciation	(1,595)	(86)			(1,681)
Total Depreciable Property and Equipment, Net	647	(86)	-	-	561
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,357</u>	<u>\$ (86)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271</u>

	December 31,				December 31,
	2009	Additions	Transfers	Retirements	2010
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,241	\$ 1	\$ -	\$ -	\$ 2,242
Accumulated Depreciation	(1,492)	(103)			(1,595)
Total Depreciable Property and Equipment, Net	749	(102)	-	-	647
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,459</u>	<u>\$ (102)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,357</u>

Additional information on capital assets can be found in Note C beginning on page 20 of this report.

### **Outstanding Debt**

Total debt outstanding at December 31, 2011, 2010 and 2009 was \$2,254,510,000, \$2,396,330,000 and \$2,566,260,000, respectively, all of which are revenue bonds. Total debt decreased by \$141,820,000 (5.9%) and \$169,930,000 (6.6%) during 2011 and 2010, respectively, due to the principal debt payments and the refunding of bonds.

In September 2010, the Agency refinanced some of its existing debt to take advantage of low interest rates.

- In September 2010, the Agency issued \$146,145,000 of Series 2010 A Refunding Bonds to refund \$191,160,000 of previously issued bonds. Net present value savings realized were \$25,273,000 with debt service savings of \$1,611,000 in 2011 and ranging from \$495,000 to \$15,920,000 per year thereafter through 2023.

The bond ratings increased or remained the same as follows:

- Standard and Poor's – Unchanged at A- (stable).
- Moody's – Unchanged at Baa1 (stable).
- Fitch – Increased to A- (stable) from BBB+ (positive) in August 2010.

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 29 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

### **Economic Factors**

The following key economic factors played a role in the 2012 budget.

- Load growth from 2010 to 2011 was flat due to sluggish economic conditions and somewhat milder weather in 2011. Load is expected to grow by less than 1% annually for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency. Improvement in economic conditions is anticipated in 2012, which is expected to result in a modest increase in energy sales in 2012.
- Market prices of uranium and coal remain consistent with previous forecasts. These fuel forecasts are incorporated in the Power Agency's costs projections for its project units.
- The outlook for natural gas prices remains low due to significant domestic supply. Low natural gas prices are anticipated for the long-term, and should have a positive impact on supplemental energy purchases from Progress Energy.

### **Budget Highlights for 2012**

- Reflects a continued focus on reliable, cost effective power supply and Participant services.
- Assumes no wholesale rate change.
- The load forecast projects energy sales growing 0.7% during 2012 and annual coincident peak demand growing 0.6% per year.
- Collection through rates of \$133,400,000 for debt principal due January 1, 2013.
- Anticipates capital additions at the joint units of approximately \$71,432,000 for system improvements, equipment replacement/modifications and ongoing capital programs and projects. Approximately \$42,400,000 of these capital additions will be funded through rates.
- Scheduled outages at Harris for refueling.

### **Requests for Information**

This report is designed to provide an overview of the Agency's finances for those who are interested. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, North Carolina Eastern Municipal Power Agency, P. O. Box 29513, Raleigh, NC 27626-0513.

**North Carolina Eastern Municipal Power Agency**  
**Balance Sheets**  
**(\$000s)**

	December 31,	
	2011	2010
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Capital Assets (Note C)		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,686,251	\$ 1,675,541
Construction work in progress	20,338	5,243
Nuclear fuel	132,541	110,362
Accumulated depreciation and amortization	(1,120,515)	(1,090,638)
Total Electric Utility Plant, Net	718,615	700,508
Non-Utility Property and Equipment, Net		
Property and equipment	2,952	2,952
Accumulated depreciation	(1,681)	(1,595)
Total Non-Utility Property and Equipment, Net	1,271	1,357
Total Capital Assets	719,886	701,865
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	-	6,183
Bond fund	351,934	360,361
Reserve and contingency fund	22,903	15,802
Total Special Funds Invested	374,837	382,346
Trust for Decommissioning Costs (Notes D and E)	238,154	206,990
Total Restricted Assets	612,991	589,336
Other Assets		
Unamortized debt issuance costs	21,588	24,382
VEPCO compensation payment (Note F)	3,886	4,275
Development costs	2,841	3,111
Costs of advance refundings of debt	209,738	241,841
Other deferred costs (Note G)	1,039,772	1,164,870
Total Other Assets	1,277,825	1,438,479
Total Non-Current Assets	2,610,702	2,729,680
<b>Current Assets</b>		
Funds Invested (Note D):		
Revenue fund	30,918	40,844
Operating fund	58,740	45,685
Supplemental fund	123,536	85,120
Total Funds Invested	213,194	171,649
Participants accounts receivable	55,650	66,290
Fossil fuel stock	38	38
Plant material and operating inventory	39,190	34,277
Prepaid expenses	3,029	2,303
Total Current Assets	311,101	274,557
Total Assets	\$ 2,921,803	\$ 3,004,237

See accompanying notes to financial statements.

	December 31,	
	2011	2010
<b>LIABILITIES AND FUND EQUITY</b>		
<b>Liabilities</b>		
Non-Current Liabilities		
Long-Term Debt (Note H)		
Bonds payable	\$ 2,105,495	\$ 2,254,510
Unamortized premium	26,808	28,704
Total Long-Term Debt	<u>2,132,303</u>	<u>2,283,214</u>
Asset Retirement Obligation (Note E)	219,126	207,704
Deferred Revenues (Note G)	221,235	198,255
Total Non-Current Liabilities	<u>2,572,664</u>	<u>2,689,173</u>
Current Liabilities		
Operating Liabilities:		
Accounts payable	51,918	38,526
Accrued taxes	5,035	5,463
Total Operating Liabilities	<u>56,953</u>	<u>43,989</u>
Special Funds Liabilities:		
Current maturities of bonds (Note H)	149,015	141,820
Accrued interest on bonds	61,875	64,072
Total Special Funds Liabilities	<u>210,890</u>	<u>205,892</u>
Total Current Liabilities	<u>267,843</u>	<u>249,881</u>
Total Liabilities	<u>2,840,507</u>	<u>2,939,054</u>
<b>Fund Equity</b>		
Invested in capital assets, net of related debt (deficit)	(485,485)	(594,671)
Restricted for debt service	82,211	88,407
Unrestricted	484,570	571,447
Total fund equity	<u>81,296</u>	<u>65,183</u>
Total Liabilities and Fund Equity	<u>\$ 2,921,803</u>	<u>\$ 3,004,237</u>



**North Carolina Eastern Municipal Power Agency**  
**Statements of Revenues and Expenses and Changes in Fund Equity**  
**(\$000s)**

	Years Ended	
	December 31,	
	2011	2010
<b>Operating Revenues:</b>		
Sales to participants	\$ 703,860	\$ 728,854
Sales to utilities	179	86
Other revenues	1	102
Total Operating Revenues	<u>704,040</u>	<u>729,042</u>
<b>Operating Expenses:</b>		
Operation and maintenance	66,865	72,283
Fuel	70,391	78,832
Power coordination services:		
Purchased power	146,270	159,395
Transmission and distribution	22,130	23,281
Other	392	451
Total power coordination services	<u>168,792</u>	<u>183,127</u>
Administrative and general	52,647	43,295
Amounts in lieu of taxes	2,673	2,248
Gross receipts tax	22,571	23,374
Depreciation and amortization	31,749	31,936
Amortization of asset retirement obligation	11,422	10,856
Total Operating Expenses	<u>427,110</u>	<u>445,951</u>
Operating Income	276,930	283,091
<b>Nonoperating (Revenues) Expenses</b>		
Investment income	(16,519)	(17,195)
Net decrease in fair value of investments and derivative financial instruments	(24,368)	(13,570)
Interest expense	120,625	130,146
Amortization of debt refunding cost	32,103	32,103
Amortization of debt discount and issuance costs	898	(69)
Net decrease in other deferred costs (Note G)	125,098	107,640
Net increase in deferred revenues (Note G)	22,980	33,282
Total nonoperating expenses	<u>260,817</u>	<u>272,337</u>
Increase in Fund Equity	16,113	10,754
Fund Equity, Beginning of the year	65,183	54,429
Fund Equity, End of the year	<u>\$ 81,296</u>	<u>\$ 65,183</u>

See accompanying notes to financial statements.

**North Carolina Eastern Municipal Power Agency**  
**Statements of Cash Flows**  
(\$000s)

	Years Ended December 31,	
	2011	2010
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 714,681	\$ 720,874
Payments of operating expenses	(349,699)	(374,013)
Net cash provided by operating activities	<u>364,982</u>	<u>346,861</u>
Cash Flows from Capital and Related Financing Activities:		
Bonds issued	-	146,145
Bonds refunded	-	(191,160)
Interest paid	(122,822)	(129,557)
Debt premium (discount), issuance costs, and swap termination	353	9,229
Additions to electric utility plant and non-utility property and equipment	(76,027)	(76,478)
Bonds retired or redeemed	(141,820)	(124,915)
Net cash used for capital and related financing activities	<u>(340,316)</u>	<u>(366,736)</u>
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	3,035,408	5,470,699
Purchases of investment securities	(3,084,289)	(5,464,299)
Investment earnings receipts	24,332	13,473
Net cash provided by (used for) investing activities	<u>(24,549)</u>	<u>19,873</u>
Net Change in Operating Cash	117	(2)
Operating Cash, Beginning of year	82	84
Operating Cash, End of year	<u>\$ 199</u>	<u>\$ 82</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 276,930	\$ 283,094
Adjustments:		
Depreciation and amortization	31,749	31,936
Amortization of asset retirement obligation	11,422	10,856
Additional funding for nuclear decommissioning	-	1,316
Amortization of nuclear fuel	26,257	25,323
Changes in assets and liabilities:		
Decrease (increase) in participant accounts receivable	10,640	(8,168)
Decrease in fossil fuel stock	-	9,653
Decrease (increase) in prepaid expenses	(726)	(70)
Increase in plant material and operating supplies	(4,913)	(4,614)
Decrease in deferred costs	659	659
Increase (decrease) in accounts payable	13,392	(3,496)
Increase in accrued taxes	(428)	372
Total Adjustments	<u>88,052</u>	<u>63,767</u>
Net Cash Provided by Operating Activities	<u>\$ 364,982</u>	<u>\$ 346,861</u>

See accompanying notes to financial statements

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**A. General Matters**

North Carolina Eastern Municipal Power Agency (Agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipal electric systems, through the organization of the Agency, to finance, build, own and operate generation and transmission projects. The Agency is comprised of 32 municipal electric systems (Participants) with interests ranging from 0.0783% to 16.1343%, which receive power from the Agency.

Initial Project

The initial project is comprised of the Agency's undivided ownership interests in three nuclear-fueled and two coal-fired generating units presently in commercial operation by Progress Energy Carolinas, Inc. (PEC) as follows:

	Commercial Operation	Agency Ownership	Maximum Net Dependable Capability (MNDC)			
			(MW)			
			2011		2010	
			Unit	Agency	Unit	Agency
Nuclear-Fuel Units						
Brunswick Unit 2	1975	18.33%	920	168.6	920	168.6
Brunswick Unit 1	1977	18.33%	938	171.9	938	171.9
Harris Unit 1	1987	16.17%	900	145.6	900	145.6
Total Nuclear-Fueled Capability				486.1		486.1
Coal-Fired Units						
Roxboro Unit 4	1980	12.94%	698	90.3	698	90.3
Mayo Unit 1	1983	16.17%	727	117.6	727	117.6
Total Coal-Fired Capability				207.9		207.9
Total of All Units				694.0		694.0

In conjunction with the purchase of its ownership interest, the Agency entered into several agreements with PEC that govern the purchase, ownership, construction, operation and maintenance of the generating units in the initial project.

- The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase its ownership share of the project from PEC.
- The Operation and Fuel Agreement provides for PEC to operate, maintain and fuel the units; to make renewals, replacements and capital additions as approved by the Agency; and for the ultimate decommissioning or retirement of the joint units at the end of their useful lives.
- The Power Coordination Agreement provides for the interconnection of the Project with the PEC system, for the transmission of power to the Agency's participants and for the purchase by the Agency of its power needs in excess of its ownership share from PEC.
- The Agency also entered into an agreement with Virginia Electric and Power Company (VEPCO) for the transmission of power to the Agency's Participants formerly served by VEPCO.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**A. General Matters (continued)**

The Agency entered into two power sales agreements with each of its Participants for supplying the total electric power requirements of the Participants in excess of Southeastern Power Administration (SEPA) allocations. With initial project power, together with supplemental purchases of power from PEC, the Agency provides the total electric power requirements of its Participants, exclusive of power allotments from SEPA. Under the Initial Project Power Sales Agreements, the Agency sells to the Participants their respective shares of initial project output. The revenues received relative to the initial project are pledged as security for bonds issued under the Resolution, after payment of initial project operating expenses. Each Participant is obligated to pay its share of operating costs and debt service for the initial project. Under the Supplemental Power Sales Agreements, the Agency supplies each Participant the additional power it requires in excess of that provided by the initial project and from SEPA.

The initial project is financed under Power System Revenue Bond Resolution No. R-2-82 (Resolution) which was adopted by the Board of Commissioners (Board) of the Agency. The Resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the initial project and to establish and maintain certain reserves. The Resolution also established special funds into which initial project revenues from Participants are to be deposited and from which initial project operating costs, debt service and other specified payments are to be made.

ElectriCities of North Carolina, Inc.

ElectriCities of North Carolina, Inc. (ElectriCities), organized as a joint municipal assistance agency under the General Statutes of North Carolina, is a public body and body corporate and politic created for the purpose of providing aid and assistance to municipalities in connection with their electric systems and to joint agencies, such as the Agency.

The Agency entered into a management agreement with ElectriCities. Under the current management agreement with the Agency, ElectriCities is required to provide all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continues through December 31, 2013, and is 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.

For the years ended December 31, 2011 and 2010, the Agency paid ElectriCities \$10,807,000 and \$7,584,000, respectively.

**B. Significant Accounting Policies**

Basis of Accounting

The accounts of the Agency are maintained on the accrual basis, in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, and are in conformity with accounting principles generally accepted in the United States of America (GAAP). The Agency has adopted the principles promulgated by the Governmental Accounting Standards Board (GASB) and U.S. GAAP. U.S. GAAP allows utilities to capitalize or defer certain costs and/or revenues based upon the Agency's ongoing assessment that it is probable that such items will be recovered through future revenues.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**B. Significant Accounting Policies (continued)**

The Agency reports in accordance with GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” The statement requires certain information be included in the financial statements and specifies how that information should be presented.

The financial statements are prepared using the economic resources measurement focus. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing activities and investment activities are defined as non-operating revenues. Restricted equity represents constraints on resources that are imposed by Resolution and may be utilized only for the purposes established by the Resolution. Unrestricted equity may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted equity might be used to meet an obligation, the Agency first uses the restricted equity.

Financial Reporting

Under GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting”, the Agency has adopted the option to apply U.S. GAAP that does not conflict with or contradict GASB pronouncements.

Electric Plant in Service

All direct and indirect expenditures associated with the development and construction of the Agency's undivided ownership interests in five of PEC's generating units in commercial operation, including interest expense net of investment earnings on funds not yet expended, have been recorded at original cost (plus acquisition adjustment) and are being depreciated (or amortized) on a straight-line basis. Both Brunswick units are being depreciated over the remaining life of the plants, which at December 31, 2011, was 24 years, 8 months for Brunswick Unit 1 and 23 years for Brunswick Unit 2. The Harris plant is being depreciated over the remaining life of the plant, which at December 31, 2011, was 35 years, 10 months. The two remaining units are being depreciated over the remaining life of the debt used to fund each unit's assets. At December 31, 2011 the remaining life of the debt to fund the assets for Roxboro Unit 4 was 3 years and Mayo Unit 1 was 5 years.

The asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs beginning on page 27) is also included. It is being depreciated over the remaining life of the plants from which the asset retirement obligation arises.

The Agency has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” which requires the Agency to report the effect of capital asset impairments in the financial statements when they occur rather than in the ongoing depreciation expense for the capital asset. Any insurance recovery associated with the impairment will be netted with the impairment loss. During 2011 and 2010, no such impairment occurred.

Construction Work in Progress

All expenditures associated with capital additions related to the Agency's undivided ownership interests in PEC's generating units are capitalized as construction work in progress until such time as they are complete, at which time they are transferred to Electric Plant in Service. No interest is capitalized on capital additions. Depreciation expense is recognized on these items after they are transferred.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**B. Significant Accounting Policies (continued)**

Nuclear Fuel

All expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until such time as the cores are placed in the reactor. No interest is capitalized on fuel cores. Once placed in the reactor, they are amortized to fuel expense utilizing the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated disposal costs, which is being collected currently from Participants. Amortization of nuclear fuel costs in 2011 and 2010 included a provision of \$3,988,000 and \$3,878,000, respectively, for estimated disposal costs.

Under provisions of the Nuclear Waste Policy Act of 1982, PEC, on behalf of PEC and the Agency, entered into contracts with the Department of Energy (DOE) for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel in 1998, the year provided by the Nuclear Waste Policy Act and PEC's contract with the DOE. To date, the DOE continues not to accept spent nuclear fuel assemblies or title to such fuel assemblies.

PEC reports that it filed a complaint in January 2004, with the United States Court of Federal Claims against the DOE claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from various PEC facilities on or before January 31, 1998. The case went to trial in November 2007. On May 21, 2008, the U.S. Court of Federal Claims issued a ruling and awarded PEC \$82.8 million for costs incurred as a result of DOE's failure to accept spent fuel from PEC. According to PEC, the U.S. Department of Justice appealed this decision. Effective September, 2011, PEC received a settlement for over \$80 million; this amount was specifically for expenses incurred as a result of DOE's failure to begin accepting spent nuclear fuel for the time period 1998 through 2005. The Agency's portion of this settlement was approximately \$8 million. At present time PEC is planning another lawsuit for the period January 2006 through December 2010.

While it is uncertain when DOE will begin accepting spent fuel, PEC reports it will continue to maximize the usage of spent fuel storage capability within its own facilities for as long as feasible. PEC reports that with certain modifications and additional NRC approval, including the installation of onsite dry storage facilities at Robinson and Brunswick, PEC's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on PEC's system through the expiration of the operating licenses including any license extensions for all of PEC's nuclear generating units. According to PEC, Harris Unit 1 has sufficient capacity in its spent fuel pool through the expiration of its operating license, including any license extension.

Non-Utility Property and Equipment

This includes the land and administrative office building jointly owned with NCMPA1 and used by both Agencies and Electricities. The administrative office building is being depreciated over 37 ½ years on a straight-line basis.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**B. Significant Accounting Policies (continued)**

Investments

The Agency reports according to the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires investments to be reported at fair value. In addition, the Agency reports according to the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures" which addresses common investment risks related to credit risk, concentration of credit risk and interest rate risk.

Deferred Costs

Deferred costs are shown net of accumulated amortization. Unamortized debt issuance costs at December 31, 2011 and 2010, shown net of accumulated amortization of \$23,895,000 and \$19,324,000 respectively, are being amortized using the interest method over the term of the related debt. Development costs, shown net of accumulated amortization of \$7,774,000 and \$7,504,000 at December 31, 2011 and 2010, respectively, are being amortized on a straight-line basis over the original forty-year life of the initial project. Costs of advance refunding of debt at December 31, 2011 and 2010, shown net of accumulated amortization of \$410,940,000 and \$378,838,000, respectively, are deferred and amortized using the interest method over the term of the debt issued on refunding. Other deferred costs and deferred revenues are not amortized but will either be recovered from or refunded to Participants through future rates (see Note G).

Accounts Receivable

Accounts receivable consist of trade accounts receivable associated with the sale of electricity and are stated at cost. The Agency primarily sells to the Participants in the project and accordingly, management does not believe an allowance for doubtful accounts is required.

Fossil Fuel Stock

Fossil fuel stock includes fossil fuel stock and EPA Clean Air Act Allowances, each of which is stated at average cost.

Discounts/Premiums on Bonds

Discounts on bonds (net of premiums) at December 31, 2011 and 2010 shown net of accumulated accretion/amortization of \$(23,816,000) and \$(21,920,000), respectively, are amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

Decommissioning Costs

U.S. GAAP requires the Agency to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of assets and record a corresponding asset that will be depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Any such adjustments for changes in the estimated future cash flows will also be capitalized and amortized over the remaining life of the asset.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**B. Significant Accounting Policies (continued)**

Pollution Remediation Obligations

The Agency reports according to GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as nuclear power plant decommissioning.

Taxes

Income of the Agency is excludable from income subject to 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 property taxes, the Agency pays an amount that would otherwise be assessed on the real and personal property of the Agency. In lieu of a franchise or privilege tax, the Agency pays an amount equal to 3.22% of the gross receipts from sales of electricity to Participants.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$199,000 and \$82,000 at December 31, 2011 and 2010, respectively, included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$-0- and \$2,000 at December 31, 2011 and 2010, respectively, included on the balance sheet in the line item "Restricted Assets: Special Funds Invested" is not included on the statements of cash flows.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2010 amounts have been reclassified to conform to 2011 classifications. The reclassifications had no effect on excess of revenues over expenses or fund equity as previously reported.

Future Accounting Standards

In November 2010, GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", (GASB No. 60). This Statement is to improve financial reporting over service concession agreements, which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 31, 2011, and is not expected to have a material effect on the Agency's financial position, overall cash flow or balances, or results of operations.



**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**B. Significant Accounting Policies (continued)**

In November 2010, GASB issued Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34”, (GASB No. 61). This Statement is to improve financial reporting for a governmental financial reporting entity. This Statement is effective for periods beginning after June 15, 2012, and is not expected to have a material impact on the Agency’s financial position, overall cash flow or balances, or results of operations.

In December 2010, GASB issued Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”. This Statement incorporates certain accounting and financial reporting guidance that is included in other GASB pronouncements issued on or before November 30, 1989 into the GASB’s authoritative literature. This Statement is effective for periods beginning after December 15, 2011 and is not expected to have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

In June 2011, GASB issued Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. This Statement improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. This Statement is effective for periods beginning after December 15, 2011 and is not expected to have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

**C. Capital Assets**

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2011 and 2010 are as follows (in thousands of dollars):

	December 31, 2010	Additions	Transfers	Retirements	December 31, 2011
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,661,354	\$ 2,168	\$ 13,788	\$ (5,246)	\$ 1,672,064
Nuclear Fuel	110,362	39,293	(17,114)		132,541
Total Depreciable Utility Plant	1,771,716	41,461	(3,326)	(5,246)	1,804,605
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,039,467)	(29,732)		5,246	(1,063,953)
Nuclear Fuel	(51,171)	(22,505)	17,114		(56,562)
Total Accumulated Depreciation and Amortization	(1,090,638)	(52,237)	17,114	5,246	(1,120,515)
Depreciable Utility Plant, Net	681,078	(10,776)	13,788	-	684,090
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	5,243	28,883	(13,788)		20,338
Total Electric Utility Plant, Net	\$ 700,508	\$ 18,107	\$ -	\$ -	\$ 718,615

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**C. Capital Assets (continued)**

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,616,440	\$ 1,938	\$ 53,241	\$ (10,265)	\$ 1,661,354
Nuclear Fuel	94,202	25,559	(9,399)		110,362
Total Depreciable Utility Plant	1,710,642	27,497	43,842	(10,265)	1,771,716
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,019,415)	(30,317)		10,265	(1,039,467)
Nuclear Fuel	(39,042)	(21,528)	9,399		(51,171)
Total Accumulated Depreciation and Amortization	(1,058,457)	(51,845)	9,399	10,265	(1,090,638)
Depreciable Utility Plant, Net	652,185	(24,348)	53,241	-	681,078
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	14,755	43,729	(53,241)		5,243
Total Electric Utility Plant, Net	\$ 681,127	\$ 19,381	\$ -	\$ -	\$ 700,508

The Agency has commitments to PEC in connection with capital additions for the initial project. Current estimates indicate the Agency's portion of these costs for 2012 and 2013 will be approximately \$130,900,000.

Changes in components of non-utility property and equipment, net during 2011 and 2010 are as follows (in thousands of dollars):

	December 31, 2010	Additions	Transfers	Retirements	December 31, 2011
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242	\$ -	\$ -	\$ -	\$ 2,242
Accumulated Depreciation	(1,595)	(86)			(1,681)
Total Depreciable Property and Equipment, Net	647	(86)	-	-	561
Land	710				710
Total Non-Utility Property and Equipment, Net	\$ 1,357	\$ (86)	\$ -	\$ -	\$ 1,271

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**C. Capital Assets (continued)**

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,241	\$ 1	\$ -	\$ -	\$ 2,242
Accumulated Depreciation	(1,492)	(103)			(1,595)
Total Depreciable Property and Equipment, Net	749	(102)	-	-	647
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,459</u>	<u>\$ (102)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,357</u>

**D. Investments**

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Agency's name. All investments except repurchase agreements are considered Category 1. Repurchase agreements are considered Category 3. In accordance with the provisions of the Resolution, the collateral under the repurchase agreements is segregated and held by the trustee for the Agency.

The Agency's investments are detailed in the following schedule (in thousands of dollars):

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
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**D. Investments (continued)**

	December 31,			
	2011		2010	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ 50,770	\$ 50,770	\$ 288,575	\$ 288,575
U.S. government agencies	223,779	232,503	224,497	229,664
Treasury State and Local Government Securities	6,990	6,990		
Treasury Strips	1,242	2,579	1,242	2,224
Money market	274,448	274,448	6,990	6,990
Collateralized mortgage obligations	17,043	19,286	36,348	25,153
Sub-total funds invested	<u>574,272</u>	<u>586,576</u>	<u>557,652</u>	<u>552,606</u>
Decommissioning Trust securities	182,013	237,541	176,898	206,281
Cash				
Operating cash	199	199	82	82
Restricted cash			2	2
Accrued interest	1,869	1,869	2,014	2,014
Total funds invested	<u>\$ 758,353</u>	<u>\$ 826,185</u>	<u>\$ 736,648</u>	<u>\$ 760,985</u>
Consisting of:				
Special funds invested		\$ 374,837		\$ 382,346
Decommissioning Trust		238,154		206,990
Operating assets		<u>213,194</u>		<u>171,649</u>
Total funds invested		<u>\$ 826,185</u>		<u>\$ 760,985</u>

**Interest Rate Risk**

The Bond Resolution authorizes the Agency to invest in obligations with maturity dates, or with redemption features, on or before the respective dates when the money in such accounts will be required for the purposes intended. The Agency does not have additional formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2011 and 2010, the maturities of the Agency's investments are as follows (in thousands of dollars):

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**D. Investments (continued)**

	December 31, 2011				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
Repurchase agreements	\$ 50,770	\$ 50,770	\$ -	\$ -	\$ -
U.S. government agencies	232,503	5,020	175,881	51,602	-
Treasury State and Local Government Securities	6,990	-	-	6,990	-
Treasury Strips	2,579	-	-	2,579	-
Money market	274,448	274,448	-	-	-
Collateralized mortgage obligations	19,286	-	226	19,059	-
	586,576	330,238	176,107	80,230	-
Decommissioning Trust securities	237,542	3,645	65,152	108,347	60,398
Total	<u>\$ 824,118</u>	<u>\$ 333,883</u>	<u>\$ 241,259</u>	<u>\$ 188,577</u>	<u>\$ 60,398</u>

	December 31, 2010				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
Repurchase agreements	\$ 288,575	\$ 288,575	\$ -	\$ -	\$ -
U.S. government agencies	229,664	-	193,496	32,981	3,187
Treasury Strips	2,224	-	-	2,224	-
Money market	6,990	-	-	6,990	-
Collateralized mortgage obligations	25,153	-	-	25,003	150
	552,606	288,575	193,496	67,198	3,337
Decommissioning Trust securities	206,281	9,018	58,642	59,376	79,245
Total	<u>\$ 758,887</u>	<u>\$ 297,593</u>	<u>\$ 252,138</u>	<u>\$ 126,574</u>	<u>\$ 82,582</u>

As of December 31, 2011 and 2010 the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements					\$ -	\$ -
U.S. government securities	13,191	16			13,191	16
Agency strips					-	-
Treasury strips					-	-
Money market					-	-
Collateralized mortgage obligations	227	176			227	176
Sub-total	13,418	192	-	-	13,418	192
Decommissioning Trust securities	7,092	8			7,092	8
Total	<u>\$ 20,510</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,510</u>	<u>\$ 200</u>

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**D. Investments (continued)**

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government securities	36,669	667			36,669	667
Treasury strips					-	-
Money market					-	-
Collateralized mortgage obligations					-	-
Sub-total	36,669	667	-	-	36,669	667
Decommissioning Trust securities	15,230	288			15,230	288
Total	<u>\$ 51,899</u>	<u>\$ 955</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,899</u>	<u>\$ 955</u>

Credit Risk

The Resolution authorizes the Agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by the United States (U.S.), 2) obligations of any Agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with a member of the Federal Reserve System which are collateralized by previously described obligations and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances. The Agency has no formal investment policy that would further limit its investment choices.

As of December 31, 2011 and 2010 the Agency's investments in repurchase agreements are all collateralized by U.S. Treasury or U.S. Government securities. The Agency's investments in U.S. Government Agencies, U.S. Treasury Strips and Collateralized Mortgage Obligations are rated Aaa by Moody's Investor Service and AAA by Standard and Poor's Corporation. The Agency's investments in Money Market Instruments are rated AAA by Standard and Poor's Corporation and Moody's Investor Service.

The Agency places no limit on the amount the Agency may invest with any one issuer. As of December 31, 2011 and 2010, the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
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**D. Investments (continued)**

	December 31, 2011		December 31, 2010	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	\$ 77,789	9%	\$ 36,611	5%
Federal National Mortgage Association	111,677	14%	110,242	15%
Federal Home Loan Bank	95,483	12%	130,798	17%
Federal Farm Credit Bank	88,355	11%	79,583	10%
Resolution Funding Corporation	13,767	2%	13,520	2%
Repurchase Agreements				
Morgan Stanley/Dean Witter	50,770	6%	296,750	39%
Money Market Fund - PFM Prime Institutional	274,759	33%	-	0%
U.S. Treasury Department	111,518	13%	91,383	12%
Total	\$ 824,118	100%	\$ 758,887	100%

Bank time deposits may only be in banks with capital stock, surplus and undivided profits of \$20,000,000 or \$50,000,000 for North Carolina banks and out-of-state banks, respectively, and the Agency's investments deposited in such banks cannot exceed 50% and 25%, respectively, of such banks' capital stock, surplus and undivided profits.

The Resolution permits the Agency to establish official depositories with any bank or trust company qualified under the laws of North Carolina to receive deposits of public moneys and having capital stock, surplus and undivided profits aggregating in excess of \$20,000,000.

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. The Agency had \$199,000 and \$84,000 at December 31, 2011 and 2010, respectively, covered by federal depository insurance.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk. All deposits are currently held in the name of North Carolina Easter Municipal Power Agency.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**E. Decommissioning Costs**

NRC regulations require that each licensee of a commercial nuclear power reactor furnish to the NRC certification of its financial capability to meet the costs of nuclear decommissioning at the end of the useful life of the licensee's facility. As a co-licensee of Brunswick Units 1 and 2 and Harris Unit 1, the Agency is subject to the NRC's financial capability regulations, and therefore has furnished certification of its financial capability to fund its share of the costs of decommissioning those units.

To satisfy the NRC's financial capability regulations, the Agency established an external trust fund (Decommissioning Trust) pursuant to a trust agreement with a bank. The Agency's certification requires that the Agency make annual deposits to the Decommissioning Trust which, together with the investment earnings and amounts previously on deposit in the trust, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the units (currently 2034 for Brunswick Unit 2, 2036 for Brunswick Unit 1 and 2046 for Harris Unit 1) to meet the Agency's share of decommissioning costs.

Estimates of the future costs of decommissioning the units are based on the most recent site-specific study that was conducted on behalf of PEC in 2009. The Agency's portion of decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, is \$106,639,000 for Brunswick Unit 1, \$106,612,000 for Brunswick Unit 2 and \$81,922,000 for Harris, all stated in 2009 dollars.

The Decommissioning Trust is irrevocable and funds may be withdrawn from the trust solely for the purpose of paying the Agency's share of the costs of nuclear decommissioning. Under the NRC regulations, the Decommissioning Trust is required to be segregated from Agency assets and outside the Agency's administrative control. The Agency is deemed to have incurred and paid decommissioning costs as amounts are deposited to the Decommissioning Trust. In addition to the Decommissioning Trust, certain reserve assets are anticipated to be available to satisfy the Agency's total decommissioning liability.

Changes in components of the asset retirement obligation during 2011 and 2010 are as follows (in thousands of dollars):

	<u>Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 207,704	\$ 196,848
Liabilities incurred during the year		
Liabilities settled during the year		
Accretion expense	11,422	10,856
Revisions in estimated cash flows		
Balance, end of year	<u>\$ 219,126</u>	<u>\$ 207,704</u>



**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**F. VEPCO Compensation Payment**

The VEPCO compensation payment represents compensation to VEPCO for early termination of service for those Participants previously served by VEPCO. This payment of \$15,515,000 and the related capitalized interest of \$33,000 were deferred and are being amortized on a straight-line basis over 40 years, the original expected life of the initial project. The balance at December 31, 2011 and 2010 is net of accumulated amortization of \$11,662,000 and \$11,273,000, respectively.

**G. Other Deferred Costs and Deferred Revenues**

Rates for power billings to Participants are designed to cover the Agency's operating expenses, debt requirements and reserves as specified by the Resolution and power sales agreements. Straight-line depreciation and amortization are not considered in the cost of service calculation used to design rates. In addition, certain earnings on funds established in accordance with the Resolution are restricted to those funds and are not available for current operations.

The differences between debt principal maturities (adjusted for the effects of premiums, discounts and amortization of deferred gains and losses) and straight-line depreciation and amortization and in interest income recognition are recognized as other deferred costs. When total deferred items exceed principal debt service, other deferred costs increase. When principal debt service exceeds total deferred items, other deferred costs decrease.

Funds collected through rates for reserve accounts and restricted investment income are recognized as deferred revenues, thus increasing deferred revenues. When these funds are used to meet current expenses, deferred revenues decrease.

The Agency's present charges to the Participants are sufficient to recover all of the Agency's current annual costs of the Participants' bulk power needs. Each Participant is required under the power sales agreements to set its rates for its customers at levels sufficient to pay all costs of its electric utility system, including the Agency's charges for bulk power supply. All Participants have done so.

All rates must be approved by the Board of Commissioners. Rates are designed on an annual basis and are reviewed quarterly. If they are determined to be inadequate to cover the Agency's current annual costs, rates may be revised.

Other deferred costs include the following (in thousands of dollars):

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**G. Other Deferred Costs and Deferred Revenues (continued)**

	Years Ended December 31,		Inception to December 31,	
	2011	2010	2011	2010
<b>Other Deferred Costs</b>				
Deferred interest expense	\$ -	\$ -	\$ 651,553	\$ 651,553
Amortization of debt discount/premium and issuance costs	898	(69)	62,281	61,383
Net (increase) decrease in fair value of investments and derivative financial instruments	(24,368)	(13,570)	59,968	84,336
Depreciation and amortization	31,749	42,792	1,253,997	1,222,248
Amortization of asset retirement obligation	11,422		84,742	73,320
Amortization of debt refunding costs	32,103	32,103	752,852	720,749
Participant billing offsets	(176,902)	(168,896)	(1,876,171)	(1,699,269)
Asset Retirement Obligation Adjustment			5,464	5,464
New project negotiation and Harris Plant litigation costs			45,086	45,086
Net Other Deferred Costs	<u>\$ (125,098)</u>	<u>\$ (107,640)</u>	<u>\$ 1,039,772</u>	<u>\$ 1,164,870</u>

Deferred revenues include the following (in thousands of dollars):

	Years Ended December 31,		Inception to December 31,	
	2011	2010	2011	2010
<b>Deferred Revenues</b>				
Net special funds withdrawals	\$ 16,951	\$ 1,316	\$ 31,446	\$ 14,495
Restricted investment income	8,968	8,892	143,370	134,402
Rate stabilization funds used for other than operations			(21,839)	(21,839)
Special funds valuations	(15,851)	(4,430)	(43,081)	(27,230)
Prepaid fuel	6,972	22,215	76,065	69,093
Other deferred revenues	5,940	5,289	35,274	29,334
Net Deferred Revenues	<u>\$ 22,980</u>	<u>\$ 33,282</u>	<u>\$ 221,235</u>	<u>\$ 198,255</u>

**H. Bonds**

The Agency has been authorized to issue Power System Revenue Bonds (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. Future refunding of bonds may result in the issuance of additional bonds.

The following shows bond activity during 2011 and 2010 (in thousands of dollars):

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**H. Bonds (continued)**

	2011	2010
Bonds Outstanding - Beginning of year	\$ 2,396,330	\$ 2,566,260
Principal payments January 2	(141,820)	(124,915)
Bonds Issued		
Series 2010 A		146,145
Bonds Refunded		
Series 1993 B		(191,160)
Bonds Outstanding - End of year	\$ 2,254,510	\$ 2,396,330

The various issues comprising the outstanding debt are as follows (in thousands of dollars):

	December 31,	
	2011	2010
Series 1986 A		
5% maturing in 2017 with annual sinking fund requirements beginning in 2015	\$ 4,495	\$ 4,495
Series 1991 A		
6.5% maturing in 2018	28,755	28,755
Series 1993 B		
5.5% maturing in 2017 with annual sinking fund requirements beginning in 2015	43,715	43,715
6% maturing in 2018	97,790	97,790
5.5% maturing in 2021 with annual sinking fund requirements beginning in 2019	125,620	125,620
6% maturing in 2022	157,740	157,740
6.25% maturing in 2023	45,030	45,030
6% maturing annually from 2025 to 2026	32,985	32,985
Total Series 1993 B	502,880	502,880
Series 1993 C		
7% maturing in 2013 with annual sinking fund requirements beginning in 2012	18,465	18,465
Series 1995 A		
5.125% maturing in 2012	14,090	14,090

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**H. Bonds (continued)**

	December 31,	
	2011	2010
Series 2003 A		
5.5% maturing annually from 2011 to 2012	\$ 79,680	\$ 157,385
Series 2003 B (Federally Taxable)		
6.48% maturing in 2012	9,860	9,860
Series 2003 C		
5.125% to 5.375% maturing annually from 2011 to 2017	99,100	101,865
Series 2003 D		
4.375% to 5.375% maturing annually from 2011 to 2015	120,990	163,090
5.125% maturing in 2023 with annual sinking fund requirements beginning in 2016	42,890	42,890
5.125% maturing in 2026 with annual sinking fund requirements beginning in 2025	21,660	21,660
Total Series 2003 D	185,540	227,640
Series 2003 E (Federally Taxable)		
5.23% maturing in 2011	-	6,740
5.5% maturing in 2014	13,410	13,410
6.58% maturing in 2026	4,195	4,195
Total Series 2003 E	17,605	24,345
Series 2003 F		
4.375% to 5.5% maturing annually from 2011 to 2017	86,725	87,030
Series 2003 G (Federally Taxable)		
5.55% maturing annually from 2013 to 2014	6,425	6,425
Series 2005 A		
3.65% to 5.00% maturing annually from 2011 to 2016	23,715	23,855
4.25% to 5.00% maturing annually from 2020 to 2021	101,145	101,145
Total Series 2005 A	124,860	125,000
Series 2008 A		
3.25% to 5.25% maturing annually from 2013 to 2020	302,830	302,830
5.00% to 5.25% maturing annually from 2022 to 2024	61,730	61,730
Total Series 2008 A	364,560	364,560
Series 2008 B (Federally Taxable)		
5.15% to 5.60% maturing annually from 2011 to 2013	11,020	12,045
6.217% maturing in 2017 with annual sinking fund requirements beginning in 2014	36,420	36,420
6.55% maturing in 2024 with annual sinking fund requirements beginning in 2020	8,105	8,105
Total Series 2008 B	55,545	56,570

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

**H. Bonds (continued)**

	December 31,	
	2011	2010
Series 2008 C		
4.5% to 5.00% maturing annually from 2011 to 2013	\$ 4,020	\$ 5,900
6.00% maturing in 2019 with annual sinking fund requirements beginning in 2014	15,090	15,090
6.75% maturing in 2024 with annual sinking fund requirements beginning in 2020	17,555	17,555
Total Series 2008 C	<u>36,665</u>	<u>38,545</u>
Series 2009 A		
3.00% to 4.625% maturing annually from 2011 to 2019	6,990	10,030
5.00% maturing annually from 2012 to 2019	22,485	22,485
5.5% maturing in 2026 with annual sinking fund requirements beginning in 2020	32,760	32,760
Total Series 2009 A	<u>62,235</u>	<u>65,275</u>
Series 2009 B		
3.00% to 4.2% maturing annually from 2011 to 2022	46,025	47,345
5.00% maturing annually from 2015 to 2021	62,800	62,800
4.7% maturing in 2026 with annual sinking fund requirements beginning in 2023	7,065	7,065
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	259,960	259,960
Total Series 2009 B	<u>375,850</u>	<u>377,170</u>
Series 2009 C (Federally Taxable)		
3.38% to 4.68% maturing annually from 2011 to 2015	16,530	20,565
6% maturing in 2023 with annual sinking fund requirements beginning in 2016	2,860	2,860
Total Series 2009 C	<u>19,390</u>	<u>23,425</u>
Series 2009 D		
3.00% to 5.00% maturing annually from 2011 to 2022	10,400	11,165
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	5,240	5,240
Total Series 2009 D	<u>15,640</u>	<u>16,405</u>
Series 2010A		
3.00% maturing annually from 2015 to 2016	15,125	15,125
5.00% maturing annually from 2015 to 2016	62,180	62,180
4% maturing in 2021	1,500	1,500
5% maturing in 2021	53,035	53,035
5% maturing in 2023	14,305	14,305
Total Series 2010A	<u>146,145</u>	<u>146,145</u>
Total Bonds Outstanding	2,254,510	2,396,330
Current maturities of bonds	<u>(149,015)</u>	<u>(141,820)</u>
Long-Term Debt, Bonds Payable	<u>\$ 2,105,495</u>	<u>\$ 2,254,510</u>

**North Carolina Eastern Municipal Power Agency  
Notes to Financial Statements  
Years Ended December 31, 2011 and 2010**

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**H. Bonds (continued)**

The fair market value of the Agency's long-term debt was estimated using the Dobbins Scale. The individual maturities were priced and summed to arrive at an estimated fair market value of \$2,456,276,000 and \$2,475,422,000 at December 31, 2011 and 2010, respectively.

Certain proceeds of the Series 1986 A, 1991 A, 1993 B, 1993 C, 1995 A, 2003 A, 2003 B, 2003 C, 2003 D, 2003 E, 2003 F, 2003 G, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C and 2010 A bonds, were used to establish trusts for refunding \$4,636,350,000 of previously issued bonds at both December 31, 2011 and 2010. At both December 31, 2011 and 2010, \$4,222,230,000 of these bonds has been redeemed leaving \$414,120,000 still outstanding. Under these 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 Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2011 at various dates prior to or on their original maturities. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates the year prior to the January 1 maturity and deposited into the Bond Fund as collected for payment when due. Current maturities of \$149,015,000 at December 31, 2011 were collected through rates during 2011 and were deposited monthly into the Bond Fund to make the January 1, 2012 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2011 are as follows (in thousands of dollars):

	Principal	Interest	Total
2012	\$ 131,055	\$ 111,967	\$ 243,022
2013	153,395	105,208	258,603
2014	146,365	97,176	243,541
2015	143,175	89,929	233,104
2016	149,555	82,628	232,183
2017 to 2021	862,570	282,398	1,144,968
2022 to 2025	519,380	57,719	577,099
Total	<u>\$ 2,105,495</u>	<u>\$ 827,025</u>	<u>\$ 2,932,520</u>

The bonds are special obligations of the Agency, payable solely from and secured solely by (1) revenues (as defined by the Resolution) after payment of 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 revenues (as defined by the Resolution) generated as a result of the Initial Project Power Sales Agreements and the 1981 PCA. The purpose of the individual funds is specifically defined in the Resolution.

In September 2010, the Agency issued \$146,145,000 of Series 2010 A Refunding Bonds to refund \$191,160,000 of previously issued bonds. Net present value savings realized were \$25,273,000 with debt service savings of \$1,611,000 in 2011 and ranging from \$495,000 to \$15,920,000 per year thereafter through 2023.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**H. Bonds (continued)**

Interest on the bonds is payable semi-annually. Certain of the bonds are subject to redemption prior to maturity at the option of the Agency, on or after the following dates, at 100% of the respective principal amounts:

Series 1986 A	January 1, 1996
Series 1993 B	January 1, 2003
Series 1995 A	January 1, 2008
Series 2003 C, D, and F	January 1, 2013
Series 2005 A	January 1, 2016
Series 2008 A	January 1, 2018
Series 2008 C	January 1, 2019
Series 2009 A, B and D	January 1, 2019
Series 2010 A	January 1, 2021

The Series 2008 B Bonds are subject to redemption at any time prior to maturity at the option of the Agency. The redemptions price is 100% plus an applicable premium based upon the present value of the principal plus interest due to the stated maturity discounted at the treasury rate plus 25 basis points.

**I. Commitments and Contingencies**

PEC maintains, on behalf of all co-owners of the joint project, nuclear insurance coverage in the following areas: liability coverage, property, decontamination and decommissioning coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases.

Liability Coverage

In accordance with the Price-Anderson Act, PEC, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$12.6 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The \$12.6 billion amount will increase by \$117.5 million as each new nuclear reactor is licensed and decrease by \$117.5 million for each insured nuclear reactor that is no longer operational and has been exempted from the program. The Agency is liable for its proportionate share of these premiums associated with the Harris and Brunswick units.

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$117.5 million per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of \$17.5 million per unit owned. If any such payments are required, the Agency would be liable for its proportionate share of those payments applicable to the Harris and Brunswick units.

The Price Anderson Act expires in 2025.

**North Carolina Eastern Municipal Power Agency**  
**Notes to Financial Statements**  
**Years Ended December 31, 2011 and 2010**

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**I. Commitments and Contingencies (continued)**

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the Harris and Brunswick plants is \$500 million. If the insurer's losses ever exceed its reserves, PEC will be liable, on a pro rata basis, for additional assessments of up to \$28 million which represents ten times the annual premium for the Harris and Brunswick plants. Excess property damage, decontamination and decommissioning liability insurance of \$1.75 billion have also been purchased. If losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, PEC will be liable, on a pro rate basis, for additional assessments of up to \$41 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

PEC also purchases on behalf of all co-owners, increased cost of generation and/or purchased power insurance resulting from an accidental outage of a nuclear unit. Each unit at Harris and Brunswick is insured for up to approximately \$3.5 million per week, after a 12-week deductible period, with declining amounts per unit where more than one unit is involved in the accidental outage. The coverage continues at 100% for 52 weeks and 80% for the next 110 weeks. If the insurer's losses exceed its reserves for this program, PEC will be liable, on a pro rata basis, for additional assessments of up to \$25 million which represents ten times the annual premium for the station.

The Agency is obligated to assume their pro rata share of any liability for retrospective premium assessments resulting from the Nuclear Electric Insurance Limited policies applicable to the joint ownership agreements.

**Note J. Subsequent Events**

The Agency has evaluated subsequent events through April 1, 2012, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.



**North Carolina Eastern Municipal Power Agency**  
**Schedules of Revenues and Expenses**  
**Per Bond Resolution and Other Agreements**  
**(\$000's)**

	Year Ended December 31, 2011		
	Initial Project	Supple- mental	Total
<b>Revenues:</b>			
Sales to participants	\$ 514,700	\$ 189,160	\$ 703,860
Sales to utilities	179	-	179
Investment income	6,358	1,193	7,551
Excess Funds valuation	25,213		25,213
Other revenues	1		1
Total Revenues	<u>546,451</u>	<u>190,353</u>	<u>736,804</u>
<b>Expenses:</b>			
Operation and maintenance	72,622	5	72,627
Fuel	77,363	-	77,363
Power coordination services:			
Purchased power	23,981	122,291	146,272
Transmission and distribution		19,774	19,774
Other		2,925	2,925
Total power coordination services:	<u>23,981</u>	<u>144,990</u>	<u>168,971</u>
Administrative and general – PEC	42,161	-	42,161
Power Agency services	4,360	6,126	10,486
Taxes			
Amounts in lieu of taxes	2,502	171	2,673
Gross receipts tax	16,573	5,997	22,570
Total taxes	<u>19,075</u>	<u>6,168</u>	<u>25,243</u>
Debt service:			
Debt administrative costs	428		428
Debt service	269,212		269,212
Total debt service	<u>269,640</u>	<u>-</u>	<u>269,640</u>
Special funds deposits:			
Reserve and contingency fund	35,749		35,749
Decommissioning fund	1,500	16,951	18,451
Total special funds deposits	<u>37,249</u>	<u>16,951</u>	<u>54,200</u>
Total Expenses	<u>546,451</u>	<u>174,240</u>	<u>720,691</u>
Revenues Over (Under) Expenses	<u>\$ -</u>	<u>\$ 16,113</u>	<u>\$ 16,113</u>

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2011 and 2010, respectively.

See accompanying Independent Auditors' Report.

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Year Ended December 31, 2010		
Initial Project	Supple- mental	Total
\$ 533,055	\$ 195,799	\$ 728,854
86		86
7,438	865	8,303
5,942		5,942
102		102
<u>546,623</u>	<u>196,664</u>	<u>743,287</u>
77,380	5	77,385
101,048		101,048
11,553	147,843	159,396
	20,858	20,858
	<u>3,062</u>	<u>3,062</u>
<u>11,553</u>	<u>171,763</u>	<u>183,316</u>
32,680		32,680
4,166	6,447	10,613
2,078	170	2,248
<u>17,165</u>	<u>6,209</u>	<u>23,374</u>
19,243	6,379	25,622
390		390
<u>271,576</u>		<u>271,576</u>
271,966	-	271,966
27,319		27,319
<u>1,268</u>	<u>1,316</u>	<u>2,584</u>
<u>28,587</u>	<u>1,316</u>	<u>29,903</u>
<u>546,623</u>	<u>185,910</u>	<u>732,533</u>
<u>\$ -</u>	<u>\$ 10,754</u>	<u>\$ 10,754</u>

**North Carolina Eastern Municipal Power Agency**  
**Budgetary Comparison Schedule**  
**Year Ended December 31, 2011**  
**(\$000's)**

	2011 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
<b>Revenues:</b>				
Sales to participants	\$ 697,664	\$ 697,664	\$ 703,860	\$ 6,196
Sales to utilities	1,492	1,492	179	(1,313)
Investment income	7,116	7,116	7,551	435
Excess Funds valuation	3,176	3,176	25,213	22,037
Appropriated Fund Withdrawal/ (Deposit)	634	634		(634)
Other revenues			1	1
Total Revenues	<u>710,082</u>	<u>710,082</u>	<u>736,804</u>	<u>26,722</u>
<b>Expenses:</b>				
Operation and maintenance	73,750	73,750	72,627	1,123
Fuel	87,290	87,290	77,363	9,927
Power coordination expenses:				
Purchased power	135,838	135,838	146,272	(10,434)
Transmission and distribution	22,150	22,150	19,774	2,376
Other	<u>2,717</u>	<u>2,717</u>	<u>2,925</u>	<u>(208)</u>
Total power coordination expenses	160,705	160,705	168,971	(8,266)
Administrative and general – PEC	38,893	38,893	42,161	(3,268)
Power Agency services	10,732	10,732	10,486	246
Taxes	25,225	25,225	25,243	(18)
Debt service	275,011	275,011	269,640	5,371
Special funds deposits	<u>38,476</u>	<u>38,476</u>	<u>54,200</u>	<u>(15,724)</u>
Total Expenses	<u>710,082</u>	<u>710,082</u>	<u>720,691</u>	<u>(10,609)</u>
Revenues Over (Under) Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,113</u>	<u>\$ 16,113</u>

The Agency will submit a 2011 budget amendment at the April 25, 2012 regularly scheduled Board of Commissioners meeting. The budget amendment is primarily due to expense overruns in special funds deposits.

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2011.

See accompanying Independent Auditors' Report.

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**North Carolina Eastern Municipal Power Agency**  
**Schedule of Changes in Assets of Funds Invested**  
**(\$000's)**

	Funds Invested January 1, 2010	Debt Proceeds	Power Billing Receipts	Invest- ment Income	Disburse- ments
<b>Bond Fund:</b>					
Construction Fund	\$ 20,964	\$ -	\$ -	\$ 215	\$ (2,426)
Interest account	63,495		-	45	(65,260)
Reserve account	184,785			6,398	
Principal account	125,013			179	(124,915)
Total Bond Fund	<u>373,293</u>	<u>-</u>	<u>-</u>	<u>6,622</u>	<u>(190,175)</u>
Reserve and Contingency Fund	18,643			314	(40,846)
Revenue Fund	47,136		519,227	348	(2,331)
<b>Operating Fund:</b>					
Working Capital account	22,467			182	(108,779)
Fuel account	20,776				(97,194)
Total Operating Fund	<u>43,243</u>	<u>-</u>	<u>-</u>	<u>182</u>	<u>(205,973)</u>
Supplemental Fund	56,349		201,837	867	(206,460)
Reserved for Decommissioning Costs					
Total Supplemental	<u>56,349</u>	<u>-</u>	<u>201,837</u>	<u>867</u>	<u>(206,460)</u>
	<u>\$ 559,628</u>	<u>\$ -</u>	<u>\$ 721,064</u>	<u>\$ 8,548</u>	<u>\$ (648,211)</u>

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2011 and 2010, respectively.

See accompanying Independent Auditors' Report.

<u>Transfers</u>	<u>Funds Invested December 31, 2010</u>	<u>Debt Proceeds</u>	<u>Power Billing Receipts</u>	<u>Invest- ment Income</u>	<u>Disburse- ments</u>	<u>Transfers</u>	<u>Funds Invested December 31, 2011</u>
\$ (12,610)	\$ 6,143	\$ -	\$ -	\$ 40	\$ (3,129)	\$ (3,054)	\$ -
64,027	62,307			37	(122,395)	120,156	60,105
(42,070)	149,113			4,828	-	(20,671)	133,270
141,705	141,982			122	(141,820)	148,822	149,106
<u>163,662</u>	<u>353,402</u>	<u>-</u>	<u>-</u>	<u>4,987</u>	<u>(264,215)</u>	<u>248,307</u>	<u>342,481</u>
37,379	15,490			167	(31,107)	37,991	22,541
(524,249)	40,131		525,561	583	(217)	(536,055)	30,003
94,205	8,075			644	(91,339)	100,141	17,521
114,030	37,612				(77,567)	80,799	40,844
<u>208,235</u>	<u>45,687</u>	<u>-</u>	<u>-</u>	<u>644</u>	<u>(168,906)</u>	<u>180,940</u>	<u>58,365</u>
31,211	83,804		189,322	1,195	(207,078)	37,015	104,258
1,316	1,316			26		17,411	18,753
<u>32,527</u>	<u>85,120</u>	<u>-</u>	<u>189,322</u>	<u>1,221</u>	<u>(207,078)</u>	<u>54,426</u>	<u>123,011</u>
<u>\$ (95,056)</u>	<u>\$ 545,973</u>	<u>\$ -</u>	<u>\$ 714,883</u>	<u>\$ 7,642</u>	<u>\$ (674,652)</u>	<u>\$ (17,445)</u>	<u>\$ 576,401</u>