DELIVERING VALUE

NCEMPA 2012 Financial Report

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2012 and 2011

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North Carolina Eastern Municipal Power Agency
Annual Financial Report
Years Ended December 31, 2012 and 2011

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on the Financial Statements
We have audited the accompanying statements of net position of North Carolina Eastern Municipal Power Agency (the "Agency") as of December 31, 2012 and 2011, and the related statements of revenues and expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of December 31, 2012 and 2011, and results of their operations and their cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note B to the financial statements, the Agency implemented GASB Statements 63 and 65 that requires certain assets be classified as deferred outflows of resources. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Cherry Bekaert LLP

April 1, 2013
Raleigh, North Carolina

Management's Discussion and Analysis (MD&A)

As management of North Carolina Eastern Municipal Power Agency (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2012 and 2011. We encourage you to read this information in conjunction with the information furnished in the Agency's financial statements that follow this narrative.

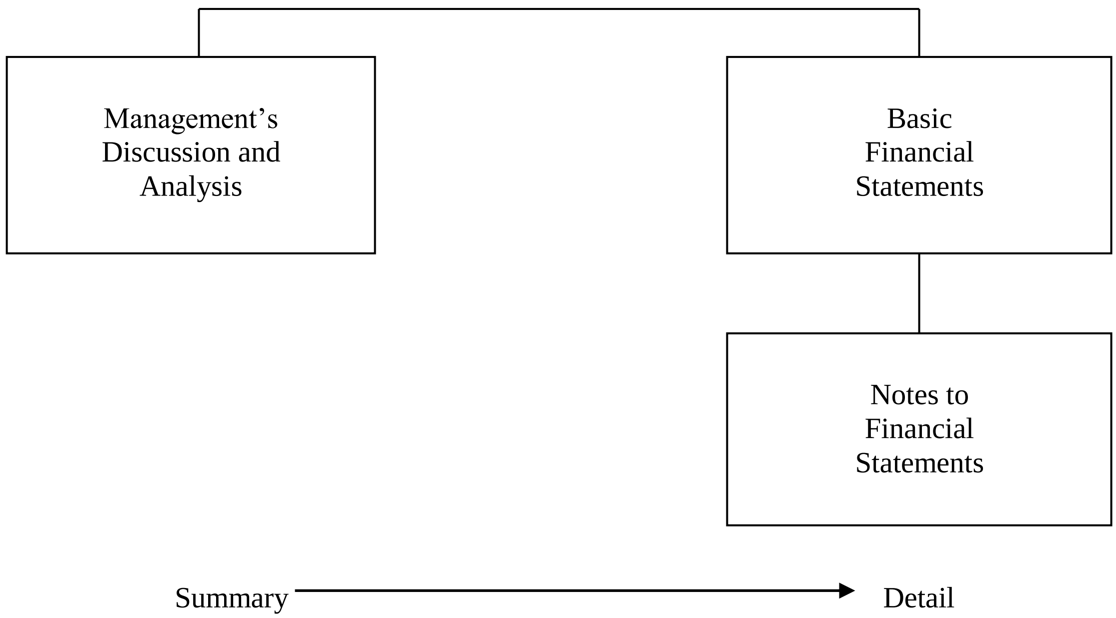
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2012 and 2011, the Agency's assets exceeded its liabilities by $102,998,000 and $81,296,000, respectively (net position).
- The Agency's net position increased by $21,702,000 and $16,113,000 for 2012 and 2011, respectively.
- Year-end 2012 and 2011 unrestricted net position was $486,715,000 and $484,570,000, respectively, and increased $2,145,000 and decreased $86,877,000 during 2012 and 2011, respectively.
- The Agency's total debt decreased $94,740,000 and $141,820,000 during 2012 and 2011, respectively, as follows:
  - Decreased $149,015,000 and $141,820,000 in 2012 and 2011, respectively, due to principal paid January 1, 2012 and 2011 in accordance with debt service schedules.
  - Increased $54,275,000 in 2012 due to a refunding and funding of certain capital additions.
- In May and October 2012, the Agency refinanced some of its existing debt to take advantage of low interest rates. In addition, the Agency issued new debt to fund certain capital additions.
  - In May 2012, the Agency issued $170,705,000 of Series 2012B Bonds and $29,385,000 of Series 2012C Bonds to refund $209,640,000 of previously issued bonds and $87,325,000 of Series 2012A Bonds to fund certain capital additions. The bonds pay interest of 1.7% to 5.0% and mature annually from 2013 to 2026.
  - In October 2012, the Agency issued $136,630,000 of Series 2012D Bonds to refund $160,130,000 of fixed rate debt.
  - Net present value savings realized for the bonds were $36,508,000 or 9.4% of refunded bonds.
- The bond ratings increased or remained the same as follows:
  - Standard and Poor's – Unchanged at A- (stable).
  - Moody's – Unchanged at Baa1 (stable).
  - Fitch – Unchanged at A- (stable).
- There were no rate increases in 2012 or 2011.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report
Exhibit 1



Basic Financial Statements

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

The second section of the basic financial statements is the notes that explain in more detail some of the data contained in the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are on pages 14 to 37 of this report.

After the notes, supplemental information is provided to show how the Agency's rates recovered its expenses as defined by the Bond Resolution, to show the Agency's performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 38 to 43 of this report.

Financial Analysis

The electric enterprise fund financial statements for the years ended December 31, 2012 and 2011 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Net Position
Exhibit 2
($000s)

	December 31, 2012	2011	2010
Assets and Deferred Outflows of Resources			
Capital assets	$ 738,327	$ 719,886	$ 701,865
Current and other assets	1,939,841	1,979,988	2,060,531
Deferred outflows of resources	226,499	221,929	241,841
Total assets and deferred outflows of resources	2,904,667	2,921,803	3,004,237
Liabilities			
Long-term liabilities outstanding	2,115,672	2,132,303	2,283,214
Other liabilities	685,997	708,204	655,840
Total liabilities	2,801,669	2,840,507	2,939,054
Net Position			
Net Invested in capital assets	(438,752)	(485,485)	(594,671)
Restricted for debt service	55,035	82,211	88,407
Unrestricted	486,715	484,570	571,447
Total net position	$ 102,998	$ 81,296	$ 65,183

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities by $102,998,000, $81,296,000, and $65,183,000 at December 31, 2012, 2011 and 2010, respectively, representing an increase of $21,702,000 and $16,113,000 for 2012 and 2011 respectively.

The deficit portion of net position of $(438,752,000), $(485,485,000) and $(594,671,000) at December 31, 2012, 2011 and 2010, respectively, reflects the Agency's investments in capital assets (e.g. land, buildings, generation facilities, nuclear fuel and equipment), less any related debt outstanding that was issued to acquire or refinance those items. The deficit occurs because depreciation is expensed on a straight line basis over the life of the plant while debt repayment is structured similar to a home mortgage where early debt payments include more interest than principal and later payments include more principal than interest. This deficit was reduced during 2012 and 2011 because the payment of principal debt service on January 1 and the payment of capital additions from current operating funds exceeded depreciation expense.

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

An additional portion of the Agency's net position of $55,035,000, $82,211,000, and $88,407,000 at December 31, 2012, 2011 and 2010, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of $486,715,000, $484,570,000, and $571,447,000 at December 31, 2012, 2011 and 2010, respectively, is unrestricted net position.

Changes in Net Position
Exhibit 3
($000s)

	Years Ended December 31,		
	2012	2011	2010
Revenues:			
Operating revenues	$ 696,526	$ 704,040	$ 729,042
Nonoperating revenues	15,612	16,519	17,195
Total Revenues	712,138	720,559	746,237
Expenses:			
Operating expenses	443,407	427,110	445,951
Interest on long-term debt	112,054	120,625	130,146
Other nonoperating expenses	134,975	156,711	159,386
Total Expenses	690,436	704,446	735,483
Increase in net position	21,702	16,113	10,754
Net Position, Beginning of year	81,296	65,183	54,429
Net Position, End of year	$ 102,998	$ 81,296	$ 65,183

Financial Highlights

- There were no rate increases in 2012 or 2011.
- The Agency will submit a 2012 budget amendment at the next regularly scheduled Board of Commissioners meeting. The budget amendment is primarily due to expense overruns in power agency services.

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets at December 31, 2012, 2011 and 2010 totaled $738,327,000, $719,886,000, and $701,865,000, respectively, (net of accumulated amortization and depreciation) for an increase of $18,441,000 and $18,021,000 in 2012 and 2011, respectively. These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2012 and 2011 include the following:

- CWIP increased $51,584,000 and $28,883,000 in 2012 and 2011, respectively, due to capital additions projects at the joint units.
- Electric Plant in Service (EPIS) increased and CWIP decreased $43,802,000 and $13,788,000 in 2012 and 2011, respectively, due to the transfer of completed capital additions projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated $26,676,000 and $29,818,000 for 2012 and 2011, respectively.
- Nuclear Fuel was amortized $23,064,000 and $22,505,000 for 2012 and 2011, respectively.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2011	Additions	Transfers	Retirements	December 31, 2012
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	$ 1,672,064	$ 257	$ 45,613	$ (6,854)	$ 1,711,080
Nuclear Fuel	132,541	14,531	(21,991)		125,081
Total Depreciable Utility Plant	1,804,605	14,788	23,622	(6,854)	1,836,161
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,063,953)	(26,631)		6,854	(1,083,730)
Nuclear Fuel	(56,562)	(23,064)	21,991		(57,635)
Total Accumulated Depreciation and Amortization	(1,120,515)	(49,695)	21,991	6,854	(1,141,365)
Depreciable Utility Plant, Net	684,090	(34,907)	45,613	-	694,796
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	20,338	53,395	(45,613)		28,120
Total Electric Utility Plant, Net	$ 718,615	$ 18,488	$ -	$ -	$ 737,103

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

Non-Utility Plant and Equipment, Net

	December 31, 2011	Additions	Transfers	Retirements	December 31, 2012
Non-Utility Property and Equipment					
Property and Equipment	$ 2,242	$ -	$ -	$ -	$ 2,242
Accumulated Depreciation	(1,681)	(47)			(1,728)
Total Depreciable Property and Equipment, Net	561	(47)	-	-	514
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,271	$ (47)	$ -	$ -	$ 1,224

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

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

Outstanding Debt

Total debt outstanding at December 31, 2012, 2011 and 2010 was $2,159,770,000, $2,254,510,000 and $2,396,330,000, respectively, all of which are revenue bonds. Total debt decreased by $94,740,000 (4.2%) and $141,820,000 (5.9%) during 2012 and 2011, respectively, due to the principal debt payments and the refunding of bonds.

In May and October 2012, the Agency refinanced some of its existing debt to take advantage of low interest rates and issued new debt to fund certain capital additions.

- In May 2012, the Agency issued $170,705,000 of Series 2012B Bonds and $29,385,000 of Series 2012C Bonds to refund $209,640,000 of previously issued bonds and $87,325,000 of Series 2012A Bonds to fund certain capital additions. The bonds pay interest of 1.7% to 5.0% and mature annually from 2013 to 2026.
- In October 2012, the Agency issued $136,630,000 of Series 2012D Bonds to refund $160,130,000 of fixed rate debt.
- Net present value savings realized for the 2012 bonds were $36,508,000 or 9.4% of refunded bonds.

The bond ratings increased or remained the same as follows:

- Standard and Poor's – Unchanged at A- (stable).
- Moody's – Unchanged at Baa1 (stable).
- Fitch – Unchanged at A- (stable).

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 30 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2013 budget.

- Load growth from 2011 to 2012 was negative due to sluggish economic conditions and somewhat milder weather in 2012. Load is expected to grow by less than 1% annually for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency. Minimal change in 2013 loads is expected due to the current economic conditions.
- Market prices of uranium and coal remain consistent with previous forecasts. These fuel forecasts are incorporated in the Power Agency's costs projections for its project units.
- The outlook for natural gas prices remains low due to significant domestic supply. Low natural gas prices are anticipated for the long-term, and should have a positive impact on supplemental energy purchases from Progress Energy.

Budget Highlights for 2013

- Reflects a continued focus on reliable, cost effective power supply and Participant services.
- Assumes no wholesale rate change.
- The load forecast projects energy sales growing 0.8% during 2013 and annual coincident peak demand growing 0.6% per year.
- Collection through rates of $156,300,000 for debt principal due January 1, 2014.
- Anticipates capital additions at the joint units of approximately $77,030,000 for system improvements, equipment replacement/modifications and ongoing capital programs and projects. Approximately $42,530,000 of these capital additions will be funded through rates.
- Scheduled outages at Brunswick 2 and Harris for refueling and a maintenance outage at Mayo.

Requests for Information

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

North Carolina Eastern Municipal Power Agency
Statements of Net Position
($000s)

	December 31, 2012	2011
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	$ 1,725,265	$ 1,686,251
Construction work in progress	28,121	20,338
Nuclear fuel	125,082	132,541
Accumulated depreciation and amortization	(1,141,365)	(1,120,515)
Total Electric Utility Plant, Net	737,103	718,615
Non-Utility Property and Equipment, Net		
Property and equipment	2,952	2,952
Accumulated depreciation	(1,728)	(1,681)
Total Non-Utility Property and Equipment, Net	1,224	1,271
Total Capital Assets	738,327	719,886
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	32,105	-
Bond fund	305,144	351,934
Reserve and contingency fund	13,962	22,903
Total Special Funds Invested	351,211	374,837
Trust for Decommissioning Costs (Notes D and E)	249,500	238,154
Total Restricted Assets	600,711	612,991
Other Assets		
Cost To Be Recovered (Note G)	956,601	1,055,896
Total Other Assets	956,601	1,055,896
Total Non-Current Assets	2,295,639	2,388,773
Current Assets		
Funds Invested (Note D):		
Revenue fund	47,839	30,918
Operating fund	60,495	58,740
Supplemental fund	174,431	123,536
Total Funds Invested	282,765	213,194
Participants accounts receivable	55,742	55,650
Fossil fuel stock	38	38
Plant material and renewable certificate inventory	41,821	39,555
Prepaid expenses	2,163	2,664
Total Current Assets	382,529	311,101
Total Assets	$ 2,678,168	$ 2,699,874

See accompanying notes to financial statements.

	December 31, 2012	December 31, 2011
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	$ 214,968	$ 209,738
VEPCO compensation payment (Note F)	3,497	3,886
Development costs	2,570	2,841
Asset Retirement Obligation provision	5,464	5,464
Total Deferred Outflows of Resources	$ 226,499	$ 221,929
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note H)		
Bonds payable	$ 2,025,720	$ 2,105,495
Unamortized premium	89,952	26,808
Total Long-Term Debt	2,115,672	2,132,303
Asset Retirement Obligation (Note E)	231,177	219,126
Collections to be expended (Note G)	231,373	221,235
Total Non-Current Liabilities	2,578,222	2,572,664
Current Liabilities		
Operating Liabilities:		
Accounts payable	29,852	51,918
Accrued taxes	5,405	5,035
Total Operating Liabilities	35,257	56,953
Special Funds Liabilities:		
Current maturities of bonds (Note H)	134,050	149,015
Accrued interest on bonds	54,140	61,875
Total Special Funds Liabilities	188,190	210,890
Total Current Liabilities	223,447	267,843
Total Liabilities	$ 2,801,669	$ 2,840,507
NET POSITION		
Net invested in capital assets	$ (438,752)	$ (485,485)
Restricted for debt service	55,035	82,211
Unrestricted	486,715	484,570
Total Net Position	$ 102,998	$ 81,296

North Carolina Eastern Municipal Power Agency
Statements of Revenues and Expenses and Changes in Net Position
($000s)

	Years Ended December 31, 2012	2011
Operating Revenues:		
Sales to participants	$ 696,267	$ 703,860
Sales to utilities	220	179
Other revenues	39	1
Total Operating Revenues	696,526	704,040
Operating Expenses:		
Operation and maintenance	81,017	66,865
Fuel	73,322	70,391
Power coordination services:		
Purchased power	147,462	146,270
Transmission and distribution	24,055	22,130
Other	375	392
Total power coordination services	171,892	168,792
Administrative and general	49,629	52,647
Amounts in lieu of taxes	2,769	2,673
Gross receipts tax	22,586	22,571
Depreciation and amortization	30,141	31,749
Amortization of asset retirement obligation	12,051	11,422
Total Operating Expenses	443,407	427,110
Operating Income	253,119	276,930
Nonoperating (Revenues) Expenses		
Investment income	(15,612)	(16,519)
Net decrease in fair value of investments	348	(24,368)
Interest expense	112,054	120,625
Amortization of debt refunding cost	32,477	32,103
Amortization of debt discount and premium costs	(7,265)	(1,896)
Net decrease in costs to be recovered (Note G)	99,274	127,892
Net increase in collections to be expended (Note G)	10,141	22,980
Total nonoperating expenses (revenues)	231,417	260,817
Increase in Net Position	21,702	16,113
Net Position, Beginning of the year	81,296	65,183
Net Position, End of the year	$ 102,998	$ 81,296

See accompanying notes to financial statements.

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

	Years Ended December 31, 2012	2011
Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 696,433	$ 714,681
Payments of operating expenses	(397,462)	(349,699)
Net cash provided by operating activities	298,971	364,982
Cash Flows from Capital and Related Financing Activities:		
Bonds issued	424,045	-
Bonds refunded	(369,770)	-
Interest paid	(119,767)	(122,822)
Debt premium (discount) costs	32,701	353
Additions to electric utility plant and non-utility property and equipment	(75,136)	(76,027)
Bonds retired or redeemed	(149,015)	(141,820)
Net cash used for capital and related financing activities	(256,942)	(340,316)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	4,329,946	3,035,408
Purchases of investment securities	(4,381,784)	(3,084,289)
Investment earnings receipts	9,700	24,332
Net cash provided by (used for) investing activities	(42,138)	(24,549)
Net Change in Operating Cash	(109)	117
Operating Cash, Beginning of year	199	82
Operating Cash, End of year	$ 90	$ 199

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

	2012	2011
Operating Income	$ 253,119	$ 276,930
Adjustments:		
Depreciation and amortization	30,141	31,749
Amortization of asset retirement obligation	12,051	11,422
Amortization of nuclear fuel	26,554	26,257
Changes in assets and liabilities:		
(Increase) decrease in participant accounts receivable	(92)	10,640
Decrease (increase) in prepaid expenses	500	(547)
(Increase) in plant material and renewable certificate inventory	(2,265)	(5,092)
Decrease in compensation and development	659	659
(Decrease) increase in accounts payable	(22,066)	13,392
Increase (decrease) in accrued taxes	370	(428)
Total Adjustments	45,852	88,052
Net Cash Provided by Operating Activities	$ 298,971	$ 364,982

See accompanying notes to financial statements

A. General Matters

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

Initial Project

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

			Maximum Net Dependable Capability (MNDC) (MW)			
	Commercial	Agency	2012		2011	
	Operation	Ownership	Unit	Agency	Unit	Agency
Nuclear-Fuel Units						
Brunswick Unit 2	1975	18.33%	920	168.6	920	168.6
Brunswick Unit 1	1977	18.33%	938	171.9	938	171.9
Harris Unit 1	1987	16.17%	900	145.6	900	145.6
Total Nuclear-Fueled Capability				486.1		486.1
Coal-Fired Units						
Roxboro Unit 4	1980	12.94%	698	90.3	698	90.3
Mayo Unit 1	1983	16.17%	727	117.6	727	117.6
Total Coal-Fired Capability				207.9		207.9
Total of All Units				694.0		694.0

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

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

A. General Matters (continued)

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

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

ElectriCities of North Carolina, Inc.

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

The Agency entered into a management agreement with ElectriCities. Under the current management agreement with the Agency, ElectriCities is required to provide all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continues through December 31, 2013, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term.

For the years ended December 31, 2012 and 2011, the Agency paid ElectriCities $10,679,000 and $10,807,000, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

B. Significant Accounting Policies (continued)

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

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

Electric Plant in Service

All direct and indirect expenditures associated with the development and construction of the Agency's undivided ownership interests in five of PEC's generating units in commercial operation, including interest expense net of investment earnings on funds not yet expended, have been recorded at original cost (plus acquisition adjustment) and are being depreciated (or amortized) on a straight-line basis. Both Brunswick units are being depreciated over the remaining life of the plants, which at December 31, 2012, was 23 years, 8 months for Brunswick Unit 1 and 23 years for Brunswick Unit 2. The Harris plant is being depreciated over the remaining life of the plant, which at December 31, 2012, was 34 years, 10 months. The two remaining units are being depreciated over the remaining life of the debt used to fund each unit's assets. At December 31, 2012 the remaining life of the debt to fund the assets for Roxboro Unit 4 was 2 years and Mayo Unit 1 was 4 years.

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

The Agency has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" which requires the Agency to report the effect of capital asset impairments in the financial statements when they occur rather than in the ongoing depreciation expense for the capital asset. Any insurance recovery associated with the impairment will be netted with the impairment loss. During 2012 and 2011, no such impairment occurred.

Construction Work in Progress

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

B. Significant Accounting Policies (continued)

Nuclear Fuel

All expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until such time as the cores are placed in the reactor. No interest is capitalized on fuel cores. Once placed in the reactor, they are amortized to fuel expense utilizing the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated disposal costs, which is being collected currently from Participants. Amortization of nuclear fuel costs in 2012 and 2011 included a provision of $3,785,000 and $3,988,000, respectively, for estimated disposal costs.

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

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

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

Non-Utility Property and Equipment

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

B. Significant Accounting Policies (continued)

Investments

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

Accounts Receivable

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

Fossil Fuel Stock

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

Discounts/Premiums on Bonds

Discounts on bonds (net of premiums) at December 31, 2012 and 2011 shown net of accumulated accretion/amortization of $(34,588,000) and $(23,816,000), respectively, are amortized over the terms of the related bonds in a manner which yields a constant rate of interest.

Decommissioning Costs

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

Pollution Remediation Obligations

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

B. Significant Accounting Policies (continued)

Taxes

Income of the Agency is excludable from income subject to federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the Agency from property and franchise or other privilege taxes. In lieu of property taxes, the Agency pays an amount that would otherwise be assessed on the real and personal property of the Agency. In lieu of a franchise or privilege tax, the Agency pays an amount equal to 3.22% of the gross receipts from sales of electricity to Participants.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of $90,000 and $199,000 at December 31, 2012 and 2011, respectively, included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of $-0- and $-0- at December 31, 2012 and 2011, respectively, included on the balance sheet in the line item “Restricted Assets: Special Funds Invested” is not included on the statements of cash flows.

Use of Estimates

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

Reclassifications

The Agency implemented GASB No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, and GASB No. 65, “Items Previously Reported as Assets and Liabilities” as required in 2012. These pronouncements require that certain assets and liabilities be classified as deferred outflows of resources and deferred inflows of resources. In 2012, the Agency identified several deferred outflows of resources, and no deferred inflows of resources. As a result, the following reclassification has been made to 2011 regarding deferred outflows of resources:

B. Significant Accounting Policies (continued)

Statement of Net Position (Reclassified)
Deferred Outflows of Resources

Costs of advance refundings of debt	$	209,738
VEPCO compensation payment		3,886
Development costs		2,841
Asset Retirement Obligation provision		5,464
	$	221,929

Balance Sheet (Original)
Assets

Costs of advance refundings of debt	$	(209,738)
VEPCO compensation payment		(3,886)
Development costs		(2,841)
Other deferred costs		(5,464)
	$	(221,929)

GASB No. 65 additionally provides discussion on the accounting treatment of debt issuance costs. This GASB established the requirement that debt issuance costs are to be expensed in the current period as compared to amortization of the costs over the life of the related debt. Per GASB No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", entities that are rate regulated are allowed to amortize these costs over time if future recovery is probable and that future recovery is based on prior costs and not similar future costs. The Agency elects to follow this pronouncement as its current rate methodology provides recovery of debt issuance costs.

Future Accounting Standards

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27". This Statement improves accounting and financial reporting for state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement is effective for periods beginning after June, 2014, and the Agency is evaluating the potential impact on the Agency's financial position, overall cash flow or balances or results of operations.

In June 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25". This Statement improves accounting and financial reporting for state and local governments for pensions. It replaces the requirements of Statements No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributed Plans", and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for periods beginning after June, 2013, and is not expected to have a material impact on the Agency's financial position, overall cash flow or balances or results of operations.

B. Significant Accounting Policies (continued)

In March 2012, GASB issued Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62". This Statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2012 and is not expected to have a material impact on the Agency's financial position, overall cash flow or balances or results of operations.

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

C. Capital Assets

Changes in components of electric utility plant, net during 2012 and 2011 are as follows (in thousands of dollars):

	December 31, 2011	Additions	Transfers	Retirements	December 31, 2012
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	$ 1,672,064	$ 257	$ 45,613	$ (6,854)	$ 1,711,080
Nuclear Fuel	132,541	14,531	(21,991)		125,081
Total Depreciable Utility Plant	1,804,605	14,788	23,622	(6,854)	1,836,161
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,063,953)	(26,631)		6,854	(1,083,730)
Nuclear Fuel	(56,562)	(23,064)	21,991		(57,635)
Total Accumulated Depreciation and Amortization	(1,120,515)	(49,695)	21,991	6,854	(1,141,365)
Depreciable Utility Plant, Net	684,090	(34,907)	45,613	-	694,796
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	20,338	53,395	(45,613)		28,120
Total Electric Utility Plant, Net	$ 718,615	$ 18,488	$ -	$ -	$ 737,103

C. Capital Assets (continued)

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

The Agency has commitments to PEC in connection with capital additions for the initial project. Current estimates indicate the Agency's portion of these costs for 2013 and 2014 will be approximately $153,010,000.

Changes in components of non-utility property and equipment, net during 2012 and 2011 are as follows (in thousands of dollars):

	December 31, 2011	Additions	Transfers	Retirements	December 31, 2012
Non-Utility Property and Equipment					
Property and Equipment	$ 2,242	$ -	$ -	$ -	$ 2,242
Accumulated Depreciation	(1,681)	(47)			(1,728)
Total Depreciable Property and Equipment, Net	561	(47)	-	-	514
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,271	$ (47)	$ -	$ -	$ 1,224

C. Capital Assets (continued)

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

D. Investments

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

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

D. Investments (continued)

	December 31,			
	2012		2011	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	$ 137,833	$ 137,833	$ 50,770	$ 50,770
U.S. government agencies	256,663	263,816	223,779	232,503
Treasury State and Local Governmant Securities	27,068	27,068	6,990	6,990
Treasury Strips	1,242	2,684	1,242	2,579
Money market	187,029	187,029	274,448	274,448
Collateralized mortgage obligations	12,876	14,479	17,043	19,286
Sub-total funds invested	622,711	632,909	574,272	586,576
Decommissioning Trust securities	187,834	249,013	182,013	237,541
Cash				
Operating cash	90	90	199	199
Restricted cash	-	-	-	-
Accrued interest	1,464	1,464	1,869	1,869
Total funds invested	$ 812,099	$ 883,476	$ 758,353	$ 826,185
Consisting of:				
Special funds invested		$ 351,211		$ 374,837
Decommissioning Trust		249,500		238,154
Operating assets		282,765		213,194
Total funds invested		$ 883,476		$ 826,185

Interest Rate Risk

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

As of December 31, 2012 and 2011, the maturities of the Agency's investments are as follows (in thousands of dollars):

D. Investments (continued)

	December 31, 2012				
	Fair	Investment Maturity (In Years)			
	Value	Under 1	1-5	6-10	Over 10
Repurchase agreements	$ 137,833	$ 137,833	$ -	$ -	$ -
U.S. government agencies	263,816	42,708	187,586	33,522	-
Treasury State and Local Governmant Securities	27,068	-	14,378	12,690	-
Treasury Strips	2,684	-	-	2,684	-
Money market	187,029	187,029	-	-	-
Collateralized mortgage obligations	14,479	-	14,475	-	-
	632,909	367,570	216,439	48,896	-
Decommissioning Trust securities	249,013	12,472	74,319	101,877	60,345
Total	$ 881,922	$ 380,042	$ 290,758	$ 150,773	$ 60,345

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

As of December 31, 2012 and 2011 the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2012					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government securities	6,971	57	-	-	6,971	57
Agency strips	-	-	-	-	-	-
Treasury strips	-	-	-	-	-	-
Money market	-	-	-	-	-	-
Collateralized mortgage obligations	14,013	34	-	-	14,013	34
Sub-total	20,984	91	-	-	20,984	91
Decommissioning Trust securities	15,528	19	-	-	15,528	19
Total	$ 36,512	$ 110	$ -	$ -	$ 36,512	$ 110

D. Investments (continued)

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

Credit Risk

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

As of December 31, 2012 and 2011 the Agency’s investments in repurchase agreements are all collateralized by U.S. Treasury or U.S. Government securities. The Agency’s investments in U.S. Government Agencies, U.S. Treasury Strips and Collateralized Mortgage Obligations are rated Aaa by Moody’s Investor Service and AAA by Standard and Poor’s Corporation. The Agency’s investments in Money Market Instruments are rated AAA by Standard and Poor’s Corporation and Moody’s Investor Service.

The Agency places no limit on the amount the Agency may invest with any one issuer. As of December 31, 2012 and 2011, the Agency’s investments, by issuer, are detailed in the following schedule (in thousands of dollars):

D. Investments (continued)

	December 31, 2012		December 31, 2011	
	Fair Value	Percentage of Portfolio Portfolio	Fair Value	Percentage of Portfolio Portfolio
Federal Home Loan Mortgage Corporation	$ 82,779	9%	$ 77,789	9%
Federal National Mortgage Association	99,249	11%	111,677	14%
Federal Home Loan Bank	110,044	12%	95,483	12%
Federal Farm Credit Bank	113,704	13%	88,355	11%
Resolution Funding Corporation	13,354	2%	13,767	2%
Repurchase Agreements				
Morgan Stanley/Dean Witter	137,833	16%	50,770	6%
Money Market Fund - PFM Prime Institutional	-	0%	274,759	33%
Money Market Fund - NC Capital Management Trust	103,526	12%	-	0%
U. S. Bank Sweep Account	84,050	10%	-	0%
U.S. Treasury Department	137,383	15%	111,518	13%
Total	$ 881,922	100%	$ 824,118	100%

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

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. The Agency had $90,000 and $199,000 at December 31, 2012 and 2011, respectively, covered by federal depository insurance.

Custodial Credit Risk

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

E. Decommissioning Costs

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

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

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

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

Changes in components of the asset retirement obligation during 2012 and 2011 are as follows (in thousands of dollars):

	Years Ended December 31,	
	2012	2011
Balance, beginning of year	$ 219,126	$ 207,704
Liabilities incurred during the year	-	-
Liabilities settled during the year	-	-
Accretion expense	12,051	11,422
Revisions in estimated cash flows	-	-
Balance, end of year	$ 231,177	$ 219,126

F. VEPCO Compensation Payment

The VEPCO compensation payment represents compensation to VEPCO for early termination of service for those Participants previously served by VEPCO. This payment of $15,515,000 and the related capitalized interest of $33,000 were deferred and are being amortized on a straight-line basis over 40 years, the original expected life of the initial project. The balance at December 31, 2012 and 2011 is net of accumulated amortization of $12,050,889 and $11,662,000, respectively.

G. Costs To Be Recovered and Collections to be Expended

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

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

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

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

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

Costs to be recovered include the following (in thousands of dollars):

G. Costs To Be Recovered and Collections to Be Expended (continued)

	Years Ended December 31,		Inception to December 31,	
	2012	2011	2012	2011
Costs To Be Recovered				
Deferred interest expense	$ (1,569)	$ -	$ 649,984	$ 651,553
Amortization of debt discount/premium costs	(7,265)	(1,896)	76,583	83,869
Net (increase) decrease in fair value of investments and derivative financial instruments	348	(24,368)	60,316	59,968
Depreciation and amortization	30,141	31,749	1,284,138	1,253,997
Amortization of asset retirement obligation	12,051	11,422	96,793	84,742
Amortization of debt refunding costs	32,477	32,103	785,329	752,852
Participant billing offsets	(165,457)	(176,902)	(2,041,628)	(1,876,171)
New project negotiation and Harris Plant litigation costs			45,086	45,086
Costs To Be Recovered	$ (99,274)	$ (127,892)	$ 956,601	$ 1,055,896

Collections to be expended include the following (in thousands of dollars):

	December 31,		December 31,	
	2012	2011	2012	2011
Collections To Be Expended				
Net special funds withdrawals	$ 16,661	$ 16,951	$ 48,107	$ 31,446
Restricted investment income	8,216	8,968	151,586	143,370
Rate stabilization funds used for other than operations	-	-	(21,839)	(21,839)
Special funds valuations	(34,261)	(15,851)	(77,342)	(43,081)
Prepaid fuel	15,935	6,972	92,000	76,065
Other collections to be expended	3,590	5,940	38,861	35,274
Net Collections To Be Expended	$ 10,141	$ 22,980	$ 231,373	$ 221,235

H. Bonds

The Agency has been authorized to issue Power System Revenue Bonds (bonds) in accordance with the terms, conditions and limitations of the Resolution. The total to be issued is to be sufficient to pay the costs of acquisition and construction of the project, as defined, and/or for other purposes set forth in the Resolution. Future refunding of bonds may result in the issuance of additional bonds.

The following shows bond activity during 2012 and 2011 (in thousands of dollars):

H. Bonds (continued)

	2012	2011
Bonds Outstanding - Beginning of year	$ 2,254,510	$ 2,396,330
Principal payments January 2	(149,015)	(141,820)
Bonds Issued		
Series 2012 A	87,325	
Series 2012 B	170,705	
Series 2012 C	29,385	
Series 2012 D	136,630	
Bonds Refunded		
Series 1986 A	(4,495)	
Series 1993 B	(169,335)	
Series 2003 C	(95,245)	
Series 2003 D	(64,885)	
Series 2003 F	(35,810)	
Bonds Outstanding - End of year	$ 2,159,770	$ 2,254,510

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

	December 31, 2012	December 31, 2011
Series 1986 A		
5% maturing in 2017 with annual sinking fund requirements beginning in 2015	$ -	$ 4,495
Series 1991 A		
6.5% maturing in 2018	28,755	28,755
Series 1993 B		
5.5% maturing in 2017 with annual sinking fund requirements beginning in 2015	-	43,715
6% maturing in 2018	97,790	97,790
5.5% maturing in 2021 with annual sinking fund requirements beginning in 2019	-	125,620
6% maturing in 2022	157,740	157,740
6.25% maturing in 2023	45,030	45,030
6% maturing annually from 2025 to 2026	32,985	32,985
Total Series 1993 B	333,545	502,880
Series 1993 C		
7% maturing in 2013 with annual sinking fund requirements beginning in 2012	4,555	18,465
Series 1995 A		
5.125% maturing in 2012	-	14,090

H. Bonds (continued)

	December 31, 2012	December 31, 2011
Series 2003 A		
5.5% maturing annually from 2011 to 2012	$ -	$ 79,680
Series 2003 B (Federally Taxable)		
6.48% maturing in 2012	-	9,860
Series 2003 C		
5.125% to 5.375% maturing annually from 2011 to 2017	3,205	99,100
Series 2003 D		
4.375% to 5.375% maturing annually from 2011 to 2015	105,335	120,990
5.125% maturing in 2023 with annual sinking fund requirements beginning in 2016	-	42,890
5.125% maturing in 2026 with annual sinking fund requirements beginning in 2025	-	21,660
Total Series 2003 D	105,335	185,540
Series 2003 E (Federally Taxable)		
5.5% maturing in 2014	13,410	13,410
6.58% maturing in 2026	4,195	4,195
Total Series 2003 E	17,605	17,605
Series 2003 F		
4.375% to 5.5% maturing annually from 2011 to 2017	50,605	86,725
Series 2003 G (Federally Taxable)		
5.55% maturing annually from 2013 to 2014	6,425	6,425
Series 2005 A		
3.65% to 5.00% maturing annually from 2011 to 2016	23,570	23,715
4.25% to 5.00% maturing annually from 2020 to 2021	101,145	101,145
Total Series 2005 A	124,715	124,860
Series 2008 A		
3.25% to 5.25% maturing annually from 2013 to 2020	302,830	302,830
5.00% to 5.25% maturing annually from 2022 to 2024	61,730	61,730
Total Series 2008 A	364,560	364,560
Series 2008 B (Federally Taxable)		
5.15% to 5.60% maturing annually from 2011 to 2013	7,305	11,020
6.217% maturing in 2017 with annual sinking fund requirements beginning in 2014	36,420	36,420
6.55% maturing in 2024 with annual sinking fund requirements beginning in 2020	8,105	8,105
Total Series 2008 B	51,830	55,545

H. Bonds (continued)

	December 31, 2012	December 31, 2011
Series 2008 C		
4.5% to 5.00% maturing annually from 2011 to 2013	$ 2,060	$ 4,020
6.00% maturing in 2019 with annual sinking fund requirements beginning in 2014	15,090	15,090
6.75% maturing in 2024 with annual sinking fund requirements beginning in 2020	17,555	17,555
Total Series 2008 C	34,705	36,665
Series 2009 A		
3.00% to 4.625% maturing annually from 2011 to 2019	3,865	6,990
5.00% maturing annually from 2012 to 2019	22,485	22,485
5.5% maturing in 2026 with annual sinking fund requirements beginning in 2020	32,760	32,760
Total Series 2009 A	59,110	62,235
Series 2009 B		
3.00% to 4.2% maturing annually from 2011 to 2022	43,950	46,025
5.00% maturing annually from 2015 to 2021	62,800	62,800
4.7% maturing in 2026 with annual sinking fund requirements beginning in 2023	7,065	7,065
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	259,960	259,960
Total Series 2009 B	373,775	375,850
Series 2009 C (Federally Taxable)		
3.38% to 4.68% maturing annually from 2011 to 2015	13,145	16,530
6% maturing in 2023 with annual sinking fund requirements beginning in 2016	2,860	2,860
Total Series 2009 C	16,005	19,390
Series 2009 D		
3.00% to 5.00% maturing annually from 2011 to 2022	9,610	10,400
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	5,240	5,240
Total Series 2009 D	14,850	15,640
Series 2010A		
3.00% maturing annually from 2015 to 2016	15,125	15,125
5.00% maturing annually from 2015 to 2016	62,180	62,180
4% maturing in 2021	1,500	1,500
5% maturing in 2021	53,035	53,035
5% maturing in 2023	14,305	14,305
Total Series 2010A	146,145	146,145

H. Bonds (continued)

	December 31, 2012	December 31, 2011
Series 2012A		
4.00% maturing in 2013	$ 2,995	$ -
2.00% maturing annually from 2014 to 2015	10,565	-
3.00% maturing annually from 2016 to 2019	15,050	-
4.00% maturing annually from 2020 to 2022	4,175	-
4.00% maturing in 2026	850	-
5.00% maturing annually from 2018 to 2026	53,690	-
Total Series 2012A	87,325	-
Series 2012B		
5.00% maturing annually from 2015 to 2017	50,395	-
5.00% maturing annually from 2019 to 2021	120,310	-
Total Series 2012B	170,705	-
Series 2012C		
1.69% maturing in 2015	365	-
2.44% maturing in 2017	29,020	-
Total Series 2012C	29,385	-
Series 2012D		
5.00% maturing annually from 2014 to 2017	84,840	-
5.00% maturing in 2023	36,930	-
5.00% maturing annually from 2025 to 2026	14,860	-
Total Series 2012D	136,630	-
Total Bonds Outstanding	2,159,770	2,254,510
Current maturities of bonds	(134,050)	(149,015)
Long-Term Debt, Bonds Payable	$ 2,025,720	$ 2,105,495

The fair market value of the Agency's long-term debt was estimated using the Dobbins Scale. The individual maturities were priced and summed to arrive at an estimated fair market value of $2,458,476,000 and $2,456,276,000 at December 31, 2012 and 2011, respectively.

Certain proceeds of the Series 1986 A, 1991 A, 1993 B, 1993 C, 1995 A, 2003 A, 2003 B, 2003 C, 2003 D, 2003 E, 2003 F, 2003 G, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C and 2010 A bonds, were used to establish trusts for refunding $5,006,120,000 and $4,636,350,000 of previously issued bonds at both December 31, 2012 and 2011. At December 31, 2012, $4,466,565,000 and December 31, 2011, $4,222,230,000 of these bonds have been redeemed leaving $539,555,000 and $414,120,000 still outstanding, respectively. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2012 at various dates prior to or on their original maturities. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

H. Bonds (continued)

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates the year prior to the January 1 maturity and deposited into the Bond Fund as collected for payment when due. Current maturities of $134,050,000 at December 31, 2012 were collected through rates during 2012 and were deposited monthly into the Bond Fund to make the January 1, 2013 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2012 are as follows (in thousands of dollars):

	Principal	Interest	Total
2013	$ 156,265	$ 104,929	$ 261,194
2014	147,805	96,927	244,732
2015	144,370	89,926	234,296
2016	149,965	82,803	232,768
2017	160,725	76,024	236,749
2018 to 2022	910,100	240,707	1,150,807
2023 to 2026	356,490	31,941	388,431
Total	$ 2,025,720	$ 723,257	$ 2,748,977

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

The Resolution requires the Agency to deposit into special funds all proceeds of bonds issued and all revenues (as defined by the Resolution) generated as a result of the Initial Project Power Sales Agreements and the 1981 PCA. The purpose of the individual funds is specifically defined in the Resolution.

In May 2012, the Agency issued $170,705,000 of Series 2012B Bonds and $29,385,000 of Series 2012C Bonds to refund $209,640,000 of previously issued bonds and $87,325,000 of Series 2012A Bonds to fund certain capital additions. The bonds pay interest of 1.7% to 5.0% and mature annually from 2013 to 2026.

In October 2012, the Agency issued $136,630,000 of Series 2012D Bonds to refund $160,130,000 of fixed rate debt. Net present value savings realized for total 2012 bonds were $36,508,000 or 9.4% of refunded bonds.

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

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

H. Bonds (continued)

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

I. Commitments and Contingencies

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

Liability Coverage

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

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

The Price Anderson Act expires in 2025.

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the Harris and Brunswick plants is $500 million. If the insurer's losses ever exceed its reserves, PEC will be liable, on a pro rata basis, for additional assessments of up to $29 million which represents ten times the annual premium for the Harris and Brunswick plants. Excess property damage, decontamination and decommissioning liability insurance of $1.75 billion have also been purchased. If losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, PEC will be liable, on a pro rate basis, for additional assessments of up to $40 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

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

I. Commitments and Contingencies (continued)

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

J. Subsequent Events

The Agency has evaluated subsequent events through April 1, 2013, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

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

	Year Ended December 31, 2012		
	Initial Project	Supple-mental	Total
Revenues:			
Sales to participants	$ 490,215	$ 206,052	$ 696,267
Sales to utilities	219		219
Investment income	6,562	833	7,395
Excess Funds valuation	36,440		36,440
Other revenues	39		39
Total Revenues	533,475	206,885	740,360
Expenses:			
Operation and maintenance	83,821	5	83,826
Fuel	89,257		89,257
Power coordination services:			
Purchased power	17,819	129,640	147,459
Transmission and distribution		21,776	21,776
Other		3,436	3,436
Total power coordination services:	17,819	154,852	172,671
Administrative and general – PEC	38,534		38,534
Power Agency services	4,402	6,693	11,095
Taxes			
Amounts in lieu of taxes	2,598	171	2,769
Gross receipts tax	15,785	6,801	22,586
Total taxes	18,383	6,972	25,355
Debt service:			
Debt administrative costs	565		565
Debt service	246,252		246,252
Total debt service	246,817	-	246,817
Special funds deposits:			
Reserve and contingency fund	32,932		32,932
Decommissioning fund	1,510	16,661	18,171
Total special funds deposits	34,442	16,661	51,103
Total Expenses	533,475	185,183	718,658
Revenues Over (Under) Expenses	$ -	$ 21,702	$ 21,702

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2012 and 2011, respectively.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2011		
Initial Project	Supple-mental	Total
$ 514,700	$ 189,160	$ 703,860
179	-	179
6,358	1,193	7,551
25,213		25,213
1		1
546,451	190,353	736,804
72,622	5	72,627
77,363	-	77,363
23,981	122,291	146,272
	19,774	19,774
	2,925	2,925
23,981	144,990	168,971
42,161	-	42,161
4,360	6,126	10,486
2,502	171	2,673
16,573	5,997	22,570
19,075	6,168	25,243
428		428
269,212		269,212
269,640	-	269,640
35,749		35,749
1,500	16,951	18,451
37,249	16,951	54,200
546,451	174,240	720,691
$ -	$ 16,113	$ 16,113

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Year Ended December 31, 2012
($000's)

	2012 Budget Original	2012 Budget Final	Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
Revenues:				
Sales to participants	$ 702,088	$ 702,088	$ 696,267	$ (5,821)
Sales to utilities	1,592	1,592	219	(1,373)
Investment income	6,865	6,865	7,395	530
Excess Funds valuation	28,152	28,152	36,440	8,288
Appropriated Fund Withdrawal/ (Deposit)	(19,102)	(19,102)		19,102
Other revenues	-	-	39	39
Total Revenues	719,595	719,595	740,360	20,765
Expenses:				
Operation and maintenance	83,199	83,199	83,826	(627)
Fuel	90,128	90,128	89,257	871
Power coordination expenses:				
Purchased power	156,919	156,919	147,459	9,460
Transmission and distribution	22,178	22,178	21,776	402
Other	4,061	4,061	3,436	625
Total power coordination expenses	183,158	183,158	172,671	10,487
Administrative and general – PEC	30,407	30,407	38,534	(8,127)
Power Agency services	10,731	10,731	11,095	(364)
Taxes	25,516	25,516	25,355	161
Debt service	247,760	247,760	246,817	943
Special funds deposits	48,696	48,696	51,103	(2,407)
Total Expenses	719,595	719,595	718,658	937
Revenues Over (Under) Expenses	$ -	$ -	$ 21,702	$ 21,702

The Agency will submit a 2012 budget amendment at the next regularly scheduled Board of Commissioners meeting. The budget amendment is primarily due to expense overruns in power agency services.

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2012.

See accompanying Report of Independent Auditor.

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

	Funds Invested January 1, 2011	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers
Bond Fund:					
Construction Fund	$ 6,143	$ -	$ 40	$ (3,129)	$ (3,054)
Interest account	62,307	-	37	(122,395)	120,156
Reserve account	149,113		4,828		(20,671)
Principal account	141,982		122	(141,820)	148,822
Total Bond Fund	353,402	-	4,987	(264,215)	248,307
Reserve and Contingency Fund	15,490		167	(31,107)	37,991
Revenue Fund	40,131	525,561	583	(217)	(536,055)
Operating Fund:					
Working Capital account	8,075		644	(91,339)	100,141
Fuel account	37,612			(77,567)	80,799
Total Operating Fund	45,687	-	644	(168,906)	180,940
Supplemental Fund	83,804	189,322	1,195	(207,078)	37,015
Reserved for Decommissioning Costs	1,316		26		17,411
Total Supplemental	85,120	189,322	1,221	(207,078)	54,426
	$ 545,973	$ 714,883	$ 7,642	$ (674,652)	$ (17,445)

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2012 and 2011, respectively.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2011	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers	Funds Invested December 31, 2012
$ -	$ -	$ 14	$ 95,000	$ (62,909)	$ 32,105
60,105		56	(117,034)	111,379	54,506
133,270		5,085	1,236	(30,541)	109,050
149,106		146	(149,015)	133,833	134,070
342,481	-	5,287	(264,813)	214,671	297,626
22,541		164	(72,868)	63,629	13,466
30,003	476,394	290	278	(459,943)	47,022
17,521		304	(137,431)	151,196	31,590
40,844			(89,291)	77,052	28,605
58,365	-	304	(226,722)	228,248	60,195
104,258	220,272	830	(197,457)	11,855	139,758
18,753		72		15,235	34,060
123,011	220,272	902	(197,457)	27,090	173,818
$ 576,401	$ 696,666	$ 6,961	$ (666,582)	$ 10,786	$ 624,232