

*north
carolina
municipal
power
agency
number 1*

**1984
annual
report**

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about the cover

About the Cover: A reactor operator monitors control room activities at Catawba Nuclear Station. During 1984, pre-operational testing for Unit 1 at Catawba was conducted here. Unit 1 is scheduled for commercial operation in June 1985.

1984: first full year of operation

We have faced another year of change and challenge, which is the lot not just of municipal power agencies, but also of people everywhere.

1984 marked our agency's first full year of operation, and also saw the retirement of Ralph W. Shaw and the appointment of James T. Bobo to succeed Shaw as general manager.

We have been indeed fortunate, both in having Ralph to see our organization through its formative years, and in having on our staff Jim Bobo, who is a man with the experience, capacity and talent to manage our agency during its operational phase and to take us soundly into the future.

Our agency was founded to meet the demands of enlightened communities that recognize the vital relationship between the economic prosperity of our region and a reliable source of electricity that is competitively priced.

The challenge was to meet our responsibilities to future generations. We accepted that challenge and we are meeting it successfully.

Geo W Clay, Jr.

*George W. Clay, Chairman
Board of Commissioners*



In this, my first report as general manager of North Carolina Municipal Power Agency Number 1, I would be remiss if I did not thank the agency's Board of Commissioners for their vote of confidence in appointing me to succeed Ralph Shaw.

It is an opportunity I welcome, and I promise you a dedicated effort to continue the progress and the success that have brought your agency to its fully operational phase.

The work ahead of us is, of course, as important as all that which has gone before. It will require the combined, cooperative efforts of the officers, board members and alternates, the officials of the participating municipalities, and our professional staff and consultants to maintain our organization's enviable position in the first rank of the nation's public power agencies.

By continuing to work together, it is a goal we can achieve, of that I have no doubt. It is to that goal that I pledge myself.

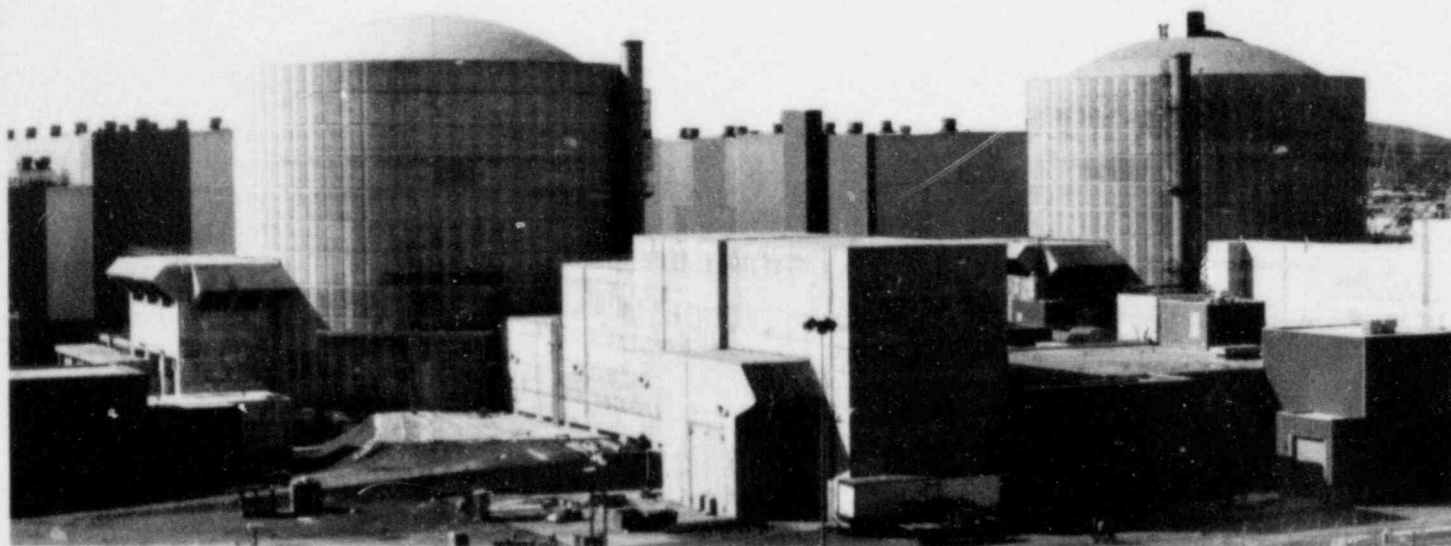
James T Bobo

*James T. Bobo
General Manager*

a brief history

- **NCMPA I Chartered** - On January 13, 1976, NCMPA I was chartered as a municipal corporation under the enabling act passed by the N.C. General Assembly in May 1975 (the Joint Municipal Electric Power and Energy Act).
- **Catawba Project Approved** - On February 27, 1978, after 2½ years of negotiations between NCMPA I and Duke Power Company, the NCMPA I Board of Commissioners approved the Catawba project and authorized execution of joint ownership contracts with Duke.
- **Municipalities Approve Contracts** - By July 10, 1978, 19 of the agency's 20 member cities had approved the essential contracts between each city and the agency. The City of Concord, an agency member, voted not to participate in the project.
- **Management Services** - In October 1978, NCMPA I - along with the state's other power agencies - contracted with ElectriCities of North Carolina, Inc. to provide the agency, at cost, with staff and professional management services needed to operate its business. The arrangement avoided the unnecessary duplication that separate agency staffs would have entailed.
- **First Bonds Sold** - On November 16, 1978, NCMPA I sold a \$400 million electric revenue bond issue at a net interest cost of 6.812 percent. It was, at the time, the second largest issue of its kind ever offered by a public power agency in this country.
- **Purchase Closed** - On November 29, 1978, the agency and Duke closed on the agency's purchase of a 75 percent undivided ownership interest in Unit 2 of Catawba Nuclear Station.
- **Additional Financing** - NCMPA I has issued electric revenue bonds since 1978, and will continue periodically through 1988 to issue debt to finance its share of the construction of Catawba Unit 2.

The two-unit, 2,29 million-kilowatt Catawba Nuclear Station is located on 391 acres along Lake Wylie in South Carolina, 19 miles southwest of Charlotte, N.C. Since 1978, NCMPA I has owned 75 percent of Catawba's Unit 2, which is scheduled for commercial operation in 1987.





- Construction Schedule - Catawba Unit 1 is scheduled to begin commercial operation in June 1985, and Catawba Unit 2 in June 1987. As of December 1984, the plant was ahead of that schedule.
- McGuire Station - Unit 1 at Duke's William B. McGuire Nuclear Station, a "sister" plant to Catawba, began commercial operation in December 1981. Unit 2 at McGuire began commercial operation March 1, 1984. NCMPA 1 has reliability exchanges with Duke involving the McGuire plant, which enables it to receive project power from those units.
- On July 1, 1983, by utilizing the reliability exchange involving McGuire, NCMPA 1 replaced Duke as the all-requirements power supplier for the 19 municipalities participating in the Catawba project.

North Carolina Eastern Municipal Power Agency

North Carolina Eastern Municipal Power Agency (NCEMPA) was chartered in December 1976, under the state's 1975 enabling act. It has 32 member municipalities, all of which are participants in a joint project involving ownership interests in six generating units operated, or under construction, by Carolina Power & Light Company (CP&L).

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

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



Water collects in a pool inside one of six cooling towers at Catawba Nuclear Station. The cooled water is then returned to the main condenser where it will be used to condense the exhaust from the turbine generator system.

organization and management

The governing body of NCMPA I is a board of commissioners, one member of which is appointed by each member municipality. Each municipality also appoints an alternate commissioner who represents the city at board meetings when the regular commissioner cannot. The board elects its own officers who, together with six at-large representatives also elected by the board, comprise the agency's executive committee.

During the 1984 elections, held in December, the board re-elected as officers: Chairman George W. Clay, Jr., mayor of Shelby; Vice Chairman Earle E. Riddle, former utilities commission chairman of Lexington; and Secretary-Treasurer David E. Lowe, city manager of Lincolnton.

Elected as at-large members of the executive committee were: Molly M. Darwin, council member, Morganton; J. E. Hinkel, city manager, Monroe; Jack F. Neel, city manager, Albemarle; R. Duke Whisenant, city manager, Newton; Judith P. Mendenhall, council member, High Point; and William T. Gill, council member, Statesville.

Ralph W. Shaw retired, effective September 1, after more than five years as general manager of NCMPA I. He was succeeded by Finance and Administration Director James T. Bobo. During the December 1984 elections, Bobo was also reappointed as an assistant secretary-treasurer for the agency, as was Engineering Director William G. Wemhoff.

The management services staff of Electricities of North Carolina, Inc. carries out the agency's daily operations, including the financing and accounting, billing, planning and budgeting programs. In addition, it closely administers the project agreements and monitors the performance of Duke with regard to the utility's fulfillment of obligations in the project.

The NCMPA I Board of Commissioners has authorized plans for joint ownership of a parcel of land with North Carolina Eastern Municipal Power Agency (NCEMPA), the state's other municipal power agency, and initiated the development of plans and specifications for an administration building, also to be jointly owned by both power agencies.

The board also authorized the joint purchase with NCEMPA of a central computer to support the power agencies' business activities. The agencies have been receiving computer services through timesharing, a more costly arrangement.

The agency's role as power supplier requires integrated computer systems to support its various activities. During 1984, the agency continued to develop, enhance and refine its computer systems which relate to planning and budgeting, accounting, load and energy forecasting, verification of Duke bills to the agency, collection and reporting of monthly load statistics, tax-exempt commercial paper, and rate studies and analyses.

board of commissioners

alternate commissioners



Front Row (Seated, left to right): William T. Gill, William M. Edwards, Molly M. Darwin, R. Duke Whisenant. Back Row (left to right): J. E. Hinkel, A. W. Huffman, Jr., Marion Sparrow, George W. Clay, Jr., David R. Walker, Morris Baker, Jack F. Neel, Earle E. Riddle.

*Jack F. Neel
Manager, Albemarle

H. Max Gunter
Mayor, Bostic

William M. Edwards
Council Member,
Cherryville

James L. Dorton
Alderman, Concord

Nannie Potts
Commissioner, Cornelius

Morris Baker
Manager, Drexel

Ronnie E. Ransom
Council Member,
Gastonia

A. W. Huffman, Jr.
Mayor, Granite Falls

*Judith P. Mendenhall
Council Member,
High Point

Marion Sparrow
Commissioner,
Huntersville

W. C. Deadmon
Director of Public
Utilities, Landis

*Earle E. Riddle
Lexington

*David E. Lowe
Manager, Lincolnton

David R. Walker
Manager, Maiden

*J. E. Hinkel
Manager, Monroe

*Molly M. Darwin
Council Member,
Morganton

*R. Duke Whisenant
Manager, Newton

Margaret S. Wingate
Pineville

*George W. Clay, Jr.
Mayor, Shelby

*William T. Gill
Council Member,
Statesville

Pauline T. Helms
Council Member,
Albemarle

Wayne Sheppard
Council Member, Bostic

John E. McGinnis
Council Member,
Cherryville

Vacant
Concord

John Hoke
Cornelius

Kenneth Harris
Mayor, Drexel

Gary D. Hicks
Manager, Gastonia

Jack R. Clark
Commissioner,
Granite Falls

H. Lewis Price
Manager, High Point

C. Jack Horton
Manager, Huntersville

Charles Kenneth Barnes
Alderman, Landis

Belvin B. Beck, Jr.
Manager, Lexington

A. E. Tarr
Alderman, Lincolnton

Marcus C. Midgett
Council Member, Maiden

P. E. Bazemore
Council Member, Monroe

Andrew M. Kistler, II
Mayor, Morganton

Wayne Dellinger
Mayor, Newton

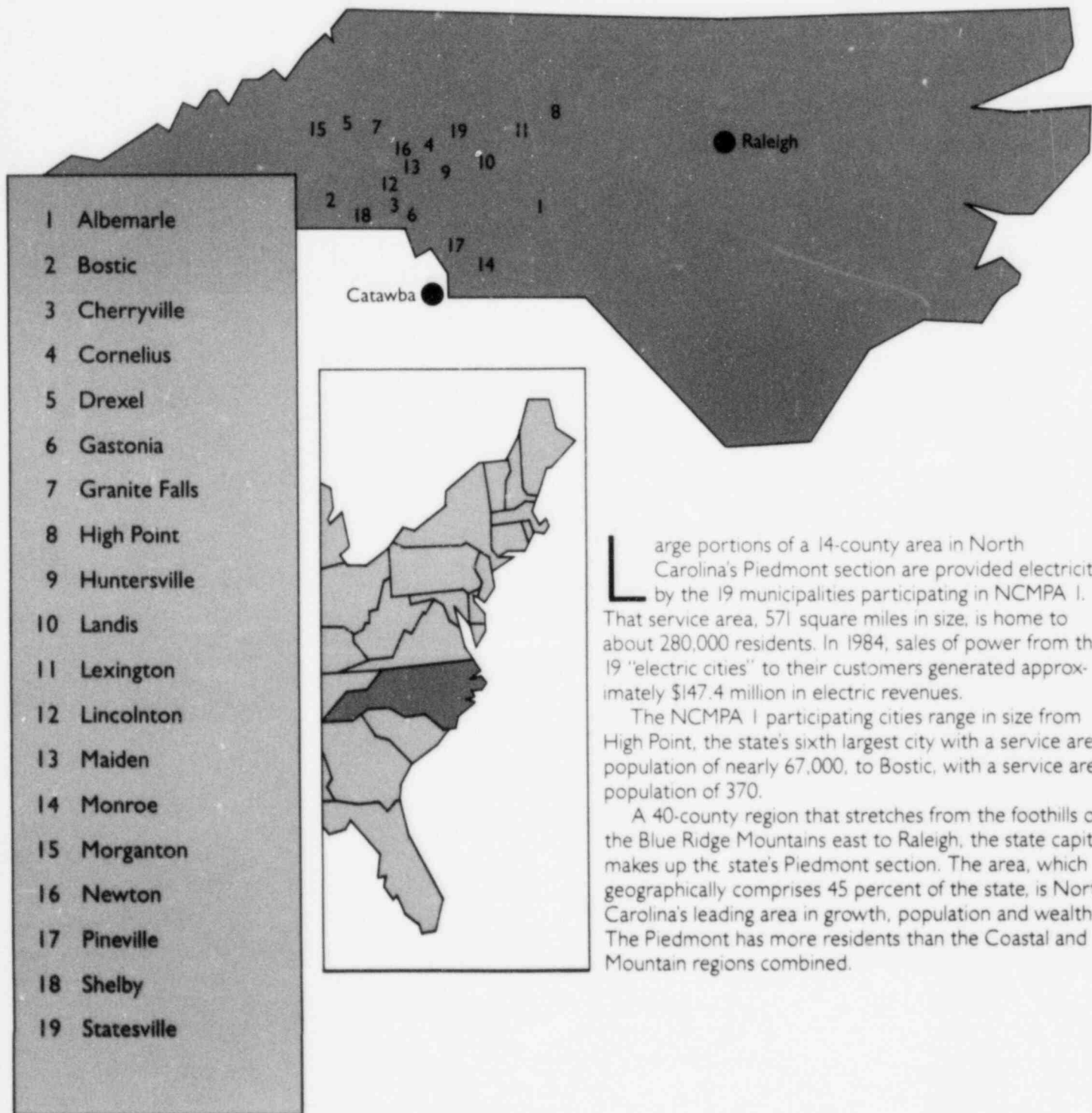
Joseph E. Baker, Jr.
Manager, Pineville

Stephen Royster
Alderman, Shelby

Peter T. Connet
Manager, Statesville

*Executive Committee Member

the participants



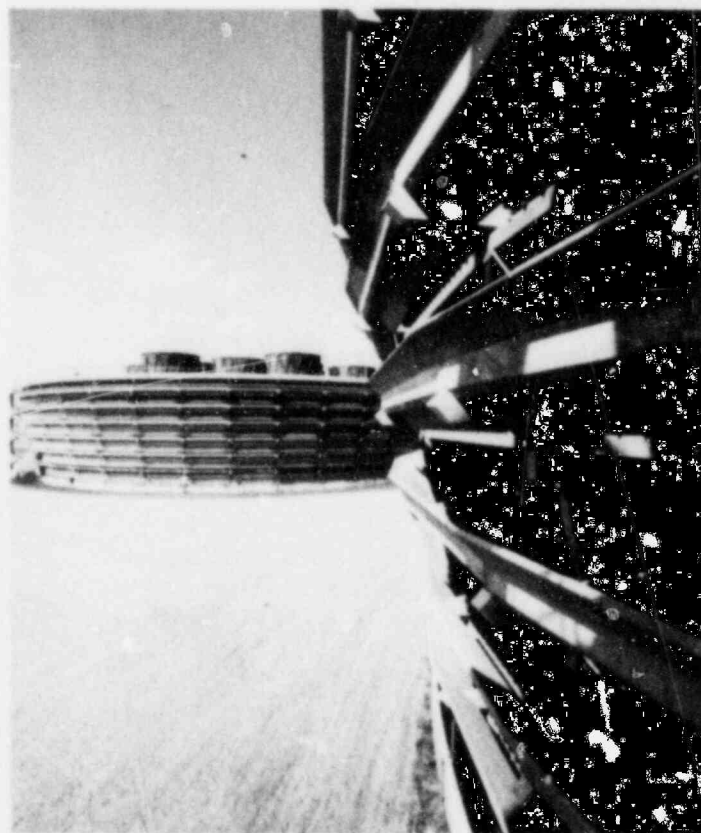


Eight of the participating cities are the county seats of their respective counties. The 19 include some of the state's oldest existing electric utilities. Three of these municipal utilities were established prior to 1900 and eight were operating by 1910, although none of the 19 now owns any independent generation facility.

Through their joint action in creating NCMPA 1 and participating in the Catawba project, the municipalities have returned to their historic role as full partner in North Carolina's electric power supply community.



The turbine-generator at Unit 2 of Catawba Nuclear Station is viewed by visitors during an open house at the plant. Since construction began at Catawba in 1974, some 45,000 persons have toured the plant.



Catawba Nuclear Station has six cooling towers. Water that circulates through the towers will have been used to condense steam that has gone through the turbine-generators. Huge fans on the tops of the towers will pull air through the sides of the structures to cool the water that drips through millions of baffles and collects in an inside pool. The water will then be pumped back through the main condenser to condense the exhaust steam.

operations

NCMPA 1 has a 75 percent ownership interest in Unit 2 of Catawba, which is still under construction. When both Catawba units are operational, the agency's ownership entitlement in the project will be approximately 860 megawatts of capacity.

However, the agency and Duke have also agreed to two reliability exchanges which, together, have the effect of providing the agency's base load ownership resources in essentially equal amounts from each of the four units of the Catawba and McGuire nuclear stations.

The agency was able to begin full operation on July 1, 1983, by receiving 215 megawatts of project power from McGuire through the McGuire reliability exchange.

The McGuire station is located on Lake Norman in North Carolina, 17 miles north of Charlotte. Construction began in April 1971. The two McGuire units are rated at 1180 megawatts each. Unit 1 at McGuire began commercial operation in December 1981, and Unit 2 on March 1, 1984.

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

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

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



A sailboat on Lake Norman glides past the 2.36-million-kilowatt William B. McGuire Nuclear Station, a "sister" plant to Catawba Nuclear

Station. Through use of an exchange agreement involving McGuire, NCMPA 1 was able to provide energy to its 19 participating cities as of July 1, 1983.

1984 Operating Statistics

In its first full year of operation, the agency supplied its cities with 2,894,769,000 kilowatt-hours of electric power, which produced revenues of \$109,970,000. An additional \$33,000 in revenues was produced from sales of surplus energy to Duke. For the period, the agency had an excess of revenues over expenses of \$2,399,000.

The average monthly power purchases by the cities from the agency were 241,230,000 kilowatt-hours. The average monthly billing to the cities was \$9,164,000. NCMPA 1 ended the year with a fund balance of \$9,254,000. Of that amount, \$5,613,000 was appropriated to meet 1985 expenses. The remaining \$3,641,000 is available as additional working capital.

Peak Demand

The agency's peak billing demand during 1984 was approximately 605 megawatts, which was less than the projected demand of 627 megawatts. That demand was met with 215 megawatts of capacity from



In July 1984, 108 tons of uranium fuel were loaded into the reactor vessel at Unit 1 of Catawba Nuclear Station. In this photo, nearly all of the 193 fuel assemblies of 204 fuel rods each are in place. Every fuel rod carries 272 enriched uranium fuel pellets about the size of a fingernail. Each pellet has an energy capability equal to more than a ton of coal.

the agency's ownership interest (through the McGuire exchange), and 390 megawatts of supplemental capacity purchased by the agency from Duke.

Bulk Power Rates

NCMPA I's bulk power rates are recommended by a six-member agency rate committee (all of whom are members of the board) and must be approved by the agency's full board of commissioners, on which board every member city is represented. The rates are not subject to review by any other regulatory body.

The bulk power rates, from which the agency bills its participating municipalities, are designed to recover agency costs, including the costs of ownership, operation and maintenance, financing, certain reserve accounts, administrative and general costs, supplemental power costs, and other special obligations. The rates will be adjusted at least annually to reflect changes in the agency's costs.

Effective July 1, 1983, the agency implemented a long-range rate stabilization policy intended to minimize fluctuations in the costs of project power to the participants, and to help the municipalities maintain their competitive retail rate position. That policy involves the collection of revenues to pay a portion of project power costs in future periods. The policy is expected to be continued into the 1990s.

The board adopted the agency's first rate schedule on June 16, 1983, which became effective July 1, 1983. On December 16, 1983, it adopted a 10.23 percent rate increase, which became effective February 1, 1984. The board put another 8.4 percent increase into effect on September 1, 1984. The increases resulted from projected increases in the agency's costs of supplying power to its participants.

In addition, the agency approved a 2.87 percent rate decrease, effective January 1, 1985. The purpose of the reduction was to reflect the effect of a change in the treatment of the state gross-receipts tax collected in all-requirements rates. A portion of the gross-receipts tax was converted to a sales tax. The change was mandated by legislation adopted by the North Carolina General Assembly to allow retail customers to itemize sales tax on electricity, along with other sales taxes, on federal tax forms.

NCMPA I Highlights

Kilowatt-Hours Sales (thousands)	2,894,769
Maximum Hourly Load (kilowatts)	605,465
Operating Revenues	\$110,003,000
Excess of Revenues Over Expenses	\$ 2,399,000

The scheduled operation dates for Catawba are June 1985 for Unit 1, and June 1987 for Unit 2, the unit in which NCMPA 1 has a 75 percent ownership interest. The station's construction was ahead of schedule at the end of 1984. As of December 1984, Duke estimated construction to be 100 percent complete for Unit 1 and 87 percent complete for Unit 2.

Duke applied to the U.S. Nuclear Regulatory Commission (NRC) for authorization to operate each unit of the Catawba station for 40 years, which is the unit's intended minimum useful operating life. In October 1983, hearings began on that application, with various parties petitioning to intervene. Additional hearings were held in May, June, September and October 1984.

On December 6, 1984, the NRC issued a five-percent power license for Catawba, allowing nuclear start-up and testing at the unit. A full-power license was granted by the NRC on January 17, 1985.

The Catawba Station

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

Catawba is a two-unit station, with an expected maximum net dependable capacity of 1145 megawatts for each unit. Each unit contains a Westinghouse pressurized water reactor system that will provide steam to a General Electric turbine-generator. The nuclear steam supply system is substantially similar in power rating and general design to the system employed in 21 other Westinghouse units with construction permits and six others with operating licenses, including Duke's McGuire Units 1 and 2.

Joint Owners

Subsequent to NCMPA 1's purchase of a 75 percent ownership interest in Catawba Unit 2 (and a 37½ percent interest in the Catawba station's support facilities), in February 1981, Duke sold a 75 percent interest in Catawba Unit 1 to a group of rural electric cooperatives located in North and South Carolina, and in December 1984, sold the remaining 25 percent of Catawba Unit 2 to Piedmont Municipal Power Agency, which represents 10 South Carolina municipalities.

Duke Power Company

Duke Power Company was established in 1904. It is an investor-owned electric utility serving approximately 1.4 million customers in North and South Carolina. Its power is produced by a balanced generation mix of primarily coal and nuclear plants.

During the 12 months ended December 31, 1984, Duke's electric revenues amounted to approximately \$2.71 billion, of which approximately 70 percent was derived from North Carolina customers. Among investor-owned utilities, the company ranks eighth in the United States in kilowatt-hour sales.

NCMPA I Power Supply Program									
(December 31, 1984)									
Proposed Capacity (MW)				Commercial Operation Date					
1145	CATAWBA UNIT 2 (NUCLEAR) OWNERSHIP SHARE 75%			6/87	87%				
1145	CATAWBA UNIT 1 (NUCLEAR) EXCHANGE UNIT			6/85	100%				
1180	McGUIRE UNIT 1 (NUCLEAR) EXCHANGE UNIT			12/81					
1180	McGUIRE UNIT 2 (NUCLEAR) EXCHANGE UNIT			3/84					
10	20	30	40	50	60	70	80	90	100
% Construction Complete									



NCMPA 1 accomplished two significant financing goals in 1984. The first was the advance refunding of its high-interest-rate bonds and certain other previously issued bonds.

In January 1984, NCMPA 1 sold \$432 million in tax-exempt electric revenue bonds at a true interest cost of 10.77 percent and net interest cost of 10.21 percent. This issue made it possible to refund the entire \$100 million 1980 Series and \$175 million of the 1981A Series which had interest rates of 14¾ percent and 14⅞ percent, respectively, and provided a portion of funds needed to repay the \$100 million in bond anticipation notes that matured July 1, 1984.

The second goal was reached when NCMPA 1 initiated a \$200 million tax-exempt commercial paper program and went to market on November 27.

On the first day, \$92.92 million of the agency's commercial paper was sold at an average maturity of 61 days and an average interest rate of 5.7 percent. As of December 31, the agency had \$196 million of commercial paper outstanding, with an average maturity of 61 days and an average interest rate of 5.99 percent. The First Boston Corporation acts as the agency's commercial

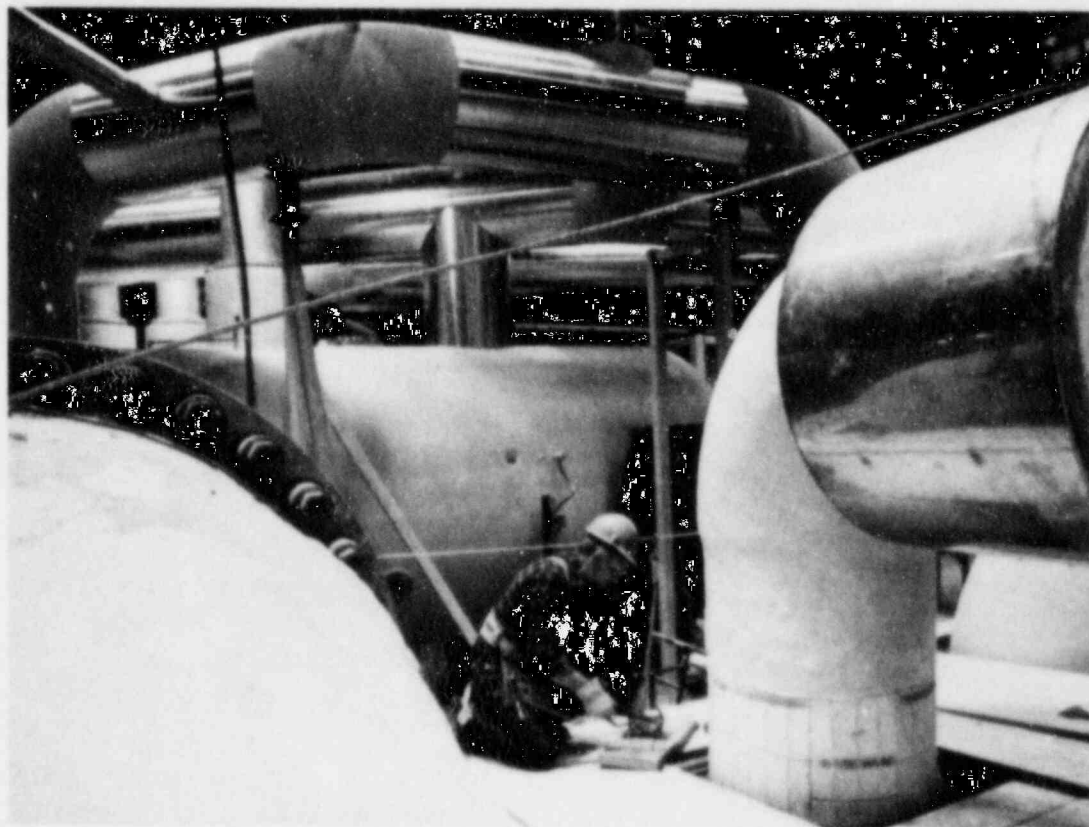
paper dealer, and the Long Term Credit Bank of Japan supports the program with its letter of credit.

As of December 31, NCMPA 1 had \$1.532 billion in bonds outstanding. It expects to issue an additional \$808 million of bonds from 1985 to 1988 to complete financing of the agency's project.

Also important was the investment of idle funds by the agency, a total of 967 transactions totalling \$3.491 billion. The investments earned \$46,466,000 for NCMPA 1 at an average yield of 10.69 percent. As of December 31, 1984, the investment portfolio balance of all NCMPA 1 accounts was \$551,561,000.

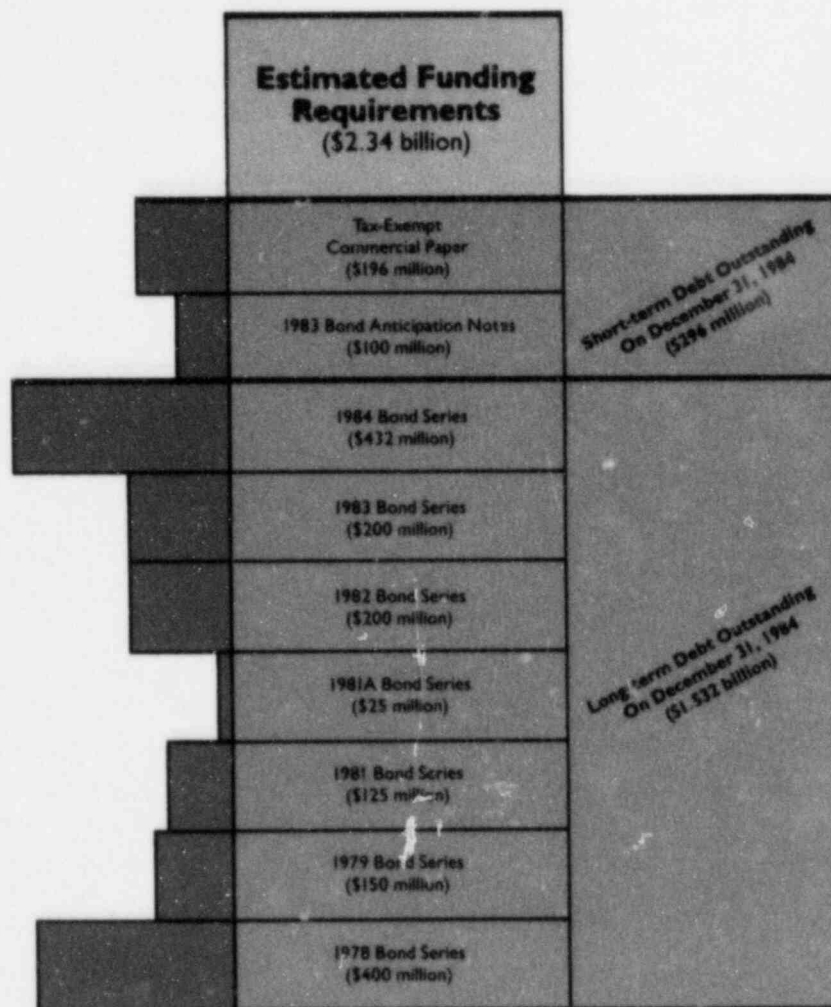
During 1984, NCMPA 1 continued its efforts to inform investors and the financial community about agency activities. Special emphasis was placed on the solid security behind NCMPA 1 bonds, made possible by the state statute giving the agency's participating

A worker puts the finishing touches on insulation encasing the huge pipes that will carry steam to the turbine-generator at Unit 2 at Catawba Nuclear Station. He is one of 4,000 construction personnel who has helped build the plant.



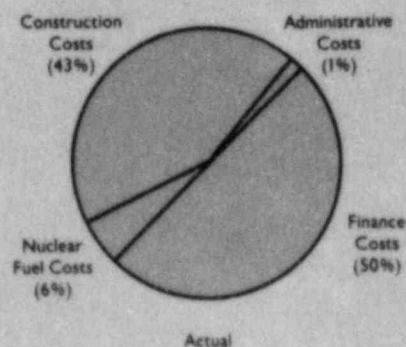
cities the specific authority to enter into take-or-pay contracts with NCMPA I. These contracts are essential for projects financed by the sale of revenue bonds, as the contracts guarantee that participants will provide the money needed to meet the agency's financial obligations, whether or not the expected amount of electric power is received from the agency's project.

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



Project Estimate (Thousands of Dollars)

	Project Estimate	Actual 12-31-84
Construction Costs	\$1,023,579	\$ 854,270
Nuclear Fuel Costs	138,870	82,870
Finance Costs	1,168,310	531,052
Administrative Costs	9,241	2,063
	<u>\$2,340,000</u>	<u>\$1,470,255</u>



auditors' opinion

Touche Ross & Co.

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

We have examined the balance sheets of North Carolina Municipal Power Agency Number 1 as of December 31, 1984 and 1983, and the related statements of changes in financial position for the years then ended and the statements of revenues and expenses and changes in fund balance for the year ended December 31, 1984 and for the period from July 1, 1983 (date revenue-producing operations commenced) through December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of North Carolina Municipal Power Agency Number 1 at December 31, 1984 and 1983, the changes in its financial position for the years then ended and the results of its operations for the year ended December 31, 1984 and for the period from July 1, 1983 through December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

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

Touche Ross & Co.

Certified Public Accountants
Raleigh, North Carolina
March 1, 1985

balance sheets

(\$000s)

	December 31,	
	1984	1983
ASSETS		
ELECTRIC UTILITY PLANT (Notes B and C):		
Construction work in progress	\$1,214,546	\$ 945,845
Nuclear fuel	88,515	71,093
	<u>1,303,061</u>	<u>1,016,938</u>
SPECIAL FUNDS INVESTED (Notes B and D):		
Construction fund	114,580	305,210
Bond fund	240,470	225,824
Reserve and contingency fund	17,084	15,299
Decommissioning fund	2,270	613
Special reserve fund	1,136	1,027
Commercial paper account	128,029	
	<u>503,569</u>	<u>547,973</u>
CURRENT ASSETS:		
Funds invested (Notes B and D):		
Revenue fund	13,821	3,881
Operating fund	2,468	2,245
Supplemental fund	31,703	27,297
	<u>47,992</u>	<u>33,423</u>
Participant accounts receivable	9,845	8,383
Prepaid expenses	99	58
	<u>57,936</u>	<u>41,864</u>
DEFERRED COSTS (Note B):		
Unamortized debt issuance costs	34,632	33,020
Development costs	20	
	<u>\$1,899,218</u>	<u>\$1,639,795</u>

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(\$000s)

	December 31,	
	1984	1983
LIABILITIES AND FUND BALANCE		
LONG-TERM DEBT:		
Bonds (Notes C and D)	\$1,532,000	\$1,375,000
Bond anticipation notes (Note E)	100,000	100,000
Unamortized discount	(37,382)	(27,384)
	<u>1,594,618</u>	<u>1,447,616</u>
SPECIAL FUNDS LIABILITIES:		
Tax-exempt commercial paper (Note F)	196,000	
Bond anticipation notes (Note E)		100,000
Construction fund payables	6,523	4,009
Accrued interest on bond anticipation notes	3,250	9,000
Accrued interest on bonds	69,218	65,483
Accrued interest on commercial paper	896	
Commercial paper payables	284	
	<u>276,171</u>	<u>178,492</u>
CURRENT LIABILITIES:		
Accounts payable	9,734	6,318
Accrued taxes	91	230
	<u>9,825</u>	<u>6,548</u>
DEFERRED REVENUES (Note H)	9,350	284
COMMITMENTS AND CONTINGENCIES (Notes C, I and J)		
FUND BALANCE	9,254	6,855
	<u>\$1,899,218</u>	<u>\$1,639,795</u>

statements of revenues and expenses and changes in fund balance

(\$000s)

	Year Ended December 31, 1984	Period from July 1, 1983 through December 31, 1983
OPERATING REVENUES:		
Sales of electricity to participants	\$109,970	\$ 51,716
Sales of electricity to utilities	33	
	<u>110,003</u>	<u>51,716</u>
OPERATING EXPENSES:		
Interconnection services:		
Purchased power	79,144	35,243
Transmission and distribution	12,491	5,709
Other	347	152
	<u>91,982</u>	<u>41,104</u>
Administrative and general	1,477	498
Gross receipts tax	6,488	3,043
	<u>99,947</u>	<u>44,645</u>
NET OPERATING INCOME	10,056	7,071
INTEREST CHARGES (CREDITS):		
Interest expense	146,359	144,867
Amortization of debt discount and issuance costs	2,674	2,754
Investment income	(46,466)	(62,521)
Net interest capitalized (Note C)	(103,976)	(85,168)
	<u>(1,409)</u>	<u>(68)</u>
DEFERRED REVENUES (Note H)	9,066	284
EXCESS OF REVENUES OVER EXPENSES	2,399	6,855
FUND BALANCE, beginning of period	6,855	
FUND BALANCE, end of period	\$ 9,254	\$ 6,855

statements of changes in financial position

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(\$000s)

	Year Ended December 31,	
	1984	1983
SOURCE OF FUNDS:		
Operations:		
Excess of revenues over expenses	\$ 2,399	\$ 6,855
Amortization of debt discount and issuance costs	2,674	2,754
Deferred revenues	9,066	284
Funds provided by operations	14,139	9,893
Proceeds from sale of bonds	432,000	200,000
Increase in special funds liabilities	97,679	124,550
Decrease in special funds invested	44,404	5,303
Proceeds from sale of bond anticipation notes		100,000
	588,222	439,746
APPLICATION OF FUNDS:		
Additions to electric utility plant	286,123	220,511
Refunding of bonds	275,000	
Additions to unamortized debt discount and issuance costs	14,284	14,680
Provision for retirement of bond anticipation notes		100,000
Retirement of revolving credit notes		75,000
Increase in development costs	20	
	575,427	410,191
INCREASE IN WORKING CAPITAL	\$ 12,795	\$ 29,555
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase in current assets:		
Funds invested	\$ 14,569	\$ 27,662
Participant accounts receivable	1,462	8,383
Prepaid expenses	41	58
	16,072	36,103
(Increase) decrease in current liabilities:		
Accounts payable	(3,416)	(6,318)
Accrued taxes	139	(230)
	(3,277)	(6,548)
INCREASE IN WORKING CAPITAL	\$ 12,795	\$ 29,555

See notes to financial statements.

notes to financial statements

Years Ended December 31, 1984 and 1983

A GENERAL MATTERS

North Carolina Municipal Power Agency Number 1 (agency) was organized on January 13, 1976, pursuant to Chapter 159B of the General Statutes of North Carolina (act), adopted by the General Assembly of North Carolina on May 1, 1975. The act enables municipalities owning electric distribution systems to create joint agencies with authority to finance, construct, operate and maintain electric generation and transmission facilities. The agency has twenty members, nineteen (participants) which receive power through the agency and one which receives power from Duke Power Company (Duke).

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

The Purchase, Construction and Ownership Agreement provides, among other things, for the agency to purchase a 75% undivided ownership interest in Unit 2 of the Catawba Nuclear Station and a 37.5% undivided ownership interest in certain support facilities of the station. This facility is presently under construction by Duke. The acquisition is being financed by the issuance of electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (resolution) of the Board of Commissioners of the agency. The resolution establishes special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the project and to establish certain reserves. The resolution also establishes special funds in which project revenues from participants are to be deposited and from which operating costs, debt service, and other specified payments are made.

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

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

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

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

B SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Construction Work in Progress

All direct and indirect expenditures associated with the development and construction of the project, including interest expense net of investment earnings on funds not yet expended, are capitalized as construction work in progress until such time as the plant becomes operational. Depreciation expense will be recognized on the facility when operations commence, currently scheduled for June 1987.

Nuclear Fuel

All direct and indirect expenditures related to the purchase and construction of nuclear fuel cores, including interest expense net of investment earnings on funds not yet expended, are capitalized until such time as the cores are placed in the reactor and the reactor becomes operational, at which time they will be amortized and charged to fuel expense.

Investments

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

Deferred Costs

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

B SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

Income of the agency is exempt from Federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the agency from property and franchise or other privilege taxes. In lieu of property taxes, the agency pays an amount which 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 6% of the gross receipts from sales of electric power, less such like amounts included in payments to vendors for electric power or related services. Effective January 1, 1985, the gross receipts tax rate is reduced to 3.22%.

Reclassifications

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

C CONSTRUCTION PROGRAM

The agency has substantial commitments in connection with the construction of the Catawba facility. The agency's direct costs of construction, including nuclear fuel, are presently estimated to be \$1,162,449,000. These costs, together with provisions for working capital and debt service costs during the construction period, will require the use of the proceeds from the issuance of up to an estimated \$2,340,000,000 of Catawba Electric Revenue Bonds (bonds). Any future changes in the construction schedule may affect the cost of such facilities and therefore affect the amount of bonds to be issued.

Interest costs of \$146,093,000 and \$146,151,000 were capitalized as part of the cost of power plants under construction during 1984 and 1983, respectively. The capitalized interest costs were offset by \$42,117,000 and \$60,983,000 in interest earned on related unexpended bond proceeds for 1984 and 1983, respectively.

D BONDS

The agency has been authorized to issue bonds in accordance with the terms, conditions and limitations of the resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the project, as defined, and/or for other purposes set forth in the resolution. On May 3, 1983, the Local Government Commission of the State of North Carolina (LGC) approved the issuance of such bonds up to a maximum principal amount of \$2,390,000,000; additional LGC approval must be obtained for the issuance of bonds in excess of this amount.

As of December 31, 1983, the agency has issued \$1,375,000,000 of the total authorized bonds. During 1984, an additional \$432,000,000 was issued (Series 1984) with \$275,000,000 (Series 1980 and a portion of Series 1981A) refunded, bringing the total outstanding bonds at December 31, 1984 to \$1,532,000,000, as follows (in thousands of dollars):

SERIES 1978

5.20% to 6.45% maturing annually from 1986 to 2000	\$ 77,905
6.60% maturing in 2003 with annual sinking fund requirements beginning in 2001	25,870
6.70% maturing in 2008 with annual sinking fund requirements beginning in 2004	55,935
6.875% maturing in 2020 with annual sinking fund requirements beginning in 2009	240,290
	<u>400,000</u>

SERIES 1979

5.75% to 6.90% maturing annually from 1986 to 2000	27,200
7.10% maturing in 2004 with annual sinking fund requirements beginning in 2001	12,905
7.375% maturing in 2020 with annual sinking fund requirements beginning in 2005	109,895
	<u>150,000</u>

SERIES 1981

9.40% to 10.50% maturing annually from 1991 to 1998	11,125
10.75% maturing in 2001 with annual sinking fund requirements beginning in 1999	9,875
8.50% maturing in 2017 with annual sinking fund requirements beginning in 2011	25,000
11.125% maturing in 2020 with annual sinking fund requirements beginning in 2002	79,000
	<u>125,000</u>

SERIES 1981A

11% maturing in 2015 with annual sinking fund requirements beginning in 2012	25,000
--	--------

SERIES 1982

11% maturing in 2003 with annual sinking fund requirements beginning in 1991	\$ 14,700
7.50% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000
11.25% maturing in 2020 with annual sinking fund requirements beginning in 2004	160,300
	<u>200,000</u>

SERIES 1983

8% to 9.25% maturing annually from 1991 to 1996	7,300
10.25% maturing in 2003 with annual sinking fund requirements beginning in 2002	10,000
7% maturing in 2018 with annual sinking fund requirements beginning in 2009	25,000
10.625% maturing in 2020 with annual sinking fund requirements beginning in 2004	157,700
	<u>200,000</u>

SERIES 1984

8.50% to 10.25% maturing annually from 1991 to 1999	44,185
10.375% maturing in 2004 with annual sinking fund requirements beginning in 2000	35,725
10% maturing in 2014 with annual sinking fund requirements beginning in 2011	50,000
7.50% maturing in 2019 with annual sinking fund requirements beginning in 2017	50,000
10.625% maturing in 2020 with annual sinking fund requirements beginning in 2000	252,090
	<u>432,000</u>
	<u>\$1,532,000</u>

notes to financial statements

Years Ended December 31, 1984 and 1983

D BONDS (continued)

Upon issuance of the Series 1984 Bonds, the agency entered into a Refunding Trust Agreement for the refunding of \$100,000,000 of Series 1980 Bonds and \$175,000,000 of Series 1981A Bonds.

Under the Refunding Trust Agreement, obligations of or guaranteed by the United States of America have been placed in an irrevocable Refunding Trust maintained by the Bond Fund Trustee. These government obligations, along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due, to redeem the Series 1980 Bonds annually at their maturities from 1986 through 2010 and to redeem the Series 1981A Bonds in 1991, their first call date, at a redemption price of 103%. The Refunding Trust Fund, including the interest earnings on the government obligations, is pledged solely for the benefit of the holders of the bonds refunded. Since establishment of the Refunding Trust Fund, the bonds refunded are no longer considered outstanding obligations of the agency.

Under GAAP, the agency is required to recognize a \$45,632,000 loss on refunding of the bonds. This amount has been capitalized as construction work in progress. Pursuant to the refunding, the agency is to benefit from reduced debt service costs over the life of the Series 1984 Bonds.

Interest on the bonds is payable semi-annually on January 1 and July 1. The bonds are subject to redemption prior to maturity at the option of the agency, on or after the following dates at a maximum of 103% of the respective principal amounts:

Series 1978	January 1, 1989
Series 1979	January 1, 1990
Series 1981	January 1, 1991
Series 1981A	January 1, 1991
Series 1982	January 1, 1993
Series 1983	January 1, 1993
Series 1984	January 1, 1994

These 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 Project Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the resolution.

Maturities of outstanding bonds through 1989 and thereafter are as follows (in thousands of dollars):

1986	\$ 4,590
1987	4,840
1988	5,100
1989	5,385
1990 and thereafter	<u>1,512,085</u>
	<u>\$1,532,000</u>

E BOND ANTICIPATION NOTES

Bond anticipation notes in the aggregate principal amount of \$100,000,000 dated February 1, 1983, bearing an interest rate of 6.50% per annum, will mature January 1, 1986. Interest is payable semi-annually on January 1 and July 1.

The notes are payable from proceeds of subsequently issued bonds and are additionally secured by a lien on revenues, junior in right of payment to the bonds (Note D).

Bond anticipation notes in the aggregate principal amount of \$100,000,000 dated October 1, 1981 matured and were repaid on July 1, 1984.

F TAX-EXEMPT COMMERCIAL PAPER

The agency has authorized the issuance of tax-exempt commercial paper (TECP) to provide interim financing in an amount not to exceed \$200,000,000. As of December 31, 1984, the agency had \$196,000,000 TECP outstanding with an average maturity of 60 days, and an average interest rate of 6%. The agency has a letter of credit with a bank to provide funds to pay principal and interest on the TECP when due, for which the agency pays a fee of approximately \$625,000 per year. There were no borrowings against the letter of credit at December 31, 1984.

G REVOLVING CREDIT NOTES

In 1980, the agency and a group of four banks entered into a revolving credit agreement which allowed the agency to borrow up to \$75,000,000. These notes were retired during 1983 from proceeds of the Series 1983 Bonds.

H DEFERRED REVENUES

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

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

Revenues deferred to offset future billings to participants include the following (in thousands of dollars):

	<u>Year Ended December 31, 1984</u>	<u>Inception to December 31, 1984</u>
Bond Resolution Requirements Included in Billings to the Participants:		
Special fund deposits	\$11,334	\$13,077
Investment income not available for operating purposes	<u>672</u>	<u>683</u>
	12,066	13,760
 GAAP Items Not Included in Billings to the Participants:		
Interest costs	<u>(2,940)</u>	<u>(4,410)</u>
Deferred Revenues	<u>\$ 9,066</u>	<u>\$ 9,350</u>

I COMMITMENTS

The agency has a contractual agreement with ElectricCities of North Carolina Inc. whereby ElectricCities provides, at cost, general management services to the agency. This agreement is for three years continuing through December 31, 1986, and shall be automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term.

For the years ended December 31, 1984 and 1983, the agency paid ElectricCities of North Carolina Inc. \$1,463,000 and \$1,274,000, respectively, of which \$231,000 and \$921,000, respectively, has been capitalized as construction work in progress.

J CONTINGENCIES

Duke has applied to the Nuclear Regulatory Commission (NRC) for an operating license for the Catawba Nuclear Station. The license is expected to be received prior to the end of the construction period. However, there is no assurance that the NRC will issue such license and the facility cannot be placed into service without it.

The Price-Anderson Act limits the public liability for a nuclear incident at a nuclear generating unit to \$620,000,000, which amount is to be covered by private insurance and agreements of indemnity with the NRC. Such private insurance and agreements of indemnity are carried by Duke on behalf of all co-owners of the Catawba Nuclear Station. The terms of this coverage require the owners of all licensed facilities to provide up to \$5,000,000 per year per unit in the event of any nuclear incident involving any licensed facility in the nation with a maximum of \$10,000,000 per year per unit owned in the event of more than one incident. If any such payments are required after the Catawba Nuclear Station has received its operating license, the agency would be liable for 37.5% of those payments applicable to the Station.

Property damage insurance coverage presently available for the entire Catawba Nuclear Station has a maximum benefit limited to \$585,000,000. Such available coverage has been obtained. This coverage will be increased to \$1,085,000,000 effective April 1, 1985.

schedule of changes in assets of funds invested

For the Years Ended December 31, 1984 and 1983

(\$000s)

	Funds Invested January 1, 1983	Bond and Note Proceeds	Power Billing Receipts	Investment Earnings	Disburse- ments
CONSTRUCTION FUND:					
Construction account	\$113,330	\$ 99,030	\$	\$15,990	\$(207,799)
Construction interest account	131,109	149,447		20,569	
Construction revolving account	101			8	
Note interest amount	27,913			2,306	(11,500)
Note interest 1983 account		18,958		1,322	(2,708)
	272,453	267,435		40,195	(222,007)
BOND FUND:					
Interest account	44,712			290	(110,235)
Reserve account	142,550	19,531		17,405	
	187,262	19,531		17,695	(110,235)
RESERVE AND CONTINGENCY FUND					
	12,003	1,953		1,343	
DECOMMISSIONING FUND					
				10	
SPECIAL RESERVE FUND					
				52	
COMMERCIAL PAPER ACCOUNT					
REVOLVING CREDIT FUND					
	81,558			1,611	(2,024)
REVENUE FUND:					
Revenue account			4,048	52	
Rate stabilization account				10	
			4,048	62	
OPERATING FUND					
	5,761			425	(3,032)
SUPPLEMENTAL FUND					
	\$559,037	\$288,919	\$43,383	\$62,521	\$(372,464)

*north
carolina
municipal
power
agency
number 1*

Transfers	Funds Invested December 31, 1983	Bond and Note Proceeds	Power Billing Receipts	Investment Earnings	Disburse- ments	Transfers	Funds Invested December 31, 1984
\$100,322	\$120,873	\$ 86,859	\$	\$ 7,733	\$(234,856)	\$ 38,423	\$ 19,032
(149,370)	151,755	2,032		10,694		(80,248)	84,233
(7)	102			9	(2)	(5)	104
(3,811)	14,908			457	(11,500)	(3,865)	
	17,572			1,169	(6,500)	(1,030)	11,211
(52,866)	305,210	88,891		20,062	(252,858)	(46,725)	114,580
130,857	65,624	5,440		491	(134,702)	132,466	69,319
(19,286)	160,200	8,612		18,194		(15,855)	171,151
111,571	225,824	14,052		18,685	(134,702)	116,611	240,470
	15,299	861		1,716		(792)	17,084
603	613			150		1,507	2,270
975	1,027			109			1,136
		196,000		1,583	(210)	(69,344)	128,029
(81,145)							
(882)	3,218		22,037	413	(377)	(21,954)	3,337
653	663			672		9,149	10,484
(229)	3,881		22,037	1,085	(377)	(12,805)	13,821
(909)	2,245			171	(11,496)	11,548	2,468
22,000	27,297		86,566	2,905	(85,065)		31,703
\$	\$581,396	\$299,804	\$108,603	\$46,466	\$(484,708)	\$	\$551,561

schedule of revenues and expenses per bond resolution and other agreements

*north
carolina
municipal
power
agency
number 1*

(\$000s)

	Year Ended December 31, 1984			Period from July 1, 1983 through December 31, 1983		
	Project	Supplemental and other	Total	Project	Supplemental and other	Total
REVENUES:						
Sales of electricity to participants	\$22,880	\$87,084	\$109,964	\$4,537	\$47,153	\$51,690
Sales of electricity to utilities	33		33			
Investment revenue available for operations	770	2,907	3,677	399	1,128	1,527
Other revenues	1	5	6		26	26
	23,684	89,996	113,680	4,936	48,307	53,243
EXPENSES:						
Interconnection services:						
Purchased power	10,307	68,837	79,144	2,803	32,440	35,243
Transmission and distribution		12,491	12,491		5,709	5,709
Other		347	347		152	152
	10,307	81,675	91,982	2,803	38,301	41,104
Administrative and general-agency	670	807	1,477	118	380	498
Gross receipts tax	1,373	5,115	6,488	272	2,771	3,043
Special funds deposits:						
Decommissioning	1,507		1,507	604		604
Revenue	171		171	356		356
Rate stabilization	9,656		9,656	783		783
	11,334		11,334	1,743		1,743
	23,684	87,597	111,281	4,936	41,452	46,388
EXCESS OF REVENUES OVER EXPENSES	\$	\$ 2,399	\$ 2,399	\$	\$ 6,855	\$ 6,855

management

staff



James T. Bobo
General Manager



Fred M. Mills, Jr.
Director - Government Affairs



William G. Wernhoff
Director - Engineering

consultants,

trustees

North Carolina Counsel
Spruill and Spruill
Rocky Mount, N.C.

Washington Counsel
Spiegel & McDiarmid
Washington, D.C.

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

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

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

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

paying

agents

Chemical Bank
New York, N.Y.

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

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



North Carolina Municipal Power Agency Number 1
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SALUDA RIVER ELECTRIC COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1984

and

SUPPLEMENTAL INFORMATION

with

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS



ARTHUR YOUNG

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A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

1900 Daniel Building
Greenville, South Carolina 29602

The Board of Trustees
Saluda River Electric Cooperative, Inc.

We have examined the accompanying balance sheet of Saluda River Electric Cooperative, Inc. at December 31, 1984 and the related statements of operations and patronage capital, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of Saluda River Electric Cooperative, Inc. at December 31, 1984, and the results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination has been made primarily for the purpose of expressing an opinion on the financial statements referred to above taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the examination 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.

February 8, 1985

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

BALANCE SHEET

DECEMBER 31, 1984

ASSETS

Utility plant:

Electric plant in service (Note 2)	\$ 232,352
Construction work in process (Notes 1 and 3)	358,795,446
	359,027,798
	36,145
Less: accumulated depreciation (Note 2)	358,991,653
Net utility plant	

Current assets:

Cash and cash equivalents-general fund	4,628,045
Cash and cash equivalents-loan fund (Note 7)	256,642
Cash and cash equivalents-pollution control fund (Note 7)	25,064,221
Accounts receivable	4,221,206
Interest receivable	259,799
	34,429,913

Investments (Note 4)

48,296

Debt service reserve funds-pollution control bonds (Note 5)

9,172,730

Deferred charges (Note 6)

644,513

\$403,287,105

LIABILITIES

Patronage capital (Notes 7 and 10)

\$ 5,612,368

Long Term Debt (Note 7):

Mortgage notes payable	343,365,000
Note payable	6,150,931
Pollution control bonds payable	44,200,000
	393,715,931

Current liabilities:

Accounts payable	3,573,520
Interest payable	385,286
	<u>3,958,806</u>

\$403,287,105

See Accompanying notes.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.
STATEMENT OF OPERATIONS AND PATRONAGE CAPITAL
FOR YEAR ENDED DECEMBER 31, 1984

Operating revenues:

Electrical revenues	\$43,303,866
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Operating expenses (Note 3):

Cost of power	39,774,335
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Administrative expense	14,695
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Office expense	10,645
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Salaries	24,779
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Employee benefits	6,798
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Miscellaneous expense	3,619
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Depreciation and amortization (Notes 2 and 6)	14,892
--	--------

	<u>39,849,763</u>
--	-------------------

Net operating margins	3,454,103
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Non-operating margins:

Net interest income (Note 3)	238,960
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Net margins for period	3,693,063
------------------------	-----------

Patronage capital, beginning of the year	1,919,305
---	-----------

Patronage capital, end of the year	\$ <u>5,612,368</u>
------------------------------------	---------------------

See accompanying notes.

SALUDA RIVER ELECTRIC COOPERATIVE
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR YEAR ENDED DECEMBER 31, 1984

Funds were provided by:

Net margin	\$ 3,693,063
Items not affecting working capital in the current period:	
Depreciation and amortization	<u>14,892</u>
Working capital provided by operations	3,707,955
Increase in mortgage notes	53,170,000
Proceeds from pollution control bond issue	44,200,000
Amortization of discount on notes payable	<u>638,859</u>
	<u>101,716,814</u>

Funds were applied to:

Additions to construction work in process	69,279,249
Additions to electric plant in process	21,742
Purchase of investments	48,296
Establishment of reserve funds - pollution control	9,172,730
Increase in deferred charges	<u>618,142</u>
	<u>79,140,159</u>

Increase in working capital	\$ <u>22,576,655</u>
-----------------------------	----------------------

See accompanying notes.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR YEAR ENDED DECEMBER 31, 1984
(continued)

Changes in components of working capital:

 Increase (decrease) in current
 assets

Cash-general fund	\$ 4,081,282
Cash-loan fund	(5,898,175)
Cash-pollution control fund	25,064,221
Accounts receivable	(166,958)
Interest receivable	259,799
	<u>23,340,169</u>

 Increase (decrease) in current
 liabilities

Accounts payable	378,228
Interest payable	385,286
	<u>763,514</u>

Increase in working capital	<u>\$22,576,655</u>
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See accompanying notes.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

1. Description of the entity

The accounting records of Saluda River Electric Cooperative, Inc. (the Cooperative) conform to the Uniform System of Accounts, prescribed by the U.S. Department of Agriculture as modified for electric borrowers of the Rural Electrification Administration (REA).

The Cooperative was formed in 1958 and is composed of five rural electric cooperatives located in South Carolina. The Cooperative represents the member cooperatives in dealings with Duke Power Company (Duke). Since November 1, 1983, the Cooperative has purchased wholesale power from Duke for sale to the member cooperatives.

In order to secure a reliable source of power for their consumers, these members, through the Cooperative, purchased an 18.75% undivided ownership interest in Duke's Catawba Nuclear Station Unit No. 1 and a 9.375% undivided ownership interest in the support facilities for Catawba Nuclear Station Units No. 1 and No. 2, including land and related assets. This agreement was executed on October 14, 1980 and Saluda River began payments on its construction in February of 1981. The preliminary estimates of final costs are \$528,000,000.

2. Electric plant in service

Major classes of the Cooperative's electric plant in service as of December 31, 1984 are as follows:

Mobile substation	\$156,455
Office furniture and fixtures	50,230
Vehicles	25,667
	<u>\$232,352</u>

The Cooperative depreciates electric plant in service on a straight-line basis using the following rates as specified by the REA: 3.2% - mobile substation, 7% - furniture and fixtures, 17% - vehicles.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

3. Construction work in process

The construction work in process is for the Catawba Nuclear Station explained in Note 1. In addition to capitalizing all construction related expenditures, the Cooperative capitalizes 80% of certain operating expenditures that contribute indirectly to the construction. The amount of operating expenses capitalized was \$218,172 for 1984.

The Cooperative also capitalizes net interest cost on borrowings used to finance the construction. Total net interest cost capitalized for 1984 was \$37,100,595.

4. Investments in associated organizations

Investments in associated organizations at December 31, 1984 consisted of \$48,296 of Capital Term Certificates (CTC) with the Cooperative Finance Corporation (CFC). The CTC's are presently earning 3% interest and will be kept by the CFC until 2080. The Cooperative is obligated to acquire additional CTC's in future years based on a percentage of the preceding year's gross revenue. Determination of the amount resulting from gross revenue for the year ended December 31, 1984 has not yet been completed by CFC.

5. Debt service reserve funds - pollution control bonds

The reserve funds-pollution control bonds are restricted funds with the CFC and had the following balances at December 31, 1984:

Reserve Fund-Pollution Control Bonds (PCB)	\$3,978,000
Reserve Fund-Pollution Control Bonds-Construction (PCBC)	2,984,730
Subordinated Term Certificates (STC)	2,210,000
	<u>\$9,172,730</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

5. Debt service reserve funds - pollution control bonds
(Continued)

The PCB Reserve Fund bears a variable interest rate (8.5% at December 31, 1984) and was established to make up deficiencies in the amount available to pay the principal and interest on the bonds and to provide for the final payments of principal and interest on the bonds. The PCBC Reserve Fund was established to pay remaining pollution control expenditures for the Catawba Nuclear Station and bears a variable interest rate (8.55% as of December 31, 1984). The STC's represent a 5% compensating balance of the Cooperative's Pollution Control Bonds, earn interest at 11.118% and are outstanding for the life of the bond issue.

6. Deferred charges

Deferred charges consisted of the following at December 31, 1984:

Unamortized Debt Expense-	
Federal Financing Bank	
(FFB) notes	\$ 41,807
Unamortized Debt Expense-	
Pollution Control Bonds (PCB)	602,706
	<u>\$644,513</u>

The \$41,807 is being amortized based on the mortgage notes outstanding. The \$602,706 consists primarily of underwriters and legal fees associated with the issuance of the Pollution Control Bonds and is being amortized based on bonds outstanding.

7. Long term debt

Long Term Debt consisted of the following at December 31, 1984:

Mortgage Notes-FFB	\$343,365,000
Note Payable-Duke Power	6,150,931
Pollution Control Bonds	44,200,000
	<u>393,715,931</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

7. Long term debt (Continued)

Mortgage Notes - FFB

These are mortgage notes payable to the Federal Financing Bank (FFB). The debt functions basically as a line-of-credit and funds are borrowed as needed for construction of the Catawba Nuclear Station. At December 31, 1984, unadvanced loan funds of \$165,905,000 were available to the Cooperative under the current agreements. Interest rates vary from 9.28% to 13.20%. Substantially all assets of the Cooperative are pledged as security for this debt and, under the terms of the debt agreement, the Cooperative is restricted as to the amount of patronage credit which can be distributed and certain investment and capital activities are restricted also.

Maturity dates on this debt range from February, 1985 to December, 2016. The Cooperative has the ability and intent to extend the maturity dates of the FFB notes which are due in 1985 and 1986. The note maturity dates may be extended for varying lengths of time at the interest rates prevailing on the date extended. The Cooperative will not be required to make principal payments on the mortgage notes until 1988.

The cash proceeds of the mortgage notes are restricted for the purchase of the Cooperative's interest in the Catawba Nuclear Station.

Note Payable - Duke Power

On February 6, 1981, the Cooperative executed an unsecured note payable to Duke Power Company in the amount of \$18,928,353, which represents the Cooperative's share of the negotiated cost of transferred assets of the Catawba Nuclear Station at that date.

The note was recorded by the Cooperative in 1983 at its face value. The note is non-interest bearing until June, 1995 and should have been recorded at its present value in 1983. In 1984, the recorded amount of the note was adjusted to reflect the present value, resulting in a \$13,416,281

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

7. Long term debt (Continued)

Note Payable - Duke Power (Continued)

decrease in construction work in process and in notes payable. At December 31, 1984, the note and related discount, which is amortized using the interest method, were as follows:

Note payable	\$18,928,353
Less discount (deferred interest)	<u>12,777,422</u>
	<u>\$ 6,150,931</u>

This note is to be paid in one hundred equal quarterly payments consisting of principal and interest over a term of twenty-five years. The first installment will be payable on a date ten years after the date on which the first Catawba Nuclear Station, whether Unit 1 or Unit 2, goes into commercial operation. The expected completion date of the Catawba Plant is June, 1985.

Interest shall only accrue after the due date of the first installment on the principal amount and interest shall accrue on the remaining unpaid balance at a rate equivalent to an interest rate in the first long-term loan agreement between the Cooperative and any other lender with regard to the Catawba Nuclear Station. That rate has been determined to be 11.118%, the equivalent of a long-term note executed with the Federal Financing Bank with a maturity date of December 31, 2015.

Pollution Control Bonds

On November 29, 1984, the Cooperative issued \$44,200,000 of 30 year pollution control bonds. The funds are restricted to pay or refinance the costs associated with certain pollution control facilities at the Catawba Nuclear Station. The bonds bear a variable semi-annual interest rate (6.375% at December 31, 1984). The bonds are structured with principal payments to be made each year beginning in 1994

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

7. Long term debt (Continued)

Pollution Control Bonds (Continued)

for \$650,000 and escalating each year until \$4,000,000 is due on the maturity date in 2014.

Assets in construction work in process are pledged as security for the bonds.

Under the terms of the bond issuance, the Cooperative was required to expend all of the bond proceeds prior to February 27, 1985 by prepaying certain of the FFB mortgage notes payable. As a result of the prepayment of the notes, the Cooperative will incur a prepayment penalty of approximately \$145,000.

The Cooperative also has unadvanced loan funds of \$12,000,000 available relating to commitments from the National Rural Utilities Cooperative Finance Corporation. The funds may be borrowed at any time during the twelve months ended November 28, 1985. As of December 31, 1984, no proceeds have been borrowed by the Cooperative under this agreement.

In accordance with industry practice, portions of long-term debt due within one year have not been segregated and included under current liabilities.

8. Pension plan

The Cooperative participates in a defined benefit retirement program sponsored by the National Rural Electrification Association. The Cooperative's contribution for 1984 was \$18,794.

9. Operating lease

The Cooperative has a non-cancellable operating lease on the land and building used for office premises. The original lease term expires in June, 1985 but the Cooperative has

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

9. Operating lease (Continued)

notified the lessor of its intention to exercise a five year renewal option that is effective at the end of the original term. The following is a schedule of estimated future minimum rental payments on the lease which include payments to be paid during the renewal period.

Year ending December 31:

1985	\$ 25,200
1986	\$ 25,200
1987	\$ 25,200
1988	\$ 25,200
1989	\$ 25,200
Thereafter	\$ <u>12,600</u>
	<u>\$138,600</u>

Total lease payments for 1984 were \$27,700 of which 80% was capitalized in construction work in process and 20% was included in office expense.

10. Patronage Capital

Net margins are allocated to patronage capital accounts in accordance with guidelines established by the Board of Directors for each class of member. In 1984, patronage capital of \$3,693,063 was allocated to the five member cooperatives on the basis of electric revenues received from each member in 1984 compared to total electrical revenues for the year. Patronage capital credits may be paid to the Cooperative members at the discretion of the Board of Directors except as restricted by the debt agreements described in Note 7.

11. Taxable Status

South Carolina law exempts all electric cooperatives from state income taxes; consequently, the Cooperative is exempt from state income taxes. Whether or not a cooperative is

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

11. Taxable Status (Continued)

exempt from federal income taxes is a function of certain tests under Internal Revenue Service Code Section 501(c)(12), relating to the sources of revenue and is determined annually. For the year ended December 31, 1984 Saluda River is exempt from federal income taxes.

SUPPLEMENTAL INFORMATION

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

OFFICERS AND TRUSTEES

At December 31, 1984

J.A. Darby, President
Route 1 Box 63, Rock Hill, South Carolina 29730

J. David Wasson, Jr., Secretary-Treasurer
Route 3 Box 345, Laurens, South Carolina 29360

Joseph W. Mulholland, Manager
106 Wilderness Lane, Laurens, South Carolina 29360

Robert C. Carroll, Trustee
119 Hillside Drive, Gaffney, South Carolina 29340

Jack M. Gantt, Trustee
Route 2 Box 40A, McCormick, South Carolina 29835

Ralph Hendrix, Trustee
Route 15, Greenville, South Carolina 29607

Charles E. Dalton, Trustee
117 East Baker Street, Pickens, South Carolina 29671

D. W. Stribling, Trustee
Walnut Hill, Westminster, South Carolina 29693

Conway B. Sutton, Trustee
Route 8 Box 254H, Inman, South Carolina 29349

Joe L. White, Trustee, Vice President
200 Summit Drive, Abbeville, South Carolina 29620

R. O. Williams, Trustee
201 Oak Street, York, South Carolina 29745

Charles L. Compton, Attorney
Leftbank, Laurens, South Carolina 29360

SALUDA RIVER ELECTRIC COOPERATIVE, INC.
SCHEDULE OF CONSTRUCTION WORK IN PROCESS

As of December 31, 1984

Duke Power, Purchase of Nuclear Facilities	\$242,865,538
Duke Power, Preliminary Costs	18,928,353
Less discount of Duke Note Payable	(12,777,422)
Documentary Stamps on Deed	78,220
Interest Expense Capitalized	109,775,439
Interest Earned on Loan Fund Investments	(581,610)
Interest Earned on Investments and Reserves	(73,940)
Interest Earned on Pollution Control Fund Investments	(262,316)
Administrative Expense	95,467
Engineering Fees	197,331
Management Salaries	280,650
Employee Benefits	116,197
Employee Payroll Taxes	15,489
Legal Fees	32,844
Office and Telephone	96,116
Insurance	8,972
Miscellaneous	<u>118</u>
Total Construction Work in Process	<u>\$358,795,446</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

CASH INVESTMENTS

AS OF DECEMBER 31, 1984

GENERAL FUND INVESTMENTS:

The Palmetto Bank, Laurens, S.C. SWEEP ACCOUNT, 7.0%	\$1,200,200
The Palmetto Bank, Laurens, S.C., Certificate of Deposit #19844, @ 8.60%, Due 3/31/85	2,000,000
The Palmetto Bank, Laurens, S.C., Certificate of Deposit #19653, @ 11.00%, Due 4/29/85	1,000,000
Security Federal Savings and Loan, Laurens, S.C., Certificate of Deposit #1069-6519 @ 11.35%, Due 4/25/85	300,000
Security Federal Savings and Loan, Laurens, S.C., Certificate of Deposit #10645021 @ 9.25%, Due 1/22/85	100,000
Security Federal Savings and Loan, Laurens, S.C., Passbook #190135-5 @ 5.50%	<u>6,035</u>
TOTAL GENERAL FUND INVESTMENTS	<u>4,606,235</u>
Other General Fund Cash not invested	<u>21,810</u>
TOTAL GENERAL FUND CASH	<u>\$ 4,628,045</u>

LOAN FUND INVESTMENTS:

The Palmetto Bank, Laurens, S.C., SWEEP ACCOUNT, 7.00%	<u>\$ 252,526</u>
TOTAL LOAN FUND INVESTMENTS	<u>252,526</u>
Other Loan Fund Cash not invested	<u>4,116</u>
TOTAL LOAN FUND CASH	<u>\$ 256,642</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

CASH INVESTMENTS

AS OF DECEMBER 31, 1984

(Continued)

POLLUTION CONTROL BOND FUND INVESTMENTS:

Cooperative Finance Corporation, Washington, D.C., Certificate #84334151 @ 8.45%, Due 1/31/85	\$10,440,294
The Palmetto Bank, Laurens, S.C., SWEEP ACCOUNT @ 7.00%	546,816
C & S National Bank, Atlanta, GA, Certificate #12A 1985 0228 @ 8.66%, Due 2/28/85	<u>10,003,492</u>
TOTAL POLLUTION CONTROL BOND FUND INVESTMENTS	<u>20,990,602</u>
Other Pollution Control Fund Cash not invested	<u>4,073,619</u>
TOTAL POLLUTION CONTROL BOND FUND CASH	<u>\$25,064,221</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

ACCOUNTS RECEIVABLE

AS OF DECEMBER 31, 1984

Blue Ridge Electric Cooperative, Inc.	\$1,374,391
Broad River Electric Cooperative, Inc.	513,111
York Electric Cooperative, Inc.	963,891
Little River Electric Cooperative, Inc.	307,145
Laurens Electric Cooperative, Inc.	<u>1,062,668</u>
TOTAL	<u>\$4,221,206</u>

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

PATRONAGE CAPITAL

AS OF DECEMBER 31, 1984

	<u>BLUE RIDGE</u>	<u>LAURENS</u>	<u>YORK</u>	<u>BROAD RIVER</u>	<u>LITTLE RIVER</u>	<u>TOTAL</u>
Patronage Capital at 12/31/83	\$ 664,079	\$ 480,594	\$ 390,579	\$237,034	\$147,019	\$1,919,305
Add Net Margin for 1984	<u>1,224,214</u>	<u>950,483</u>	<u>821,152</u>	<u>467,099</u>	<u>230,115</u>	<u>3,693,063</u>
Patronage Capital at 12/31/84	<u>\$1,888,293</u>	<u>\$1,431,077</u>	<u>\$1,211,731</u>	<u>\$704,133</u>	<u>\$377,134</u>	<u>\$5,612,368</u>
Allocation % of 1984 net margin	33.2%	25.8%	22.2%	12.6%	6.2%	100%

The 1984 net margin was allocated based on each cooperatives' share of 1984 electric revenue.

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

SUMMARY OF FEDERAL FINANCING BANK NOTES

AS OF DECEMBER 31, 1984

Note Number	Date of Note	Interest Term	Due Date	Interest Rate	Principal
F0130	2/01/83	Variable	2/01/85	9.590%	\$2,100,000
F0135	2/15/83	Variable	2/15/85	9.785%	1,810,000
F0140	3/01/83	Variable	3/01/85	9.326%	1,670,000
F0016	3/02/83	Variable	3/02/85	9.277%	2,812,638
F0145	3/31/83	Variable	3/31/85	9.883%	9,782,000
F0021	4/01/83	Variable	4/01/85	9.873%	4,354,000
F0026	5/01/83	Variable	5/01/85	9.365%	740,000
F0150	6/01/83	Variable	6/30/85	10.020%	1,270,000
F0155	6/30/83	Variable	6/30/85	10.263%	10,225,000
F0160	8/01/83	Variable	8/01/85	11.004%	3,415,000
F0041	8/03/83	Variable	8/03/85	11.111%	1,900,000
F0046	9/01/83	Variable	9/01/85	11.150%	3,610,000
F0165	9/01/83	Variable	9/01/85	11.150%	5,637,000
F0051	9/30/83	Variable	9/30/85	10.624%	7,000,000
F0170	9/30/83	Variable	9/30/85	10.624%	11,150,000
F0175	11/01/83	Variable	11/01/85	10.604%	3,454,000
F0056	11/02/83	Variable	11/02/85	10.634%	1,728,000
F0061	12/01/83	Variable	12/01/85	10.653%	1,000,000
F0180	12/01/83	Variable	12/01/85	10.653%	2,811,000
F0185	12/29/83	Variable	12/29/85	10.828%	11,760,000
F0066	1/03/84	Variable	1/03/86	10.838%	8,640,000
F0190	1/31/84	Variable	1/31/86	10.565%	1,106,000
F0071	2/01/84	Variable	2/01/86	10.565%	960,000
F0076	3/01/84	Variable	3/01/86	10.965%	2,565,000
F0195	3/02/84	Variable	3/02/86	11.023%	4,907,000
F0081	4/02/84	Variable	4/02/86	11.558%	7,042,000
F0085	5/03/84	Variable	5/03/86	11.869%	1,793,700
F0090	6/01/84	Variable	6/30/86	12.955%	2,915,000
F0200	4/02/84	Variable	6/30/86	11.616%	11,700,000
F0095	7/02/84	Variable	7/02/86	13.081%	8,646,000
F0100	8/02/84	Variable	9/30/86	12.451%	2,350,000
F0105	9/04/84	Variable	9/30/86	12.490%	4,367,000
F0110	9/30/84	Variable	9/30/86	12.024%	8,892,000
F0205	5/01/84	Variable	9/30/86	11.947%	2,330,000
F0210	6/01/84	Variable	9/30/86	13.042%	3,095,000
F0215	7/02/84	Variable	9/30/86	13.197%	12,427,000
F0220	8/08/84	Variable	9/30/86	12.364%	700,000
F0225	9/04/84	Variable	9/30/86	12.490%	3,525,000
F0023	10/02/84	Variable	12/31/86	12.083%	9,400,000
F0115	11/01/84	Variable	12/31/86	11.150%	2,250,000
F0235	11/01/84	Variable	12/31/86	11.150%	900,000
F0240	12/03/84	Variable	12/31/86	10.536%	3,080,000
F0011	2/06/83	Fixed	12/31/2015	11.118%	132,087,362
F0031	6/01/83	Fixed	12/31/2015	10.980%	930,000
F0036	6/30/83	Fixed	12/31/2015	11.092%	6,460,000
F0120	12/01/82	Fixed	12/31/2016	10.719%	1,500,000
F0125	12/30/82	Fixed	12/31/2016	10.535%	10,569,000

TOTAL AMOUNT ADVANCED

\$343,365,000

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

ACCOUNTS PAYABLE

AS OF DECEMBER 31, 1984

	ALLOCATED TO CONSTRUCTION WORK IN <u>PROCESS</u>	ALLOCATED TO OPERATING <u>EXPENSE</u>	<u>TOTAL</u>
Duke Power Company, Purchased Power	\$ -	\$3,501,209	\$3,501,209
S.C. Electric & Gas, Purchased Power	-	68,975	68,975
L & L Office Supply, Office Expense	417	105	522
Lloyd's of Laurens, Office Expense	399	100	499
NRUCFC, Administrative Expense	1,594	-	1,594
Piedmont Rural Telephone Coop., Office Expense	423	106	529
General Telephone, Office Expense	<u>154</u>	<u>38</u>	<u>192</u>
TOTAL ACCOUNTS PAYABLE	<u>\$2,987</u>	<u>\$3,570,533</u>	<u>\$3,573,520</u>

PIEDMONT MUNICIPAL POWER AGENCY
FINANCIAL STATEMENTS
MONTH ENDED DECEMBER 31, 1984
with
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS


ARTHUR YOUNG

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A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

1900 Daniel Building
Greenville, South Carolina 29602

The Board of Directors
Piedmont Municipal Power Agency

We have examined the accompanying balance sheet of Piedmont Municipal Power Agency at December 31, 1984 and the related statements of revenues and expenses and changes in retained earnings, and changes in financial position for the month then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of Piedmont Municipal Power Agency at December 31, 1984, and the results of its operations and changes in financial position for the month then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Arthur Young & Company

April 19, 1985

PIEDMONT MUNICIPAL POWER AGENCY

BALANCE SHEET

DECEMBER 31, 1964

(\$ in thousands)

ASSETS

Utility plant (Notes 2 and 7):	
Electric plant in service	\$ 2
Construction work in process	461,945
Nuclear fuel in process	13,488
	<u>475,435</u>
Less: accumulated depreciation	1
Net utility plant	<u>475,434</u>
Restricted funds (Note 3):	
Construction fund	95,673
Construction interest fund	55,180
Bond reserve fund	60,717
Note fund	17,540
Working capital fund	313
	<u>229,423</u>
Current assets - cash	6
Unamortized debt issuance costs, net of accumulated amortization of \$148 (Note 2)	22,095
Organization costs net of accumulated amortization of \$2 (Notes 2 and 7)	<u>1,164</u>
	<u>\$ 728,122</u>

RETAINED EARNINGS AND LIABILITIES

Retained earnings (Note 7)	\$ 101
Long-term debt (Note 4):	
Electric Revenue Bonds-Series 1984	530,000
Unamortized discount	(23,443)
	<u>506,557</u>
Electric Revenue Notes Series 1984	200,000
	<u>706,557</u>
Restricted fund liabilities:	
Construction fund:	
Accounts payable	282
Refunds due member municipalities (Note 7)	2,169
Note payable, net (Note 5)	12,960
Accrued interest:	
Electric Revenue Bonds-Series 1984	4,587
Electric Revenue Notes-Series 1984	<u>1,458</u>
	<u>21,464</u>
	<u>\$728,122</u>

See accompanying notes.

PIEDMONT MUNICIPAL POWER AGENCY
 STATEMENT OF REVENUES AND EXPENSES AND
 CHANGES IN RETAINED EARNINGS
 FOR MONTH ENDED DECEMBER 31, 1984
 (\$ in thousands)

Revenues (Note 2)		\$ -
Expenses (Note 2)		
Amortization of organization costs		<u>2</u>
Net income (loss)		<u>(2)</u>
Retained earnings (deficit), beginning of the period	\$ (287)	
Correction of advances from members (Note 7)	(2,169)	
Correction of expenditures (Note 7)	<u>2,559</u> <u>390</u>	
Adjusted beginning retained earnings		<u>103</u>
Retained earnings end of the period		<u>\$101</u>

See accompanying notes.

PIEDMONT MUNICIPAL POWER AGENCY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR MONTH ENDED DECEMBER 31, 1984
(\$ in thousands)

Funds were provided by:

Net loss	\$ (2)
Item not affecting working capital in the current period:	
Amortization	<u>2</u>
Working capital provided by operations	<u>-</u>
Proceeds from issuance of electric revenue bonds and notes	730,000
Increase in restricted liabilities	20,144
	<u>750,144</u>

Funds were applied to:

Additions to construction in process	460,574
Additions to nuclear fuel in process	13,488
Increase in restricted funds	229,423
Debt issuance costs, net	22,058
Additions to organization costs	15
Discount on bonds, net	23,443
Discount on note, net	848
	<u>749,849</u>

Increase in working capital \$ 295

Changes in components of working capital:

Increase (decrease) in current assets:

Cash \$ 9

Increase (decrease) in current liabilities:

Accounts payable (304)

Increase in working capital \$ 295

PIEDMONT MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

(\$ in thousands)

1. Description of the entity

Piedmont Municipal Power Agency (the Agency) was incorporated in 1979 under the South Carolina Joint Municipal Electric Power and Energy Act. The Act was adopted in April, 1978 to enable municipalities in northwestern South Carolina to form a joint agency to plan, finance, develop, own and operate electric generation and transmission facilities. The Agency is composed of ten member municipalities located in northwestern South Carolina and represents the member municipalities in dealings with Duke Power Company (Duke). It is estimated that in June, 1985, the Agency will begin to receive power from its generating resources and to purchase power from Duke for sale to the member municipalities.

In order to secure a reliable source of power for their consumers, these members, through the Agency, purchased a 25% undivided ownership interest in Duke's Catawba Nuclear Station Unit 2 and its initial fuel core. The preliminary estimate of the total cost to the Agency is \$526,564 and the estimated completion date is June, 1987.

2. Significant accounting policies

Basis of accounting - The accounting records of the Agency are maintained on an accrual basis in conformance with the Federal Energy Regulatory Commission's Uniform System of Accounts and generally accepted accounting principles.

Utility plant - The construction work in process and nuclear fuel in process are for the Catawba Nuclear Station Unit 2 explained in Note 1. In addition to capitalizing all construction related expenditures, the Agency capitalizes all operating expenditures that contribute indirectly to the construction. The Agency also capitalizes net interest cost on borrowings used to finance the construction. Total net interest cost capitalized for the month ended December 31, 1984 was \$1,813. Electric plant in service is recorded at cost and depreciated on the straight-line basis over its estimated useful life.

Unamortized debt issuance costs - Unamortized debt issuance costs are amortized on the bonds outstanding method.

PIEDMONT MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 1984

(\$ in thousands)

2. Significant accounting policies (Continued)

Organization costs - Organization costs are amortized on the straight-line method over a period of 40 years.

Discount on bonds payable - The discount on the bonds payable is being amortized on the bonds outstanding method.

Income taxes - The Agency is exempt from federal and state income taxes.

3. Restricted funds

Restricted funds were established by the Agency, in accordance with the respective bond and note resolutions, to account for proceeds of the bond and note issuance and are restricted by the resolutions for payment of construction costs, debt service, and other specified purposes.

The restricted funds consist of the following assets stated at cost, which approximates market:

	<u>Cash</u>	<u>Short-term Investments</u>	<u>Accrued Interest Receivable</u>	<u>Total</u>
Construction fund	\$ 36	\$ 95,411	\$ 226	\$ 95,673
Construction interest fund	-	55,044	135	55,179
Bond reserve fund	17	58,259	2,442	60,718
Note fund	-	17,500	40	17,540
Working capital fund	313	-	-	313
	\$ <u>366</u>	\$ <u>226,214</u>	\$ <u>2,843</u>	\$ <u>229,423</u>

The Agency is required by the bond resolution to maintain minimum balances in each of the restricted funds. At December 31, 1984, the amounts in each of the restricted funds were greater than or equal to the required minimum balances.

PIEDMONT MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

(\$ in thousands)

4. Long-term

Electric Revenue Bonds

In December, 1984, the Agency issued \$530,000 of Electric Revenue Bonds, Series 1984 at an original issue discount of \$23,500 for the purpose of financing the Agency's investment in Catawba Nuclear Station Unit No. 2, described in Note 1.

The bonds are special obligations of the Agency and are secured by future revenues as defined by the bond resolution and other monies and securities pledged under the bond resolution, including the Bond Reserve Fund. Under the terms of an existing insurance policy, the payment of principal and interest on the bonds maturing on January 1, 2019 is guaranteed.

The bonds bear a semi-annual interest rate ranging from 7% to 11% with maturity dates ranging from January 1, 2004 to January 1, 2025. The bonds are redeemable at the option of the Agency at prices ranging from 103% of the bond principal amount in 1995 to 100% in 1998 and thereafter.

The following is a summary of the principal debt and sinking fund requirements for the bonds payable at December 31, 1984:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>
1996	\$ 3,165	2011	\$12,880
1997	3,510	2012	13,950
1998	3,890	2013	15,115
1999	4,315	2014	16,430
2000	4,785	2015	18,290
2001	5,305	2016	20,210
2002	5,880	2017	22,330
2003	6,520	2018	24,675
2004	7,230	2019	26,960
2005	8,015	2020	32,285
2006	8,670	2021	35,835
2007	9,380	2022	39,775
2008	10,150	2023	44,155
2009	10,990	2024	49,010
2010	11,895	2025	54,400

PIEDMONT MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

(\$ in thousands)

4. Long-term debt (Continued)

Electric Revenue Notes

In December, 1984, the Agency issued \$200,000 of Electric Revenue Bond Anticipation Notes, Series 1984 for the purpose of financing the Catawba Nuclear Station Unit No. 2, described in Note 1.

The notes are special obligations of the Agency and are secured by a lien on future revenues as defined under the note resolution.

The lien on revenues securing the notes is subordinate to the lien on revenues securing payments required under the bond resolution. The notes are further secured by irrevocable letters of credit which are in amounts sufficient to pay the principal of the notes plus 7 months' accrued interest. No borrowings under the letters of credit have occurred as of December 31, 1984.

The notes consist of two principal amounts of \$100,000 which bear semi-annual interest rates of 8.5% and 9% and mature on January 1, 1988 and 1990, respectively. These notes are not subject to optional redemption by the Agency prior to maturity.

5. Note payable - Duke Power

On December 20, 1984, the Agency executed an unsecured, non-interest bearing note payable to Duke Power Company in the amount of \$13,817 which has been discounted using an assumed interest rate of 12%. The original discount of \$920 has been amortized to a balance of \$849 at December 31, 1984. The note represents the Agency's share of the negotiated cost of assets transferred (as defined) from Duke Power to the Agency of the Catawba Nuclear Station Unit 2 at that date and is to be paid in full on the date on which the first Catawba Nuclear Station, whether Unit 1 or Unit 2, goes into commercial operation. The expected operational date of Catawba Nuclear Station Unit 1 is June, 1985.

PIEDMONT MUNICIPAL POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1984

(\$ in thousands)

6. Commitments

Prior to the date of commercial operation of Catawba Nuclear Station Unit 1 or Unit 2, whichever first occurs, the Agency is required to establish and deposit into a Reserve and Contingency Fund 50% (\$3,027) of the Reserve and Contingency Fund Requirement. The balance of the requirement (\$3,027) will be deposited prior to commercial operation of the second unit of the Catawba Nuclear Station. The proceeds of current or future bond issuances will be used to fund the Reserve and Contingency Fund.

The Agency has entered into various agreements with Duke Power Company and the Agency's members for the purchase and sale of electric power, the exchange of capacity, and the operation of The Agency's interest in Catawba Nuclear Station Unit 2. The commitments under these agreements will become effective when commercial operation of the Catawba Nuclear Station Unit 1 begins.

7. Correction of prior period accounts

During the period from inception to December 1, 1984, the Agency received \$2,169 from the ten member municipalities. These advances and related expenditures were recognized as revenues and expenses in the financial statements covering that period. Retained earnings as of December 1, 1984 have been restated to reflect the advances as a liability of the Agency.

The expenditures relating to the advances were for organization of the Agency or construction of Catawba Nuclear Station Unit 2. As of December 1, 1984, construction work in process, debt issuance costs, organization costs, and retained earnings were adjusted to reflect the capitalization of these expenditures. The expenditures were capitalized in organization costs, debt issuance costs and construction work in process at amounts of \$1,151, \$37 and \$1,372 respectively.