



2010 Annual Financial Report



**NORTH CAROLINA MUNICIPAL
POWER AGENCY NUMBER 1**

Annual Financial Report
(With Independent Auditors' Report Thereon)

December 31, 2010 and 2009

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North Carolina Municipal Power Agency Number 1
Annual Financial Report
Years Ended December 31, 2010 and 2009

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Independent Auditors' Report

The Board of Directors
North Carolina Municipal Power Agency Number 1
Raleigh, North Carolina

We have audited the accompanying balance sheets of North Carolina Municipal Power Agency Number 1 as of December 31, 2010 and 2009, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided 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 Municipal Power Agency Number 1 as of December 31, 2010 and 2009, 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, 2010 and 2009 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Cherry, Bekaert & Holland LLP

Raleigh, North Carolina
March 30, 2011

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Management's Discussion and Analysis (MD&A)

As management of North Carolina Municipal Power Agency Number 1 (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2010 and 2009. We encourage you to read this information in conjunction with additional information furnished in the Agency's audited financial statements that follow this narrative.

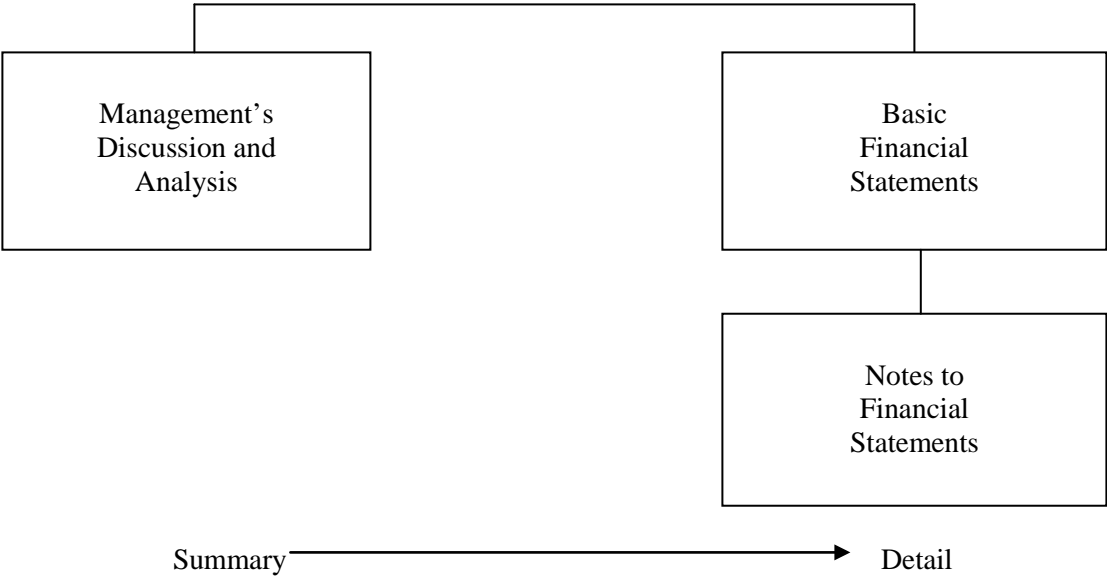
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2010 and 2009, the Agency's assets exceeded its liabilities by \$75,177,000 and \$57,078,000 (fund equity).
- The Agency used \$0 and \$31,243,000 of Rate Stabilization Funds during 2010 and 2009, respectively, to meet a portion of operating expenses.
- At year-end 2010 the Agency's total fund equity increased by \$18,099,000 due in part to the recognition of withdrawals from the Supplemental Reserve Fund. At year-end 2009 total fund equity increased by \$49,678,000 due to the recognition of \$76,496,000 in income through the combined withdrawals from the Supplemental Reserve and Rate Stabilization Funds. The Rate Stabilization Fund withdrawal depleted that fund. The Supplemental Fund withdrawal depleted that fund except for the remaining tier credits for January to June 2010.
- Year-end 2010 and 2009 unrestricted fund equity was \$(278,123,000) and \$(287,616,000), respectively, after increasing (decreasing) \$9,493,000 and \$(41,885,000), respectively.
- The Agency's total debt decreased \$113,330,000 and \$32,915,000 during 2010 and 2009, respectively.
 - Decreased \$116,690,000 and \$110,800,000 due to principal paid in 2010 and 2009, respectively, in accordance with debt service schedules.
 - Increased \$3,360,000 and \$77,885,000 due to the issuance of new debt and the refunding of existing debt in 2010 and 2009, respectively.
- During 2010 and 2009, the Agency refinanced some of its existing debt to take advantage of low interest rates, and issued new debt to fund certain capital additions and to terminate certain swap agreements.
 - In June 2010, the Agency issued \$143,650,000 of Series 2010A and 2010B Refunding Bonds to refund \$140,290,000 of fixed rate bonds. The bonds pay interest of 3.00% to 5.00% and mature annually from 2014 to 2021.
 - In September 2009, the Agency issued \$208,195,000 of Series 2009A and 2009B Refunding Bonds to refund \$206,960,000 of fixed rate bonds, \$8,000,000 of Series 2009C Bonds to terminate certain interest rate swap agreements previously entered into by the Agency, and \$68,650,000 of Series 2009D Bonds to finance the Agency's share of capital improvement projects at Catawba. The bonds pay interest of 4.125% to 6.18% and mature annually from 2021 to 2032.
- The bond ratings remained the same or improved as follows:
 - Standard and Poor's – Improved to A from A- in September 2009.
 - Moody's – Unchanged at A2 (stable).
 - Fitch – Unchanged at A (stable).
- The Agency increased rates to Participants by 5.0% and 4.7% effective July 1, 2010 and 2009, respectively, in accordance with the Agency's Rate Increase Relief Plan.

Overview of the Financial Statements

This MD&A serves as 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 fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes are on pages 14 to 34 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, 2010 and 2009 are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34.

Fund Equity Exhibit 2 (\$000s)

	December 31,		
	2010	2009	2008
Assets			
Capital assets	\$ 1,087,526	\$ 1,079,491	\$ 1,020,731
Current and other assets	1,112,413	1,185,839	1,334,194
Total assets	2,199,939	2,265,330	2,354,925
Liabilities			
Long-term liabilities outstanding	2,047,312	2,136,326	2,259,464
Other liabilities	77,450	71,926	88,061
Total liabilities	2,124,762	2,208,252	2,347,525
Fund Equity			
Invested in capital assets, net of related debt (deficit)	218,234	136,838	55,637
Restricted for debt service	135,066	207,856	197,494
Unrestricted	(278,123)	(287,616)	(245,731)
Total fund equity	\$ 75,177	\$ 57,078	\$ 7,400

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 \$75,177,000, \$57,078,000 and \$7,400,000 at December 31, 2010, 2009 and 2008, respectively. The Agency's total fund equity increased by \$18,099,000 in 2010 due to the recognition of \$3,971,000 in income withdrawn from the Supplemental Reserve Fund. Fund equity increased by \$49,678,000 in 2009 due to the recognition of \$76,496,000 in income through the combined withdrawals from the Supplemental Reserve and Rate Stabilization Funds. The Supplemental Fund withdrawal depleted that fund except for the remaining tier credits for January to June 2010. During 2009, \$31,243,000 of the withdrawn Rate Stabilization Funds was used to cover operating expenses in accordance with the rate setting plan.

The first portion of fund equity of \$218,234,000, \$136,838,000 and \$55,637,000 at December 31, 2010, 2009 and 2008, respectively, reflects the Agency's investments in capital assets (e.g. land, buildings, generation facilities, nuclear fuel and equipment), less any related debt still outstanding that was issued to acquire those items.

The Agency uses these capital assets to provide power to its Participants. Consequently, these assets are not available for future spending. Although 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 rates and certain reserve funds since the capital assets cannot be used to liquidate the liabilities.

The second portion of the Agency's fund equity of \$135,066,000, \$207,856,000 and \$197,494,000 as of December 31, 2010, 2009 and 2008, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(278,123,000), \$(287,617,000) and \$(245,731,000) as of December 31, 2010, 2009 and 2008, respectively, is unrestricted fund equity.

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

	Years Ended December 31,		
	2010	2009	2008
Revenues:			
Sales of electricity and other operating revenue	\$461,442	\$424,604	\$446,192
Nonoperating revenues and changes in fair value	37,307	18,303	25,808
Total Revenues	498,749	442,907	472,000
Expenses:			
Operating expenses	332,477	307,548	303,155
Interest on long-term debt	82,351	86,935	91,436
Other nonoperating expenses	65,822	(1,254)	77,409
Total Expenses	480,650	393,229	472,000
Change in Fund Equity	18,099	49,678	-
Fund equity, Beginning of the year	57,078	7,400	7,400
Fund equity, End of the year	\$ 75,177	\$ 57,078	\$ 7,400

Financial Highlights

- The Agency amended the 2010 budget in May 2010. The budget amendment was primarily due to 1) the Board of Directors approval of a lower than budgeted wholesale rate plan (5% rate plan versus 9% original budget), and 2) a restructured debt service schedule resulting from the 2010 Series A and Series B bond issuance.
- The Agency implemented a 5.0% and a 4.7% rate increase effective July 1, 2010 and 2009, respectively.
- The Agency utilized \$0- and \$31,243,000 of Rate Stabilization Funds and \$3,971,000 and \$83,375,000 of Supplemental Reserve Funds during 2010 and 2009, respectively.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2010, 2009 and 2008 totaled \$1,087,526,000, \$1,079,491,000 and \$1,020,731,000, respectively (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2010 and 2009 include the following:

- Construction work in progress increased \$14,730,000 and \$55,383,000 in 2010 and 2009, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$28,843,000 and \$44,148,000 in 2010 and 2009, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$26,670,000 and \$25,097,000 for 2010 and 2009, respectively.
- Nuclear Fuel was amortized \$26,833,000 and \$22,597,000 for 2010 and 2009, respectively.
- In 2010 and 2009 there were write-offs of \$0 and \$0, respectively, of spent nuclear fuel and retirements of \$1,382,000 and \$971,000, respectively, of Electric Utility Plant.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,694,642	\$ 19,746	\$ 28,843	\$ (1,382)	\$ 1,741,849
Nuclear fuel	148,181	26,977	5,035		180,193
Total Depreciable Utility Plant	1,842,823	46,723	33,878	(1,382)	1,922,042
Accumulated Depreciation and Amortization					
Electric plant in service	(773,368)	(26,526)		1,382	(798,512)
Nuclear fuel	(67,054)	(26,833)	(5,035)		(98,922)
Total Accumulated Depreciation and Amortization	(840,422)	(53,359)	(5,035)	1,382	(897,434)
Depreciable Utility Plant, Net	1,002,401	(6,636)	28,843	-	1,024,608
Land and Other Non-Depreciable Assets					
Land	19,768				19,768
Construction work in progress	55,669	14,730	(28,843)		41,556
Total Electric Utility Plant, Net	<u>\$ 1,077,838</u>	<u>\$ 8,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,085,932</u>

	December 31, 2008	Additions	Transfers	Retirements	December 31, 2009
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,638,515	\$ 12,109	\$ 44,989	\$ (971)	\$ 1,694,642
Nuclear fuel	109,402	38,779			148,181
Depreciable Utility Plant	1,747,917	50,888	44,989	(971)	1,842,823
Accumulated Depreciation and Amortization					
Electric plant in service	(748,556)	(24,942)	(841)	971	(773,368)
Nuclear fuel	(44,457)	(22,597)			(67,054)
Total Accumulated Depreciation and Amortization	(793,013)	(47,539)	(841)	971	(840,422)
Depreciable Utility Plant, Net	954,904	3,349	44,148	-	1,002,401
Land and Other Non-Depreciable Assets					
Land	19,768				19,768
Construction work in progress	44,434	55,383	(44,148)		55,669
Total Electric Utility Plant, Net	<u>\$ 1,019,106</u>	<u>\$ 58,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,077,838</u>

Non-Utility Plant and Equipment, Net

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Non-Utility Property and Equipment					
Property and equipment	\$ 4,869	\$ 84	\$ -	\$ -	\$ 4,953
Accumulated depreciation	(3,926)	(143)			(4,069)
Total Depreciable Non-Utility Property and Equipment, Net	943	(59)	-	-	884
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,653</u>	<u>\$ (59)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,594</u>

	December 31, 2008	Additions	Transfers	Retirements	December 31, 2009
Non-Utility Property and Equipment					
Property and equipment	\$ 4,686	\$ 183	\$ -	\$ -	\$ 4,869
Accumulated depreciation	(3,771)	(155)			(3,926)
Total Depreciable Non-Utility Property and Equipment, Net	915	28	-	-	943
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,625</u>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,653</u>

Additional information on capital assets can be found in Note C beginning on page 21.

Outstanding Debt

The Agency's total debt outstanding at December 31, 2010, 2009 and 2008 was \$1,606,455,000, \$1,719,785,000 and \$1,752,700,000, respectively, all of which are revenue bonds. Total debt decreased by \$113,330,000 (6.59%) and \$32,915,000 (1.88%) during 2010 and 2009, respectively. The decreases were due to principal payments made in accordance with debt service schedules, net of issuance of new debt.

In June 2010, the Agency issued \$143,650,000 of Series 2010A and 2010B Refunding Bonds to refund \$140,290,000 of fixed rate bonds. The bonds pay interest of 3.00% to 5.00% and mature annually from 2014 to 2021.

In September 2009, the Agency issued \$208,195,000 of Series 2009A and 2009B Refunding Bonds to refund \$206,960,000 of fixed rate bonds, \$8,000,000 of Series 2009C Bonds to terminate certain interest rate swap agreements previously entered into by the Agency, and \$68,650,000 of Series 2009D Bonds to finance the Agency's share of capital improvement projects at Catawba. The bonds pay interest of 4.125% to 6.18% and mature annually from 2021 to 2032.

The Agency's bond ratings stayed the same or improved over the two year period as follows:

- Standard and Poor's Corporation – Improved to A from A- in September 2009.
- Moody's – Unchanged at A2 (stable).
- Fitch – Unchanged at A (stable).

Additional information regarding the Agency's long-term debt can be found in Note G 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 2011 budget.

- During 2010, the slowdown on the economy had a negative impact on the Agency's energy sales. The 2011 Budget reflects this negative impact to loads. Load growth of less than 1% per year is forecasted. The load forecast is driven by economic factors for the Agency's cities such as population growth, household income and employment. Strong economic growth is not expected in the near term.
- Current and projected power market price levels remain low. Softness in the market is driven by low natural gas projections resulting from innovative drilling techniques being used in North America; and demand for electricity which has not yet returned to pre-recession levels. As a result, power market price projections remain low for the foreseeable future.
- Fossil fuel prices have had a negligible impact on the Agency's production costs because the Agency's generation is almost entirely derived from nuclear generation. The 2011 Budget includes higher nuclear fuel costs that reflect the higher uranium and conversion costs that have occurred over the past several years.

Budget Highlights for 2011

- Forecasts a 5.0% increase in wholesale rates effective July 1.
- The load forecast estimates energy sales growing 1.2% for the period.
- Collection through rates of \$88,100,000 for debt principal due January 1, 2012.
- Anticipates scheduled refueling outages for Catawba 1 and McGuire 2.
- Projects that \$55,700,000 will be spent on capital additions at the Catawba plant, with \$18,400,000 funded by rates and \$37,300,000 funded from bonds.

Requests for Information

This report is designed to provide an overview of the Agency's finances for those with an interest in this area. 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 Municipal Power Agency Number 1, P.O. Box 29513, Raleigh, NC 27626-0513.

North Carolina Municipal Power Agency Number 1
Balance Sheets
(\$000s)

	December 31,	
	2010	2009
ASSETS		
Non-Current Assets		
Capital Assets (Note C)		
Electric Utility Plant, Net		
Electric plant in service	\$1,761,617	\$1,714,410
Construction work in progress	41,556	55,669
Nuclear fuel	180,193	148,181
Accumulated depreciation and amortization	(897,434)	(840,422)
Total Electric Utility Plant, Net	1,085,932	1,077,838
Non-Utility Property and Equipment, Net		
Property and Equipment	5,663	5,579
Accumulated depreciation	(4,069)	(3,926)
Total Non-Utility Property and Equipment, Net	1,594	1,653
Total Capital Assets	1,087,526	1,079,491
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	58,208	94,145
Bond fund	308,298	353,255
Reserve and contingency fund	20,224	19,656
Total Special Funds Invested	386,730	467,056
Trust for Decommissioning Costs (Notes D and E)	252,759	230,075
Total Restricted Assets	639,489	697,131
Deferred Costs:		
Unamortized debt issuance costs	14,320	15,641
Costs of advance refundings of debt	146,427	164,455
Other Deferred Costs (Note F)	20,258	62,845
Total Deferred Costs	181,005	242,941
Total Non-Current Assets	1,908,020	2,019,563
Current Assets		
Funds Invested (Notes D):		
Revenue fund	14,658	16,126
Operating fund	64,965	38,118
Supplemental fund	96,351	87,010
Total Funds Invested	175,974	141,254
Participant accounts receivable	29,408	26,365
Operating accounts receivable	5,850	4,030
Prepaid expenses	4,104	3,904
Fossil fuel inventory		
Plant materials and operating inventory	36,695	33,343
Working fund	39,888	36,871
Total Current Assets	291,919	245,767
Total Assets	\$2,199,939	\$2,265,330

See accompanying notes to financial statements.

	December 31,	
	2010	2009
LIABILITIES AND FUND EQUITY		
Liabilities		
Non-Current Liabilities		
Long-Term Debt:		
Bonds (Note G)	\$1,541,085	\$1,603,095
Unamortized premium	55,391	49,862
Total Long-Term Debt, net	1,596,476	1,652,957
Asset Retirement Obligation (Note E)	284,103	268,554
Deferred Revenues (Note F)	101,363	98,125
Total Non-Current Liabilities	1,981,942	2,019,636
Current Liabilities		
Operating Liabilities:		
Accounts payable	13,081	11,218
Accrued taxes	21,660	20,465
Derivative Financial Instruments (Note I)	474	30
Total Operating Liabilities	35,215	31,713
Special Funds Liabilities:		
Current maturities of bonds (Note G)	65,370	116,690
Accrued interest on bonds	42,235	40,213
Total Special Funds Liabilities	107,605	156,903
Total Current Liabilities	142,820	188,616
Total Liabilities	2,124,762	2,208,252
Fund Equity		
Invested in Capital Assets, net of related debt	218,234	136,838
Restricted for debt service	135,066	207,856
Unrestricted (deficit)	(278,123)	(287,616)
Total Fund Equity	75,177	57,078
Total Liabilities and Fund Equity	\$2,199,939	\$2,265,330

North Carolina Municipal Power Agency Number 1
Statements Revenues and Expenses and Changes in Fund Equity
(\$000s)

	Years Ended December 31,	
	2010	2009
Operating Revenues:		
Sales to participants	\$359,870	\$325,813
Sales to utilities	101,457	97,934
Other revenues	115	857
Total Operating Revenues	461,442	424,604
Operating Expenses:		
Operation and maintenance	97,958	103,507
Fuel	34,729	29,518
Interconnection services:		
Purchased power	57,744	54,980
Transmission and distribution	12,355	10,901
Other	476	262
Total interconnection services	70,575	66,143
Administrative and general	53,894	37,351
Gross receipts and excise taxes	14,437	13,428
Property tax	18,665	17,806
Depreciation	26,670	25,097
Amortization of asset retirement obligation	15,549	14,698
Total Operating Expenses	332,477	307,548
Operating Income	128,965	117,056
Nonoperating (Revenues) Expenses		
Investment income	(21,551)	(31,368)
Net (increase) decrease in fair value of investments and derivative financial instruments	(15,756)	13,065
Interest expense	82,351	86,935
Amortization of debt refunding costs	24,241	25,317
Amortization of debt discount and issuance costs	(4,244)	(1,724)
Net decrease in other deferred costs (Note F)	42,587	84,993
Net decrease in deferred revenues (Note F)	3,238	(109,840)
Total Nonoperating (Revenues) Expenses	110,866	67,378
Change in Fund Equity	18,099	49,678
Fund Equity, Beginning of Year	57,078	7,400
Fund Equity, End of Year	<u>\$ 75,177</u>	<u>\$ 57,078</u>

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Statements of Cash Flows
(\$000s)

	Years Ended December 31,	
	2010	2009
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 456,464	\$ 431,010
Receipts from other revenues	115	857
Payments of operating expenses	(248,973)	(247,103)
Net cash provided by operating activities	207,606	184,764
Cash Flows from Capital and Related Financing Activities:		
Bonds issued	3,360	77,885
Interest paid	(80,329)	(92,155)
Additions to electric utility plant and non-utility property and equipment	(79,501)	(102,485)
Bonds redeemed or retired	(116,690)	(110,800)
Debt (discount) premium net of issuance costs	4,882	(9,991)
Investment earnings receipts from construction fund	1,502	1,883
Net cash used for capital and related financing activities	(266,776)	(235,663)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	5,783,310	6,220,654
Purchases of investment securities	(5,736,158)	(6,183,238)
Investment earnings receipts	12,044	13,503
Net cash provided by investing activities	59,196	50,919
Net Increase in Operating Cash	26	20
Operating Cash, Beginning of year	80	60
Operating Cash, End of year	<u>\$ 106</u>	<u>\$ 80</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$128,965	\$ 117,056
Adjustments:		
Depreciation	26,670	25,097
Amortization of nuclear fuel	33,616	29,090
Amortization of asset retirement obligation	15,549	14,698
Changes in assets and liabilities:		
Increase in participant accounts receivable	(3,043)	(1,865)
(Increase) decrease in operating accounts receivable	(1,820)	9,128
Increase in prepaid expenses	(200)	(881)
Increase in plant materials and operating supplies	(3,352)	(2,217)
(Increase) decrease in working fund	(3,017)	4,423
Increase (decrease) in accounts payable	13,043	(12,060)
Increase in accrued taxes	1,195	2,295
Total Adjustments	78,641	67,708
Net Cash Provided by Operating Activities	<u>\$ 207,606</u>	<u>\$ 184,764</u>

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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, own, operate and maintain electric generation and transmission facilities. The Agency is comprised of 19 municipal electric systems (Participants) with interests ranging from 0.0869% to 18.96%, which receive power from the Agency.

The Project

The project consists of the Agency's undivided ownership interest in 75% of Unit 2 of the Catawba Nuclear Station and in 37.5% of certain support facilities. Catawba Unit 2 has a maximum net dependable capability (MNDC) of 1,145 MW with the Agency's ownership share being 858.75 MW.

In conjunction with the purchase of its ownership interest, the Agency entered into several agreements with Duke Energy Corporation (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 its ownership share of the project. However, by virtue of various exchange provisions contained 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 both Unit 1 and 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 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 Interconnection Agreement provides for the interconnection of the Project with the Duke system and for the exchange of power between Unit 1 and Unit 2 of Catawba and between the Catawba units and Duke's McGuire Nuclear Station (Reliability Exchanges).

Pursuant to the reliability exchanges, project output is provided in essentially equal amounts from Catawba Unit 2, Catawba Unit 1, McGuire Unit 1 and McGuire Unit 2, all in operation on the Duke system and all 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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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

To meet its supplemental power requirements, the Agency entered into several contractual arrangements to assure a reliable and affordable source of supplemental power and energy. The contracts are as follows:

- Agreement with Duke Energy for the purchase of 50 MW of capacity and associated energy as scheduled by the Agency for the period January 1, 2006 through December 31, 2010.
- Agreement with Southern Power Company for the purchase of 50 MW of capacity and the associated energy as scheduled by the Agency for the period January 1, 2006 through December 31, 2015.
- Agreement with Duke for the purchase of 50 MW of capacity and associated energy as scheduled by the Agency, and for the sale by the Agency of up to 175 MWh per hour of energy for the period January 1, 2008 through December 31, 2010.
- Agreement with Duke for the purchase of up to 432 MW per hour of reserve capacity and the associated energy as required by the Agency for the period January 1, 2008 through December 31, 2010, and a separate agreement to provide the same reserve for the period January 1, 2011 through December 31, 2011.
- Agreement with Georgia Power Company for the purchase of up to 50 MW of capacity and associated energy as scheduled by the Agency during the months of June, July, August and September for the period June 1, 2007 through September 30, 2010.
- Agreement with Georgia Power Company for the purchase of up to 50 MW of capacity and associated energy as scheduled by the Agency for the period June 1, 2011 through September 30, 2011.
- Agreement with Southern Power Company for the purchase of 100 MW of capacity and the associated energy as scheduled by the Agency for the period January 1, 2011 through December 31, 2015, and increasing to 150 MW for the period January 1, 2016 through January 31, 2030.
- Agreement with Southern Power Company for the purchase of approximately 178 MW of capacity and associated energy as scheduled by the Agency for the period January 1, 2012 through December 31, 2031.
- Agreement with The Energy Authority (TEA) for TEA to provide hourly scheduling and dispatching services for the period from January 1, 2008 to December 31, 2010, and a separate agreement to provide the same reserve for the period January 1, 2011 through December 31, 2013.

In addition to the agreements with third parties mentioned above, the Agency has developed or assisted the Participants and/or certain of their customers in developing additional generating facilities. At the beginning of 2010, the Agency had 65 MW of Distributed Generation which the Agency constructed to be called upon as needed. In addition, the Agency also has under remote control operation 84 MW of city-owned and customer-owned generation and has been successful in placing an additional 25 MW of generation owned by cities and retail customers under contract for local operation under the Agency's power supply program. The Agency also has 24 MW of gas turbine generation that became commercially operable on April 23, 2010.

Agency personnel and TEA, pursuant to the agreement described above, provided all scheduling and dispatching services for the Agency's various power supply resources to coordinate the Agency's utilization of Project Output and other power supply arrangements and the Participants use of their SEPA power allotments.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

A. General Matters (continued)

The Agency's acquisition of its ownership interest is being financed by electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (Resolution) of the Board of Commissioners 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 project, for working capital and to establish certain reserves. The Resolution also established special funds in which project revenues are deposited and from which project operating costs, debt service and other specified payments relating to the project are 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 has entered into a management agreement with ElectriCities. Under the current management agreement, ElectriCities is required to provide, at cost, 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, 2010 and 2009, the Agency paid ElectriCities \$10,015,000 and \$9,950,000, 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 (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.

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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

B. Significant Accounting Policies (continued)

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 expenditures associated with the development and construction of the Agency's ownership interest in the Catawba station, including interest expense net of investment income on funds not yet expended and the asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs on page 19) have been recorded at original cost and are being depreciated on a straight-line basis over the average composite life of each unit's assets. At December 31, 2010, the remaining life for Catawba Units 1 and 2 was 33 years.

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 2010 and 2009 the Agency determined that such an assessment was not necessary.

Construction Work in Progress

All expenditures related to capital additions at Catawba and expenditures related to distributive generation units that have not been declared commercial are capitalized as construction work in progress until such time as they are completed and transferred to Electric Plant in Service. Interest is not capitalized on capital additions. Depreciation expense is recognized on these assets after they are transferred to Electric Plant in Service.

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. Interest is not capitalized on fuel cores. Once placed in the reactor, the cores 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 spent nuclear fuel disposal costs which is being collected currently from members. Amortization of nuclear fuel costs includes estimated disposal costs of \$6,783,000 and \$6,493,000 for the years ended December 31, 2010 and 2009, respectively.

Under provisions of the Nuclear Waste Policy Act of 1982, Duke, on behalf of all co-owners of the Catawba station, has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and Duke's contract with the DOE. Duke, on behalf of all co-owners, filed a partial breach of contract claim against the DOE for damages arising out of the DOE's failure to begin accepting the spent nuclear fuel. In 2007, Duke and the U.S. Department of Justice signed a settlement agreement related to the lawsuit. The agreement provides for an initial payment to Duke Energy for certain storage costs incurred through July 31, 2006, with additional amounts reimbursed annually for future storage costs. The Agency's share of the settlement for 2010 and 2009 was \$1,080,000 and \$-0-, respectively.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

B. Significant Accounting Policies (continued)

While it is uncertain when the DOE will begin accepting spent fuel, Duke has plans in place to provide adequate storage capacity until such time as DOE begins receiving spent fuel.

Non-Utility Property and Equipment

The Agency purchased computer equipment for its load management and telemetry programs. This equipment is being depreciated over the estimated useful life of the equipment. Also included are the land and administrative office building jointly owned with North Carolina Eastern Municipal Power Agency and used by both agencies and ElectriCities. The administrative office building is being depreciated over 37 1/2 years on a straight-line basis.

Pollution Remediation Obligations

GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" (GASB No. 49) 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. The Agency has implemented GASB No. 49 and it had no impact on the Agency's financial position or results of operations.

Deferred Costs

Unamortized debt issuance costs, shown net of accumulated amortization of \$19,244,000 and \$18,384,000 at December 31, 2010 and 2009, respectively, are being amortized on the interest method over the term of the related debt. Costs of advance refunding of debt, shown net of accumulated amortization of \$279,847,000 and \$262,112,000 at December 31, 2010 and 2009, respectively, are deferred and amortized over the term of the debt issued on refunding. Other deferred costs and deferred revenues are not amortized but will be either refunded to or recovered from Participants through future rates (See Note F).

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 high quality utilities and accordingly, management does not believe an allowance for doubtful accounts is required.

Premiums/Discounts on Bonds

Premiums (net of discounts) on bonds, shown net of accumulated accretion/amortization of \$18,747,000 and \$20,171,000, at December 31, 2010 and 2009 respectively, are amortized over the terms of the related bonds in a manner that yields a constant rate of interest.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

B. Significant Accounting Policies (continued)

Decommissioning

The Agency reports in accordance with U.S. GAAP, which 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.

Interest Rate Derivatives

The Agency reports in accordance with U.S. GAAP, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values.

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.

Net Assets Restricted by Enabling Legislation

GASB Statement No. 46 "Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement 34" (GASB No. 46) requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The only enabling legislation affecting the Agency is that legislation by which it was created. Therefore, the Agency believes it does not fall under the requirements of GASB No. 46.

Intangible Assets

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" (GASB No. 51). The objective of this Statement is to establish accounting and reporting requirements for intangible assets that reduce accounting inconsistencies between intangible and tangible assets with respect to recognition, initial measurement and amortization period. GASB No. 51 establishes six criteria for recognition, measurement and amortization. Examples of intangible assets include easements, water rights, timber rights, patents, licenses and software. The Agency currently adheres to the criteria established in GASB No. 51.

Fund Balance Reporting

In March 2009, GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement additionally imposes the requirement to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. The Agency does not expect an impact as a result of adopting this standard.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

B. Significant Accounting Policies (continued)

Other Post Employment Benefits

In December 2009, GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" (GASB 57). This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. All Agency employees are provided through a Management Services contract with ElectriCities and therefore, the Agency has no employees or OPEB plan.

Bankruptcies

In December 2009, GASB issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies" (GASB 58). This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. This Statement is effective for reporting periods beginning after June 15, 2009. The Agency has not filed for bankruptcy and does not anticipate filing for bankruptcy.

Taxes

Income of the Agency is excludable 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 pays an amount that would otherwise be assessed on the non-utility property and equipment and North Carolina generation of the Agency. In lieu of a franchise or privilege tax, the Agency pays to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to Participants. The Catawba plant is located in South Carolina and subject to South Carolina property tax. An electric power excise tax equal to .05% (5/10 mill) for each kilowatt-hour of electric power generated and sold for resale within South Carolina is also paid.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$106,000 and \$80,000 at December 31, 2010 and 2009 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$12,000 and \$19,000 at December 31, 2010 and 2009, respectively, included on the balance sheet in the line item "Restricted Assets: Special Funds Invested" is not included on the statements of cash flows. Accounts payable includes special fund liabilities of \$947,000 and \$12,407,000 at December 31, 2010 and 2009, respectively. The cash flows associated with the increase (decrease) in accounts payable of \$13,043,000 and \$(12,060,000) in 2010 and 2009, respectively, does not include the impact of the special fund liabilities noted above.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount 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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

B. Significant Accounting Policies (continued)

Future GASB Standards

In June 2010, GASB issued Statement No. 59, "Financial Instruments Omnibus", (GASB No.59). This Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This Statement is effective for reporting periods beginning after June 15, 2010, and is not expected to have a material effect on the Agency's financial position, overall cash flow or balances or results of operations.

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 arrangements, which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 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.

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.

C. Capital Assets

The Agency has commitments to Duke in connection with capital additions for the station. Current estimates indicate the Agency's portion of these costs for 2012 and 2011 will be approximately \$95,660,000.

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2010 and 2009 are as follows (in thousands of dollars):

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

C. Capital Assets (continued)

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,694,642	\$ 19,746	\$ 28,843	\$ (1,382)	\$ 1,741,849
Nuclear fuel	148,181	26,977	5,035		180,193
Total Depreciable Utility Plant	1,842,823	46,723	33,878	(1,382)	1,922,042
Accumulated Depreciation and Amortization					
Electric plant in service	(773,368)	(26,526)		1,382	(798,512)
Nuclear fuel	(67,054)	(26,833)	(5,035)		(98,922)
Total Accumulated Depreciation and Amortization	(840,422)	(53,359)	(5,035)	1,382	(897,434)
Depreciable Utility Plant, Net	1,002,401	(6,636)	28,843	-	1,024,608
Land and Other Non-Depreciable Assets					
Land	19,768				19,768
Construction work in progress	55,669	14,730	(28,843)		41,556
Total Electric Utility Plant, Net	<u>\$ 1,077,838</u>	<u>\$ 8,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,085,932</u>
	December 31, 2008	Additions	Transfers	Retirements	December 31, 2009
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,638,515	\$ 12,109	\$ 44,989	\$ (971)	\$ 1,694,642
Nuclear fuel	109,402	38,779			148,181
Depreciable Utility Plant	1,747,917	50,888	44,989	(971)	1,842,823
Accumulated Depreciation and Amortization					
Electric plant in service	(748,556)	(24,942)	(841)	971	(773,368)
Nuclear fuel	(44,457)	(22,597)			(67,054)
Total Accumulated Depreciation and Amortization	(793,013)	(47,539)	(841)	971	(840,422)
Depreciable Utility Plant, Net	954,904	3,349	44,148	-	1,002,401
Land and Other Non-Depreciable Assets					
Land	19,768				19,768
Construction work in progress	44,434	55,383	(44,148)		55,669
Total Electric Utility Plant, Net	<u>\$ 1,019,106</u>	<u>\$ 58,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,077,838</u>

Non-Utility Property and Equipment

Changes in components of non-utility property and equipment, net during 2010 and 2009 are as follows (in thousands of dollars):

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

C. Capital Assets (continued)

	December 31, 2009	Additions	Transfers	Retirements	December 31, 2010
Non-Utility Property and Equipment					
Property and equipment	\$ 4,869	\$ 84	\$ -	\$ -	\$ 4,953
Accumulated depreciation	(3,926)	(143)			(4,069)
Total Depreciable Non-Utility Property and Equipment, Net	943	(59)	-	-	884
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,653</u>	<u>\$ (59)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,594</u>
	December 31, 2008	Additions	Transfers	Retirements	December 31, 2009
Non-Utility Property and Equipment					
Property and equipment	\$ 4,686	\$ 183	\$ -	\$ -	\$ 4,869
Accumulated depreciation	(3,771)	(155)			(3,926)
Total Depreciable Non-Utility Property and Equipment, Net	915	28	-	-	943
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,625</u>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,653</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 Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

D. Investments (continued)

	December 31,			
	2010		2009	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ 216,820	\$ 216,820	\$ 140,464	\$ 140,464
U.S. government agencies	303,976	310,038	338,868	334,637
Money Market	-	-	91,787	91,787
Collateralized mortgage obligations	44,457	34,196	41,138	38,626
Sub-total funds invested	565,253	561,054	612,257	605,514
Decommissioning Trust securities	216,498	251,985	203,592	229,444
Cash				
Operating cash	106	106	80	80
Restricted cash	12	12	19	19
Accrued interest	2,306	2,306	3,328	3,328
Total funds invested	<u>\$ 784,175</u>	<u>\$ 815,463</u>	<u>\$ 819,276</u>	<u>\$ 838,385</u>
Consisting of:				
Special funds invested		\$ 386,730		\$ 467,056
Decommissioning Trust		252,759		230,075
Operating assets		175,974		141,254
Total funds invested		<u>\$ 815,463</u>		<u>\$ 838,385</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.

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

	December 31, 2010				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 216,820	\$ 216,820	\$ -	\$ -	\$ -
U.S. government agencies	310,038		262,000	43,091	4,947
Money Market	-	-	-	-	-
Collateralized mortgage obligations	34,196		88	26,615	7,493
Sub-total	561,054	216,820	262,088	69,706	12,440
Decommissioning Trust securities	251,985	9,634	82,222	55,980	104,149
Total	<u>\$ 813,039</u>	<u>\$ 226,454</u>	<u>\$ 344,310</u>	<u>\$ 125,686</u>	<u>\$ 116,589</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

D. Investments (continued)

	December 31, 2009				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 140,464	\$ 140,464	\$ -	\$ -	\$ -
U.S. government agencies	334,637	7,071	225,874	96,908	4,784
Money Market	91,787	91,787			
Collateralized mortgage obligations	38,626		812	31,706	6,108
Sub-total	605,514	239,322	226,686	128,614	10,892
Decommissioning Trust securities	229,444	12,711	62,403	51,669	102,661
Total	<u>\$ 834,958</u>	<u>\$ 252,033</u>	<u>\$ 289,089</u>	<u>\$ 180,283</u>	<u>\$ 113,553</u>

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

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
U.S. government agencies	\$ 74,222	\$ 858			\$ 74,222	\$ 858
Collateralized mortgage obligations			88	1	88	1
Sub-total	74,222	858	88	1	74,310	859
Decommissioning Trust securities	9,727	261	3,775	6	13,502	267
Total	<u>\$ 83,949</u>	<u>\$ 1,119</u>	<u>\$ 3,863</u>	<u>\$ 7</u>	<u>\$ 87,812</u>	<u>\$ 1,126</u>

	December 31, 2009					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
U.S. government agencies	\$ 111,348	\$ 1,495	\$ 11,007	\$ 21	\$ 122,355	\$ 1,516
Collateralized mortgage obligations	75,510	1,581			75,510	1,581
Sub-total	186,858	3,076	11,007	21	197,865	3,097
Decommissioning Trust securities	145,439	5,295			145,439	5,295
Total	<u>\$332,297</u>	<u>\$ 8,371</u>	<u>\$11,007</u>	<u>\$ 21</u>	<u>\$343,304</u>	<u>\$ 8,392</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

D. Investments (continued)

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, 2010 and 2009 the Agency's investments in repurchase agreements are all collateralized by US Treasury or US Government securities. The Agency's investments in US Government Agencies, US Treasury Strips, US Government Agency 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. The Agency's investments by issuer are detailed in the following schedule (in thousands of dollars):

Issuer	December 31, 2010		December 31, 2009	
	Fair Value	Percentage	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 87,623	10.8%	\$ 104,884	12.6%
Federal National Mortgage Association	149,389	18.4%	80,160	9.6%
Federal Home Loan Bank	163,302	20.1%	172,345	20.6%
Federal Farm Credit Bank	57,223	7.0%	116,825	14.0%
Resolution Funding Corporation	14,407	1.8%	22,586	2.7%
Repurchase Agreements				
Morgan Stanley	225,352	27.7%	141,064	16.9%
Bank of America	-	0.0%	-	0.0%
Money Market Fund - Goldman Sachs	-	0.0%	91,788	11.0%
US Treasury Department	115,743	14.2%	105,306	12.6%
Total	<u>\$ 813,039</u>	<u>100.0%</u>	<u>\$ 834,958</u>	<u>100.0%</u>

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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

D. Investments (continued)

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. At December 31, 2010 and 2009, the Agency had \$118,000 and \$99,000, 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.

E. Decommissioning Costs

As a co-licensee of Catawba Unit 2 and in accordance with the terms of the Catawba reliability exchange, the Agency has furnished certification of its financial capability to fund its share of the costs of nuclear decommissioning of the Catawba Station to the U.S. Nuclear Regulatory Commission (NRC) as required by its regulations. 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, amounts previously on deposit in the trust and certain reserve assets, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the Catawba Units (2043) to meet the Agency's share of decommissioning.

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. In accordance with the NRC regulations, the Decommissioning Trust is segregated from Agency assets and outside the Agency's administrative control. The Agency is deemed to have incurred and paid decommissioning costs as deposits are made to the Decommissioning Trust. In addition to the Decommissioning Trust, certain reserve assets are anticipated to be available for transfer to the Decommissioning Trust to satisfy the Agency's total decommissioning liability.

Estimates of the future costs of decommissioning the units are based on the most recent site-specific study that was conducted on behalf of Duke in 2008. The Agency's portion of decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, is \$461,298,000, stated in 2008 dollars.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

E. Decommissioning Costs (continued)

Changes in components of the asset retirement obligation during 2010 and 2009 are as follows (in thousands of dollars):

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$268,554	\$253,856
Liabilities incurred during the year		
Liabilities settled during the year		
Accretion expense	15,549	14,698
Revisions in estimated cash flows		
Balance, end of year	<u>\$284,103</u>	<u>\$268,554</u>

F. 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 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 its 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. If they are determined to be inadequate to cover the Agency's current annual costs, rates may be revised.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

F. Other Deferred Costs and Deferred Revenues (continued)

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

	Years Ended December 31,		Inception to December 31,	
	2010	2009	2010	2009
Other Deferred Costs				
Net deferred interest	\$ 3,021	\$ -	\$ 155,316	\$ 152,295
Amortization of debt discount and issuance costs	(4,244)	(1,724)	116,075	120,319
Depreciation and amortization	42,219	39,795	1,071,010	1,028,791
Amortization of debt refunding costs	24,241	25,317	485,426	461,185
Participant billing offsets	(92,068)	(161,446)	(1,783,591)	(1,691,523)
Net decrease (increase) in fair value of investments and derivative financial instruments	(15,756)	13,065	(18,656)	(2,900)
Asset retirement obligation adjustment			(12,018)	(12,018)
Training costs			6,696	6,696
Net decrease in other deferred costs	<u>\$ (42,587)</u>	<u>\$ (84,993)</u>	<u>\$ 20,258</u>	<u>\$ 62,845</u>

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

	Years Ended December 31,		Inception to December 31,	
	2010	2009	2010	2009
Deferred Revenues				
Net special funds (withdrawals)/deposits	\$ (3,971)	\$(114,618)	\$ (272,963)	\$ (268,992)
Restricted investment income	11,694	21,090	550,172	538,478
Rate stabilization funds used for other than operations		(8,359)	(162,057)	(162,057)
Special funds excess valuations	(4,485)	(7,953)	(13,789)	(9,304)
Total Deferred Revenues	<u>\$ 3,238</u>	<u>\$(109,840)</u>	<u>\$ 101,363</u>	<u>\$ 98,125</u>

G. Bonds

The Agency has been authorized to issue Catawba Electric 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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

G. Bonds (continued)

The following shows bond activity during 2010 and 2009 (in thousands of dollars):

	<u>2010</u>	<u>2009</u>
Bonds Outstanding - Beginning of year	\$1,719,785	\$1,752,700
Principal payments January 1	(116,690)	(110,800)
Bonds Issued		
Series 2009A		198,995
Series 2009B		9,200
Series 2009C		8,000
Series 2009D		68,650
Series 2010A	74,765	
Series 2010B	68,885	
Bonds Refunded		
Series 1997A		(13,890)
Series 1998A		(46,505)
Series 1999B		(146,565)
Series 2003A	(65,465)	
Series 2006A	(58,505)	
Series 2008C	(16,320)	
Bonds Outstanding - End of year	<u>\$1,606,455</u>	<u>\$1,719,785</u>

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

	<u>December 31,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
Series 1992		
6% maturing annually from 2010 to 2011	\$ 48,450	\$ 81,690
Zero coupon priced to yield 6.55% to 6.7% maturing		
annually from 2010 to 2012	25,000	50,000
6% Indexed Caps Bonds maturing in 2012	65,300	65,300
Total Series 1992	<u>138,750</u>	<u>196,990</u>
Series 1993		
5.5% maturing in 2010	<u> </u>	<u>24,135</u>
Series 1997A		
5.125% maturing in 2010	<u> </u>	<u>3,700</u>
Series 1998A		
5.5% maturing annually from 2014 to 2015	<u>29,550</u>	<u>29,885</u>
Series 1999A		
5.75% maturing in 2010	<u> </u>	<u>8,470</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

G. Bonds (continued)

	December 31,	
	2010	2009
Series 1999B		
6.625% maturing in 2010	\$ -	\$ 12,315
Series 2003A		
4.3% maturing in 2011		2,500
5.5% maturing annually from 2011 to 2014	85,225	148,190
4.125% maturing in 2014	5,000	5,000
5.25% maturing annually from 2014 to 2020	506,740	506,740
5% maturing in 2016	10,000	10,000
4.5% maturing in 2020	5,000	5,000
Total Series 2003A	611,965	677,430
Series 2006A		
3.4% to 5% maturing annually from 2010 to 2020		63,015
Series 2008A		
5.25% maturing annually from 2013 to 2020	341,575	341,575
Series 2008B		
5.92% maturing in 2013	7,380	7,380
Series 2008C		
4.0% to 5.25% maturing annually from 2010 to 2020	48,740	70,045
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026	104,985	104,985
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027	16,750	16,750
5% maturing in 2030 with annual sinking fund requirements beginning in 2027	77,260	77,260
Total 2009A	198,995	198,995
Series 2009B (Federally Taxable)		
5.482% maturing in 2021	9,200	9,200
Series 2009C		
5% maturing in 2021	8,000	8,000
Series 2009D (Federally Taxable Build America Bonds)		
6.184% maturing in 2032 with annual sinking fund requirements beginning in 2030	68,650	68,650

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

G. Bonds (continued)

	December 31,	
	2010	2009
Series 2010A		
3.00% to 5.00% maturing annually from 2014 to 2021	\$ 74,765	\$ -
Series 2010B		
5.00% maturing annually from 2020 to 2021	68,885	
Total Bonds Outstanding	1,606,455	1,719,785
Current maturities of bonds	(65,370)	(116,690)
Total Long-Term Debt, Bonds	<u>\$1,541,085</u>	<u>\$1,603,095</u>

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 for payment when due. Current maturities of \$65,370,000 at December 31, 2010 were collected monthly through rates during 2010 and were deposited into the Bond Fund to make the January 1, 2011 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2010 are as follows (in thousands of dollars):

Year	Principal	Interest	Total
2011	\$ 87,355	\$ 80,242	\$ 167,597
2012	83,425	75,799	159,224
2013	123,655	71,230	194,885
2014	127,215	64,804	192,019
2015	138,290	58,149	196,439
2016 to 2020	714,470	172,314	886,784
2021 to 2025	104,015	60,414	164,429
2026 to 2030	132,385	31,918	164,303
2031	30,275	1,872	32,147
Total	<u>\$ 1,541,085</u>	<u>\$616,742</u>	<u>\$ 2,157,827</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2010 and 2009 market prices for similar securities. Using these yield curves, market prices were estimated for each individual maturity and the individual maturities were summed to arrive at an estimated fair market value of \$1,811,097,000 and \$1,809,974,000 at December 31, 2010 and 2009, respectively.

Certain proceeds of the Series 1984 (subsequently redeemed or paid at maturity) 1992, 1993, 1997A, 1998A, 1999A, 2003A, 2003B (subsequently paid at maturity), 2008A, 2008B, 2009A, 2009B, 2010A and 2010B bonds were used to establish trusts for the refunding of \$3,762,275,000 and \$3,621,985,000 through 2010 and 2009, respectively, of previously issued bonds. At December 31, 2010 and 2009, \$3,483,390,000 and \$3,274,693,000, respectively, of these bonds has been redeemed leaving \$278,885,000 and \$347,292,000, respectively, still outstanding.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

G. Bonds (continued)

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 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 at par. 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 the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

Interest on the bonds is payable semi-annually.

Certain of the following bonds are subject to redemption prior to maturity at the option of the Agency, on or after the following dates at a maximum of 100% of the respective principal amounts:

Series 2003A	January 1, 2013
Series 2008A and C	January 1, 2018
Series 2009 A and C	January 1, 2019
Series 2010A and B	January 1, 2020

The Series 2009 B and D Bonds are subject to redemption on any business day at the Make Whole Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. The Series 2009D are also subject to redemption on any business day at the Extraordinary Optional Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. An Extraordinary Event will have occurred if the Agency determines that a material adverse change has occurred which is not the Agency's fault, which results in a reduction or elimination of the Federal subsidy payment.

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.

H. Commitments and Contingencies

Duke maintains, on behalf of all co-owners of the Catawba station, 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, Duke, 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 remaining amount of approximately \$12.2 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$12.2 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 37.5% of these premiums.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

H. Commitments and Contingencies

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 37.5% of those payment amounts.

The Price Anderson Act expires in 2025.

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the station is \$500 million. If the insurer's losses ever exceed its reserves, Duke will be liable, on a pro rata basis, for additional assessments of up to \$37 million. This amount represents ten times Duke's annual premium for all of Duke's nuclear sites. Excess property damage, decontamination and decommissioning liability insurance of \$2.25 billion have also been purchased. If industry losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, Duke will be liable, on a pro rate basis, for additional assessments of up to \$43 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

Duke 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 Catawba 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, Duke will be liable, on a pro rata basis, for additional assessments of up to \$22 million which represents ten times Duke's annual premium.

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

I. Derivative Financial Instruments

Energy Derivatives

The Agency entered into electricity contracts for economic hedging purposes. The electricity contracts were entered into to hedge economically the Agency's exposure to market price on estimated excess generation entitlements. While management believes the economic hedges mitigate exposure to fluctuations in the commodity prices, these instruments are not designated as hedges for accounting purposes. These instruments receive regulatory accounting treatment. Unrealized gains and losses are recorded as deferred liabilities and deferred revenues, respectively, until the contracts are settled. Once settled, any realized gains or losses are recorded through sales to utilities. The Agency manages open positions with strict policies that limit exposure to market risk and require daily reporting to management of potential financial exposures. Gains and losses from such contracts were not material to the results of operations for the years 2010 and 2009. At December 31, 2010 and 2009, the fair value of these instruments was a short term derivative (asset) liability of \$474,000 and \$30,000, respectively, included in Derivative Financial Instruments on the Balance Sheet.

J. Subsequent Events

The Agency has evaluated subsequent events through March 30, 2011, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

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North Carolina Municipal Power Agency Number 1
Schedules of Revenues and Expenses Per Bond Resolution and Other Agreements
(\$000s)

	Year Ended December 31, 2010		
	Project	Supple- mental	Total
Revenues:			
Sales to participants	\$293,531	\$ 66,339	\$359,870
Sales to utilities	101,457		101,457
Investment income	8,316	1,542	9,858
Excess Funds valuation	10,530		10,530
Rate Stabilization Fund withdrawal			-
Supplemental Fund - Reserve Account withdrawal		3,971	3,971
Other revenue	29	87	116
Total Revenues	413,863	71,939	485,802
Expenses:			
Operation and maintenance	100,704	605	101,309
Nuclear fuel	45,499		45,499
Fossil fuel		1,113	1,113
Interconnection services:			
Purchased power	32,194	25,550	57,744
Transmission and distribution		11,108	11,108
Other	59	2,479	2,538
Total interconnection services	32,253	39,137	71,390
Administrative and general – Duke	39,632		39,632
Administrative and general – Agency	4,994	7,378	12,372
Miscellaneous Agency expenses		2,250	2,250
Gross receipts and excise taxes	12,415	2,023	14,438
Property tax	18,207	459	18,666
Debt service	144,700		144,700
Special funds deposits:			
Decommissioning fund	875	875	1,750
Reserve and contingency fund	14,584		14,584
Total special funds deposits	15,459	875	16,334
Total Expenses	413,863	53,840	467,703
Excess of Revenues Over Expenses	\$ -	\$ 18,099	\$ 18,099

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, 2010 and 2009.

See accompanying Independent Auditors' Report.

Year Ended December 31, 2009		
Project	Supple- mental	Total
\$305,242	\$20,571	\$325,813
97,934		97,934
9,829	448	10,277
15,241		15,241
31,243		31,243
	83,375	83,375
776	81	857
460,265	104,475	564,740
105,032	693	105,725
37,250		37,250
	428	428
31,444	23,536	54,980
	10,901	10,901
	1,193	1,193
31,444	35,630	67,074
23,949		23,949
4,572	7,114	11,686
	9,091	9,091
12,844	584	13,428
17,424	382	17,806
203,625		203,625
875	875	1,750
23,250		23,250
24,125	875	25,000
460,265	54,797	515,062
\$ -	\$49,678	\$ 49,678

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North Carolina Municipal Power Agency Number 1
Schedule of Budgetary Comparison
Year Ended December 31, 2010
(\$000s)

	<u>2010 Budget</u>		<u>Actuals</u>	<u>Positive</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>(Negative)</u>
			<u>Basis)</u>	<u>Variance With</u>
				<u>Final Budget</u>
Revenues:				
Sales to participants	\$366,845	\$354,688	\$ 359,870	\$ 5,182
Sales to utilities	111,502	110,792	101,457	(9,335)
Investment income	8,834	9,733	9,858	125
Excess Funds valuation			10,530	10,530
Rate Stabilization Fund withdrawal	10,179	(10,916)	-	10,916
Supplemental Fund - Reserve Acct. withdrawal	10,058	7,499	3,971	(3,528)
Other revenues	75	105	116	11
Total Revenues	<u>507,493</u>	<u>471,901</u>	<u>485,802</u>	<u>13,901</u>
Expenses:				
Operations and maintenance	94,038	98,710	101,309	(2,599)
Nuclear fuel	46,667	48,527	45,499	3,028
Fossil fuel	2,610	1,395	1,113	282
Interconnection services:				
Purchased power	60,848	56,183	57,744	(1,561)
Transmission and distribution	16,072	14,643	11,108	3,535
Other interconnection expenses	180	732	2,538	(1,806)
Total interconnection services	<u>77,100</u>	<u>71,558</u>	<u>71,390</u>	<u>168</u>
Administrative and general – Duke	39,012	39,755	39,632	123
Power Agency services	18,568	18,568	14,622	3,946
Taxes	30,475	32,209	33,104	(895)
Debt service	179,256	144,845	144,700	145
Special funds deposits	19,767	16,334	16,334	-
Total Expenses	<u>507,493</u>	<u>471,901</u>	<u>467,703</u>	<u>4,198</u>
Excess of Revenues Over Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,099</u>	<u>\$ 18,099</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, 2010.

See accompanying Independent Auditors' Report.

North Carolina Municipal Power Agency Number 1
Schedules of Changes in Assets of Funds Invested
(\$000s)

	Funds Invested January 1, 2009	Debt Proceeds	Power Billing Receipts	Investment Income	Disburse- ments
Construction Fund	\$ 64,597	\$68,850	\$ -	\$ 1,531	\$ (40,839)
Bond Fund:					
Interest account	45,628			23	(91,995)
Reserve account	191,764			8,985	9,459
Principal account	110,822			175	(110,800)
Total Bond Fund	348,214	-	-	9,183	(193,336)
Revenue and Contingency Fund	20,160			442	(18,042)
Revenue Fund:					
Revenue account	10,014		273,889	4	42,684
Rate Stabilization account	37,976		-	1,626	(3,541)
Total Revenue Fund	47,990	-	273,889	1,630	39,143
Operating Fund:					
Working Capital account	31,206			208	(163,056)
Fuel account	9,589				(45,141)
Total Operating Fund	40,795	-	-	208	(208,197)
Supplemental Fund:					
Supplemental account	31,238		50,362	448	(25,519)
Reserve for future costs	3,708			71	
Supplemental Reserve account	84,310			3,036	
Total Supplemental Fund	119,256	-	50,362	3,555	(25,519)
Total Funds Invested	<u>\$641,012</u>	<u>\$68,850</u>	<u>\$324,251</u>	<u>\$ 16,549</u>	<u>\$(446,790)</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, 2010 and 2009.

See accompanying Independent Auditors' Report.

Transfers	Funds Invested December 31, 2009	Debt Proceeds	Power Billing Receipts	Investment Income	Disburse- ments	Transfers	Funds Invested December 31, 2010
\$ -	\$ 94,139			\$ 1,140	\$ (37,429)		\$ 57,850
86,972	40,628			30	(78,856)	80,442	42,244
(17,321)	192,887			7,440	4,721	(3,704)	201,344
116,589	116,786			106	(116,690)	56,922	57,124
186,240	350,301	-	-	7,576	(190,825)	133,660	300,712
17,008	19,568			359	(8,066)	8,155	20,016
(310,530)	16,061		295,250	39	32,278	(328,970)	14,658
(36,007)	54			30		(84)	-
(346,537)	16,115	-	295,250	69	32,278	(329,054)	14,658
168,375	36,733			246	(162,833)	177,498	51,644
36,865	1,313				(33,496)	45,445	13,262
205,240	38,046	-	-	246	(196,329)	222,943	64,906
20,548	77,077		61,666	368	(17,990)	(31,468)	89,653
876	4,655			81		876	5,612
(83,375)	3,971			1,141		(5,112)	-
(61,951)	85,703	-	61,666	1,590	(17,990)	(35,704)	95,265
<u>\$ -</u>	<u>\$ 603,872</u>	<u>\$ -</u>	<u>\$356,916</u>	<u>\$ 10,980</u>	<u>\$(418,361)</u>	<u>\$ -</u>	<u>\$ 553,407</u>