

POWER

FORWARD



North Carolina Eastern Municipal Power Agency
2013 Financial Report

Benson Smart Grid pilot participant Haley Zapp monitors home energy use while at the PK Vyas Park in Benson.

**NORTH CAROLINA EASTERN MUNICIPAL
POWER AGENCY**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2013 and 2012

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**North Carolina Eastern Municipal Power Agency
Annual Financial Report
Years Ended December 31, 2013 and 2012**

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Independent Auditor's Report

To the Board of Directors
North Carolina Eastern Municipal Power Agency
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Eastern Municipal Power Agency (the Agency), which are comprised of the statements of net position as of December 31, 2013, and the related statements of revenue and expenses and changes in net position, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 an opinion on these financial statements based on our audit. 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Eastern Municipal Power Agency as of December 31, 2013, and the results of its operations and its cash flows for the year ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of North Carolina Eastern Municipal Power Agency as of and for the year ended December 31, 2012, were audited by other auditors whose report dated April 1, 2013 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the "Management's Discussion and Analysis" on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 that collectively comprise North Carolina Eastern Municipal Power Agency's basic financial statements. The budgetary schedules and statements as listed in the table of contents as "Supplementary Information" are presented for purposes of additional analysis and are not a required part of the basic financial statements of North Carolina Eastern Municipal Power Agency.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Morehead City, North Carolina
April 23, 2014

Management's Discussion and Analysis (MD&A)

Unaudited

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, 2013 and 2012. We encourage you to read this information in conjunction with the information furnished in the Agency's financial statements and accompanying notes that follow this narrative.

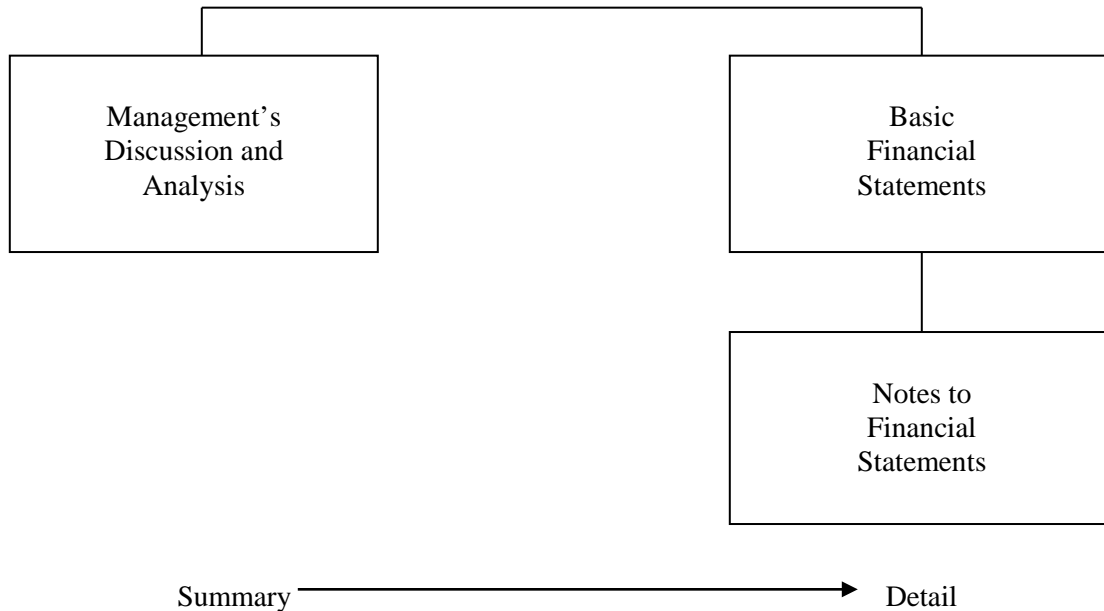
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2013 and 2012, the Agency's assets and deferred outflows exceeded its liabilities by \$76,572,000 and \$102,998,000, respectively (net position).
- The Agency's net position decreased by \$26,426,000 and increased by \$21,702,000 for 2013 and 2012, respectively.
- Year-end 2013 and 2012 unrestricted net position was \$302,624,000 and \$486,715,000, respectively, and decreased \$184,091,000 and increased \$2,145,000 during 2013 and 2012, respectively.
- The Agency's total debt decreased \$134,050,000 and \$94,740,000 during 2013 and 2012, respectively, as follows:
 - Decreased \$134,050,000 and \$149,015,000 in 2013 and 2012, respectively, due to principal paid January 1, 2013 and 2012 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 2013 or 2012.

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, 2013 and 2012 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

**Condensed Statements of
Net Position
Exhibit 2
(\$000s)**

	December 31,		
	2013	2012	2011
Assets and Deferred Outflows of Resources			
Capital assets	\$ 822,546	\$ 738,327	\$ 719,886
Current and other assets	942,717	983,240	1,979,988
Deferred outflows of resources	1,014,678	1,183,100	221,929
Total assets and deferred outflows of resources	2,779,941	2,904,667	2,921,803
Liabilities			
Long-term liabilities outstanding	1,938,490	2,115,672	2,132,303
Other liabilities	764,879	685,997	708,204
Deferred inflows of resources	252,110	231,373	
Total liabilities	2,703,369	2,801,669	2,840,507
Net Position			
Net Investment in capital assets (deficit)	(257,908)	(438,752)	(485,485)
Restricted for debt service	31,856	55,035	82,211
Unrestricted	302,624	486,715	484,570
Total net position	\$ 76,572	\$ 102,998	\$ 81,296

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 \$76,572,000, \$102,998,000, and \$81,296,000 at December 31, 2013, 2012 and 2011, respectively, representing a decrease of \$26,426,000 and an increase of \$21,702,000 for 2013 and 2012 respectively.

The deficit portion of net position of \$(257,908,000), \$(438,752,000) and \$(485,485,000) at December 31, 2013, 2012 and 2011, 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 2013 and 2012 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 \$31,856,000, \$55,035,000, and \$82,211,000 at December 31, 2013, 2012 and 2011, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$302,624,000, \$486,715,000, and \$484,570,000 at December 31, 2013, 2012 and 2011, respectively, is unrestricted net position.

**Condensed Statement of Revenues, Expenses, and
Changes in Net Position
Exhibit 3
(\$000s)**

	Years Ended December 31,		
	2013	2012	2011
Revenues:			
Operating revenues	\$ 699,099	\$ 696,526	\$ 704,040
Nonoperating revenues	13,245	15,612	16,519
Total Revenues	712,344	712,138	712,138
Expenses:			
Operating expenses	440,154	443,407	427,110
Interest on long-term debt	105,095	112,054	120,625
Other nonoperating expenses	193,521	134,975	156,711
Total Expenses	738,770	690,436	704,446
Increase (decrease) in net position	(26,426)	21,702	16,113
Net Position, Beginning of year	102,998	81,296	65,183
Net Position, End of year	\$ 76,572	\$ 102,998	\$ 81,296

Financial Highlights

- There were no rate increases in 2013 or 2012.

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets at December 31, 2013, 2012 and 2011 totaled \$822,546,000, \$738,327,000, and \$719,886,000, respectively, (net of accumulated amortization and depreciation) for an increase of \$84,219,000 and \$18,441,000 in 2013 and 2012, respectively. These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2013 and 2012 include the following:

- CWIP increased \$77,974,000 and \$53,395,000 in 2013 and 2012, respectively, due to capital additions projects at the joint units.
- Electric Plant in Service (EPIS) increased and CWIP decreased \$54,642,000 and \$45,613,000 in 2013 and 2012, respectively, due to the transfer of completed capital additions projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$20,733,000 and \$26,631,000 for 2013 and 2012, respectively.
- Nuclear Fuel was amortized \$17,409,000 and \$23,064,000 for 2013 and 2012, respectively.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,711,080	\$ 8,113	\$ 58,221	\$ (12,767)	\$ 1,764,647
Nuclear Fuel	125,081	32,736			157,817
Total Depreciable Utility Plant	1,836,161	40,849	58,221	(12,767)	1,922,464
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,083,730)	(20,733)		12,767	(1,091,696)
Nuclear Fuel	(57,635)	(17,409)			(75,044)
Total Accumulated Depreciation and Amortization	(1,141,365)	(38,142)	-	12,767	(1,166,740)
Depreciable Utility Plant, Net	694,796	2,707	58,221	-	755,724
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	28,120	81,553	(58,221)		51,452
Total Electric Utility Plant, Net	\$ 737,103	\$ 84,260	\$ -	\$ -	\$ 821,363

	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

Non-Utility Plant and Equipment, Net

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242				\$ 2,242
Accumulated Depreciation	(1,728)	(41)			(1,769)
Total Depreciable Property and Equipment, Net	514	(41)			473
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,224</u>	<u>\$ (41)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183</u>

	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	<u>\$ 1,271</u>	<u>\$ (47)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,224</u>

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

Outstanding Debt

Total debt outstanding at December 31, 2013, 2012 and 2011 was \$2,025,720,000, \$2,159,770,000 and \$2,254,510,000, respectively, all of which are revenue bonds. Total debt decreased by \$134,050,000 (6.2%) and \$94,740,000 (4.2%) during 2013 and 2012, 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 2014 budget.

- On a weather-normalized basis, load growth from 2012 to 2013 was slightly negative, reflecting continued sluggish economic conditions. 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.
- Market prices for coal are expected to remain flat in the near term with modest increases comparable with inflation in the mid to long term.
- Market prices for natural gas remain low and are expected to stay relatively flat in the near and mid-term due to significant domestic supply made accessible by new drilling technologies. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2014

- 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 2014 and annual coincident peak demand growing 0.9% per year.
- Collection through rates of \$157,155,000 for debt principal due January 1, 2015.
- Anticipates capital additions at the joint units of approximately \$85,000,000 for system improvements, equipment replacement/modifications and ongoing capital programs and projects. Approximately \$42,500,000 of these capital additions will be funded through rates.
- Scheduled outages at Brunswick 1 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,	
	2013	2012
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,778,834	\$ 1,725,267
Construction work in progress	51,452	28,120
Nuclear fuel	157,817	125,081
Accumulated depreciation and amortization	(1,166,740)	(1,141,365)
Total Electric Utility Plant, Net	821,363	737,103
Non-Utility Property and Equipment, Net		
Property and equipment	2,952	2,952
Accumulated depreciation	(1,769)	(1,728)
Total Non-Utility Property and Equipment, Net	1,183	1,224
Total Capital Assets	822,546	738,327
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	-	32,105
Bond fund	318,690	305,144
Reserve and contingency fund	10,962	13,962
Total Special Funds Invested	329,652	351,211
Trust for Decommissioning Costs (Notes D and E)	239,555	249,500
Total Restricted Assets	569,207	600,711
Total Non-Current Assets	1,391,753	1,339,038
Current Assets		
Funds Invested (Note D):		
Revenue fund	14,397	47,839
Operating fund	68,645	60,495
Supplemental fund	180,611	174,431
Total Funds Invested	263,653	282,765
Participants accounts receivable	58,425	55,742
Fossil fuel stock	38	38
Plant material and renewable certificate inventory	49,067	41,821
Prepaid expenses	2,327	2,163
Total Current Assets	373,510	382,529
Total Assets	\$ 1,765,263	\$ 1,721,567

See accompanying notes to financial statements.

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

	December 31,	
	2013	2012
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	\$ 177,829	\$ 214,968
Unamortized debt issuance costs	15,263	18,669
VEPCO compensation payment (Note F)	3,109	3,497
Development costs	2,300	2,570
Cost To Be Recovered (Note G)	816,177	943,396
Total Deferred Outflows of Resources	<u>\$ 1,014,678</u>	<u>\$ 1,183,100</u>
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note H)		
Bonds payable	\$ 1,869,455	\$ 2,025,720
Unamortized premium	69,035	89,952
Total Long-Term Debt	<u>1,938,490</u>	<u>2,115,672</u>
Asset Retirement Obligation (Note E)	<u>243,890</u>	<u>231,177</u>
Total Non-Current Liabilities	<u>2,182,380</u>	<u>2,346,849</u>
Current Liabilities		
Operating Liabilities:		
Accounts payable	54,639	29,852
Accrued taxes	<u>5,510</u>	<u>5,405</u>
Total Operating Liabilities	<u>60,149</u>	<u>35,257</u>
Special Funds Liabilities:		
Current maturities of bonds (Note H)	156,265	134,050
Accrued interest on bonds	<u>52,465</u>	<u>54,140</u>
Total Special Funds Liabilities	<u>208,730</u>	<u>188,190</u>
Total Current Liabilities	<u>268,879</u>	<u>223,447</u>
Total Liabilities	<u>\$ 2,451,259</u>	<u>\$ 2,570,296</u>
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note G)	\$ 252,110	\$ 231,373
Total Deferred Inflows of Resources	<u>\$ 252,110</u>	<u>\$ 231,373</u>
NET POSITION		
Net investment in capital assets (deficit)	\$ (257,908)	\$ (438,752)
Restricted for debt service	31,856	55,035
Unrestricted	<u>302,624</u>	<u>486,715</u>
Total Net Position	<u>\$ 76,572</u>	<u>\$ 102,998</u>

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

	Years Ended December 31,	
	2013	2012
Operating Revenues:		
Sales to participants	\$ 698,963	\$ 696,267
Sales to utilities	6	220
Other revenues	130	39
Total Operating Revenues	<u>699,099</u>	<u>696,526</u>
Operating Expenses:		
Operation and maintenance	92,468	81,017
Fuel	56,436	73,322
Power coordination services:		
Purchased power	166,532	147,462
Transmission and distribution	24,658	24,055
Other	397	375
Total power coordination services	<u>191,587</u>	<u>171,892</u>
Administrative and general	40,174	49,629
Amounts in lieu of taxes	2,912	2,769
Gross receipts tax	22,429	22,586
Depreciation and amortization	21,435	30,141
Amortization of asset retirement obligation	12,713	12,051
Total Operating Expenses	<u>440,154</u>	<u>443,407</u>
Operating Income	<u>258,945</u>	<u>253,119</u>
Nonoperating (Revenues) Expenses		
Investment income	(13,245)	(15,612)
Net decrease in fair value of investments	25,931	348
Interest expense	105,095	112,054
Amortization of debt refunding cost	37,139	32,477
Amortization of debt discount and premium costs	(17,505)	(7,265)
Net decrease in costs to be recovered (Note G)	127,219	99,274
Net increase in collections to be expended (Note G)	20,737	10,141
Total nonoperating expenses (revenues)	<u>285,371</u>	<u>231,417</u>
Increase (decrease) in Net Position	<u>(26,426)</u>	<u>21,702</u>
Net Position, Beginning of the year	<u>102,998</u>	<u>81,296</u>
Net Position, End of the year	<u><u>\$ 76,572</u></u>	<u><u>\$ 102,998</u></u>

See accompanying notes to financial statements.

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

	Years Ended December 31,	
	2013	2012
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 696,416	\$ 696,433
Payments of operating expenses	(365,861)	(397,462)
Net cash provided by operating activities	330,555	298,971
Cash Flows from Capital and Related Financing Activities:		
Bonds issued	-	424,045
Bonds refunded	-	(369,770)
Interest paid	(106,771)	(119,789)
Debt premium (discount), issuance costs	(6)	32,723
Additions to electric utility plant and non-utility property and equipment	(127,659)	(75,136)
Bonds retired or redeemed	(134,050)	(149,015)
Net cash used for capital and related financing activities	(368,486)	(256,942)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	2,913,528	4,329,946
Purchases of investment securities	(2,882,759)	(4,381,784)
Investment earnings receipts	7,187	9,700
Net cash provided by (used for) investing activities	37,956	(42,138)
Net Change in Operating Cash	25	(109)
Operating Cash, Beginning of year	90	199
Operating Cash, End of year	<u>\$ 115</u>	<u>\$ 90</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 258,945	\$ 253,119
Adjustments:		
Depreciation and amortization	21,435	30,141
Amortization of asset retirement obligation	12,713	12,051
Additional funding for nuclear decommissioning		
Amortization of nuclear fuel	22,004	26,554
Changes in assets and liabilities:		
(Increase) decrease in participant accounts receivable	(2,682)	(92)
Decrease in fossil fuel stock	-	-
Decrease (increase) in prepaid expenses	(1,499)	(281)
(Increase) in plant material and operating supplies	(5,911)	(1,484)
Decrease in deferred costs	659	659
Increase (decrease) in accounts payable	24,786	(22,066)
Increase in accrued taxes	105	370
Total Adjustments	71,610	45,852
Net Cash Provided by Operating Activities	<u>\$ 330,555</u>	<u>\$ 298,971</u>

See accompanying notes to financial statements.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 Duke Energy Progress, Inc. (DEP) as follows:

	Commercial Operation	Agency Ownership	Maximum Net Dependable Capability (MNDC)			
			(MW)			
			2013		2012	
			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				<u>486.1</u>		<u>486.1</u>
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				<u>207.9</u>		<u>207.9</u>
Total of All Units				<u>694.0</u>		<u>694.0</u>

In conjunction with the purchase of its ownership interest, the Agency entered into several agreements with DEP 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 DEP.
- The Operation and Fuel Agreement provides for DEP 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 DEP 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 DEP.
- The Agency also entered into an agreement with Virginia Electric and Power Company (VEPCO) for the transmission of power to the Agency's Participants formerly served by VEPCO.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 DEP, 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, 2014, 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, 2013 and 2012, the Agency paid ElectriCities \$10,961,000 and \$10,679,000, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 net position represents constraints on resources that are imposed by Resolution and may be utilized only for the purposes established by the Resolution. Unrestricted net position may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, the Agency first uses the restricted net position.

Electric Plant in Service

All direct and indirect expenses 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, 2013, was 22 years, 8 months for Brunswick Unit 1 and 22 years for Brunswick Unit 2. The Harris plant is being depreciated over the remaining life of the plant, which at December 31, 2013, was 33 years, 10 months. The two remaining units, Mayo and Roxboro Unit 4 were depreciated in 2012 over the remaining life of the debt used to fund each unit’s assets which was 4 and 2 years in 2012, respectively. In 2013 the estimated useful life of Mayo and Roxboro Unit 4 changed to reflect April 2013 DEP’s Depreciation Study. At December 31, 2013 the remaining useful lives of the Roxboro Unit 4 and Mayo Unit 1 was 22 years and 22 years, respectively.

The asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs beginning on page 28) 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 2013 and 2012, no such impairment occurred.

Construction Work in Progress

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

B. Significant Accounting Policies (continued)

Nuclear Fuel

Nuclear Fuel, net of amortization, includes 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 2013 and 2012 included a provision of \$3,777,000 and \$3,785,000, respectively, for estimated disposal costs.

Under provisions of the Nuclear Waste Policy Act of 1982, DEP, on behalf of DEP 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 DEP's contract with the DOE. To date, the DOE continues not to accept spent nuclear fuel assemblies or title to such fuel assemblies.

DEP 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 DEP 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 DEP. According to DEP, the U.S. Department of Justice appealed this decision. Effective September, 2011, DEP 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 DEP is planning another lawsuit for the period January 2006 through December 2010.

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

Non-Utility Property and Equipment

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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, 2013 and 2012 shown net of accumulated accretion/amortization of \$(55,505,000) and \$(34,588,000), 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.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 \$113,000 and \$74,000 at December 31, 2013 and 2012, respectively, included on the statement of net position in the line item "Current Assets: Funds Invested". Restricted cash of \$2,000 and \$16,000 at December 31, 2013 and 2012, respectively, included on the balance sheet in the line item "Restricted Assets: Special Funds Invested" is also 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. As a result, the following reclassifications have been made to 2012 regarding outflows of resources and deferred inflows of resources:

Statement of Net Position	2012 As Originally Reported	2012 Reclassified
Deferred Outflows of Resources		
Unamortized debt issuance costs	\$ -	\$ 18,669
Costs to be recovered		937,932
	<u>\$ -</u>	<u>\$ 956,601</u>
Non Current Assets		
Costs to be Recovered	<u>\$ 956,601</u>	<u>\$ -</u>
Deferred Inflows of Resources		
Collections to be Expended	<u>\$ -</u>	<u>\$ 231,373.00</u>
Non Current Liabilities		
Collections to be Expended	<u>\$ 231,373</u>	<u>\$ -</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

B. Significant Accounting Policies (continued)

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.

Recently Adopted GASB Standards

For the year-ended December 31, 2012 the Agency adopted GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30m 1989 FASB and AICPA Pronouncements” effective for periods beginning after December 15, 2011, GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” effective for periods beginning after December 15, 2011, and early adopted GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities” effective for periods beginning after December 15, 2012.

For the year-ended December 31, 2013 the Agency adopted GASB Statement No. 61, “The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34” effective for periods beginning after June 15, 2012 and GASB Statement No. 66, “Technical Corrections -2012- An Amendment of GASB Statements No. 10 and No. 62” effective for periods beginning after December 15, 2012.

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 15, 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 15, 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.

In January 2013, GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations”. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 15, 2013 and is not expected to have a material impact on the Agency’s financial position, over cash flow or balances or results of operations.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

B. Significant Accounting Policies (continued)

In April 2013, GASB issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees". This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for reporting periods beginning after June 15, 2013 and is not expected to have a material impact on the Agency's financial position, over cash flow or balances or results of operations.

In November 2013, GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68". This Statement addresses an issue regarding application of the transition provisions of Statement No. 68 "Accounting and Financial Reporting for Pensions". The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and not expected to have a material impact on the Agency's financial position, over cash flow or balances or results of operations.

C. Capital Assets

Changes in components of electric utility plant, net during 2013 and 2012 are as follows (in thousands of dollars):

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric Plant in Service	\$ 1,711,080	\$ 8,113	\$ 58,221	\$ (12,767)	\$ 1,764,647
Nuclear Fuel	125,081	32,736			157,817
Total Depreciable Utility Plant	1,836,161	40,849	58,221	(12,767)	1,922,464
Accumulated Depreciation and Amortization					
Electric Plant in Service	(1,083,730)	(20,733)		12,767	(1,091,696)
Nuclear Fuel	(57,635)	(17,409)			(75,044)
Total Accumulated Depreciation and Amortization	(1,141,365)	(38,142)	-	12,767	(1,166,740)
Depreciable Utility Plant, Net	694,796	2,707	58,221	-	755,724
Land and Other Non-Depreciable Assets					
Land	14,187				14,187
Construction Work In Progress	28,120	81,553	(58,221)		51,452
Total Electric Utility Plant, Net	\$ 737,103	\$ 84,260	\$ -	\$ -	\$ 821,363

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

C. Capital Assets (continued)

	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

The Agency has commitments to DEP in connection with capital additions for the initial project. Current estimates indicate the Agency's portion of these costs for 2014 and 2015 will be approximately \$165,000,000.

Changes in components of non-utility property and equipment, net during 2013 and 2012 are as follows (in thousands of dollars):

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Non-Utility Property and Equipment					
Property and Equipment	\$ 2,242				\$ 2,242
Accumulated Depreciation	(1,728)	(41)			(1,769)
Total Depreciable Property and Equipment, Net	514	(41)			473
Land	710				710
Total Non-Utility Property and Equipment, Net	\$ 1,224	\$ (41)	\$ -	\$ -	\$ 1,183

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

C. Capital Assets (continued)

	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

D. Investments

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

D. Investments (continued)

	December 31,			
	2013		2012	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ 64,240	\$ 64,240	\$ 137,833	\$ 137,833
U.S. government agencies	263,206	264,167	256,663	263,816
Treasury State and Local Government Securities	27,068	27,068	27,068	27,068
Treasury Coupons	9,977	9,947	-	-
Treasury Strips	1,242	2,598	1,242	2,684
Money market	215,177	215,177	187,029	187,029
Collateralized mortgage obligations	8,061	9,070	12,876	14,479
Sub-total funds invested	588,971	592,267	622,711	632,909
Decommissioning Trust securities	193,382	239,095	187,834	249,013
Cash				
Operating cash	113	113	74	74
Restricted cash	2	2	16	16
Accrued interest	1,383	1,383	1,464	1,464
Total funds invested	<u>\$ 783,851</u>	<u>\$ 832,860</u>	<u>\$ 812,099</u>	<u>\$ 883,476</u>
Consisting of:				
Special funds invested		\$ 329,652		\$ 351,211
Decommissioning Trust		239,555		249,500
Operating assets		263,653		282,765
Total funds invested		<u>\$ 832,860</u>		<u>\$ 883,476</u>

Interest Rate Risk

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

As of December 31, 2013 and 2012, the maturities of the Agency's investments are as follows (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

D. Investments (continued)

	December 31, 2013				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
Repurchase agreements	\$ 64,240	\$ 64,240	\$ -	\$ -	\$ -
U.S. government agencies	264,167	43,275	160,696	60,196	-
Treasury State and Local Government Securities	27,068	-	14,378	12,690	-
Treasury Coupons	9,947	-	9,947	-	-
Treasury Strips	2,598	-	-	2,598	-
Money market	215,177	215,177	-	-	-
Collateralized mortgage obligations	9,070	-	5,936	3,134	-
	592,267	322,692	190,957	78,618	-
Decommissioning Trust securities	239,095	23,206	43,093	147,723	25,073
Total	<u>\$ 831,362</u>	<u>\$ 345,898</u>	<u>\$ 234,050</u>	<u>\$ 226,341</u>	<u>\$ 25,073</u>

	December 31, 2012				
	Fair Value	Investment Maturity (In Years)			
		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 Government Securities	27,068	-	14,378	12,690	-
Treasury Strips	2,684	-	-	2,684	-
Money market	187,029	187,029	-	-	-
Collateralized mortgage obligations	14,479	-	14,479	-	-
	632,909	367,570	216,443	48,896	-
Decommissioning Trust securities	249,013	12,472	74,319	101,877	60,345
Total	<u>\$ 881,922</u>	<u>\$ 380,042</u>	<u>\$ 290,762</u>	<u>\$ 150,773</u>	<u>\$ 60,345</u>

As of December 31, 2013 and 2012 the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2013					
	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	121,414	1,674	3,705	194	125,119	1,868
Agency strips					-	-
Treasury strips					-	-
Money market	-	-	-	-	-	-
Collateralized mortgage obligations	20,917	789	13,874	173	34,791	962
Sub-total	142,331	2,463	17,579	367	159,910	2,830
Decommissioning Trust securities	26,886	1,361	13,957	589	40,843	1,950
Total	<u>\$ 169,217</u>	<u>\$ 3,824</u>	<u>\$ 31,536</u>	<u>\$ 956</u>	<u>\$ 200,753</u>	<u>\$ 4,780</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

D. Investments (continued)

	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	<u>\$ 36,512</u>	<u>\$ 110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,512</u>	<u>\$ 110</u>

Credit Risk

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

As of December 31, 2013 and 2012 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 in direct obligations of the United States Treasury. Limits have been established for all remaining issuers. As of December 31, 2013 and 2012, the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

D. Investments (continued)

	December 31, 2013		December 31, 2012	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	\$ 101,274	12%	\$ 82,779	9%
Federal National Mortgage Association	109,180	13%	99,249	11%
Federal Home Loan Bank	90,536	11%	110,044	12%
Federal Farm Credit Bank	100,554	12%	113,704	13%
Resolution Funding Corporation	10,195	1%	13,354	2%
Repurchase Agreements				
Morgan Stanley/Dean Witter	64,240	8%	137,833	16%
Money Market Fund - NC Capital Management Trust	215,968	26%	103,526	12%
U.S. Bank Sweep Account			84,050	10%
U.S. Treasury Department	139,415	17%	137,383	15%
Total	<u>\$ 831,362</u>	<u>100%</u>	<u>\$ 881,922</u>	<u>100%</u>

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

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

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 \$115,000 and \$90,000 at December 31, 2013 and 2012, 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 Eastern Municipal Power Agency.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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 DEP in 2009 utilizing the unit factor method, which follows the approach as outlined in the DOE decommissioning handbook. 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.

The Agency has identified certain asset retirement obligations, which are primarily associated with the decommissioning of NCEMPA's ownership interest in Brunswick Unit 1 and Unit 2, and Harris plants. Changes in components of the asset retirement obligation during 2013 and 2012 are as follows (in thousands of dollars):

	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 231,177	\$ 219,126
Liabilities incurred during the year		-
Liabilities settled during the year		-
Accretion expense	12,713	12,051
Revisions in estimated cash flows		-
Balance, end of year	<u>\$ 243,890</u>	<u>\$ 231,177</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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, 2013 and 2012 is net of accumulated amortization of \$12,439,000 and \$12,051,000, 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 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 and reviewed on an annual basis. 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):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

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

	Years Ended December 31,		Inception to December 31,	
	2013	2012	2013	2012
Costs To Be Recovered				
Deferred interest expense	\$ -	\$ (1,569)	\$ 649,984	\$ 649,984
Amortization of debt discount/premium costs/issuance cost	(17,505)	(7,265)	40,409	57,914
Net (increase) decrease in fair value of investments and derivative financial instruments	25,931	348	86,247	60,316
Depreciation and amortization	21,435	30,141	1,305,573	1,284,138
Amortization of asset retirement obligation	12,713	12,051	109,506	96,793
Amortization of debt refunding costs	37,139	32,477	822,468	785,329
Participant billing offsets	(206,932)	(165,457)	(2,248,560)	(2,041,628)
Asset Retirement Obligation Provision			5,464	5,464
New project negotiation and Harris Plant litigation costs			45,086	45,086
Costs To Be Recovered	<u>\$ (127,219)</u>	<u>\$ (99,274)</u>	<u>\$ 816,177</u>	<u>\$ 943,396</u>

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

	Years Ended December 31,		Inception to December 31,	
	2013	2012	2013	2012
Collections To Be Expended				
Net special funds withdrawals	\$ 9,785	\$ 16,661	\$ 57,892	\$ 48,107
Restricted investment income	8,010	8,216	159,596	151,586
Rate stabilization funds used for other than operations	-	-	(21,839)	(21,839)
Special funds valuations	(4,478)	(34,261)	(81,820)	(77,342)
Prepaid fuel	-	15,935	92,000	92,000
Other collections to be expended	7,420	3,590	46,281	38,861
Net Collections To Be Expended	<u>\$ 20,737</u>	<u>\$ 10,141</u>	<u>\$ 252,110</u>	<u>\$ 231,373</u>

H. Bonds

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

The following shows bond activity during 2013 and 2012 (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

H. Bonds (continued)

	2013	2012
Bonds Outstanding - Beginning of year	\$ 2,159,770	\$ 2,254,510
Principal payments January 2	(134,050)	(149,015)
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	<u>\$ 2,025,720</u>	<u>\$ 2,159,770</u>

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

	December 31, 2013	2012
Series 1991 A		
6.5% maturing in 2018	<u>\$ 28,755</u>	<u>\$ 28,755</u>
Series 1993 B		
6% maturing in 2018	97,790	97,790
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	<u>333,545</u>	<u>333,545</u>
Series 1993 C		
7% maturing in 2013 with annual sinking fund requirements beginning in 2012	<u>-</u>	<u>4,555</u>
Series 2003 C		
5.125% to 5.375% maturing annually from 2011 to 2017	<u>-</u>	<u>3,205</u>
Series 2003 D		
4.375% to 5.375% maturing annually from 2011 to 2015	57,010	105,335
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	<u>17,605</u>	<u>17,605</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

H. Bonds (continued)

	December 31,	
	2013	2012
Series 2003 F		
4.375% to 5.5% maturing annually from 2011 to 2017	\$ 27,840	\$ 50,605
Series 2003 G (Federally Taxable)		
5.55% maturing annually from 2013 to 2014	1,130	6,425
Series 2005 A		
3.65% to 5.00% maturing annually from 2011 to 2016	23,415	23,570
4.25% to 5.00% maturing annually from 2020 to 2021	101,145	101,145
Total Series 2005 A	124,560	124,715
Series 2008 A		
3.25% to 5.25% maturing annually from 2013 to 2020	275,070	302,830
5.00% to 5.25% maturing annually from 2022 to 2024	61,730	61,730
Total Series 2008 A	336,800	364,560
Series 2008 B (Federally Taxable)		
5.15% to 5.60% maturing annually from 2011 to 2013	-	7,305
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	44,525	51,830
Series 2008 C		
4.5% to 5.00% maturing annually from 2011 to 2013	-	2,060
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	32,645	34,705
Series 2009 A		
3.00% to 4.625% maturing annually from 2011 to 2019	595	3,865
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	55,840	59,110

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

H. Bonds (continued)

	December 31,	
	2013	2012
Series 2009 B		
3.00% to 4.2% maturing annually from 2011 to 2022	\$ 41,910	\$ 43,950
5.00% maturing annually from 2015 to 2021	62,800	62,800
4.7% maturing in 2026 with annual sinking fund requirements beginning in 2023	7,065	7,065
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	259,960	259,960
Total Series 2009 B	<u>371,735</u>	<u>373,775</u>
Series 2009 C (Federally Taxable)		
3.38% to 4.68% maturing annually from 2011 to 2015	9,640	13,145
6% maturing in 2023 with annual sinking fund requirements beginning in 2016	2,860	2,860
Total Series 2009 C	<u>12,500</u>	<u>16,005</u>
Series 2009 D		
3.00% to 5.00% maturing annually from 2011 to 2022	8,795	9,610
5% maturing in 2026 with annual sinking fund requirements beginning in 2023	5,240	5,240
Total Series 2009 D	<u>14,035</u>	<u>14,850</u>
Series 2010A		
3.00% maturing annually from 2015 to 2016	15,125	15,125
5.00% maturing annually from 2015 to 2016	62,180	62,180
4% maturing in 2021	1,500	1,500
5% maturing in 2021	53,035	53,035
5% maturing in 2023	14,305	14,305
Total Series 2010A	<u>146,145</u>	<u>146,145</u>
Series 2012A		
4.00% maturing in 2013	-	2,995
2.00% maturing annually from 2014 to 2015	10,565	10,565
3.00% maturing annually from 2016 to 2019	15,050	15,050
4.00% maturing annually from 2020 to 2022	4,175	4,175
4.00% maturing in 2026	850	850
5.00% maturing annually from 2018 to 2026	53,690	53,690
Total Series 2012A	<u>84,330</u>	<u>87,325</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

H. Bonds (continued)

	December 31,	
	2013	2012
Series 2012B		
5.00% maturing annually from 2015 to 2017	\$ 50,395	\$ 50,395
5.00% maturing annually from 2019 to 2021	120,310	120,310
Total Series 2012B	<u>170,705</u>	<u>170,705</u>
Series 2012C		
1.69% maturing in 2015	365	365
2.44% maturing in 2017	29,020	29,020
Total Series 2012C	<u>29,385</u>	<u>29,385</u>
Series 2012D		
5.00% maturing annually from 2014 to 2017	84,840	84,840
5.00% maturing in 2023	36,930	36,930
5.00% maturing annually from 2025 to 2026	14,860	14,860
Total Series 2012D	<u>136,630</u>	<u>136,630</u>
Total Bonds Outstanding	2,025,720	2,159,770
Current maturities of bonds	<u>(156,265)</u>	<u>(134,050)</u>
Long-Term Debt, Bonds Payable	<u>\$ 1,869,455</u>	<u>\$ 2,025,720</u>

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 \$2,188,048,000 and \$2,458,476,000 at December 31, 2013 and 2012, 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 of previously issued bonds at December 31, 2012. At December 31, 2012, \$4,466,565,000 of these bonds has been redeemed leaving \$539,555,000 still outstanding. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 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.

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 \$156,265,000 at December 31, 2013 were collected through rates during 2013 and were deposited monthly into the Bond Fund to make the January 1, 2014 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2013 are as follows (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

H. Bonds (continued)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	171,350	66,809	238,159
2019 to 2023	923,585	192,260	1,115,845
2024 to 2026	171,655	13,579	185,234
Total	<u>\$ 1,869,455</u>	<u>\$ 618,328</u>	<u>\$ 2,487,783</u>

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

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

In 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

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.

The Resolution requires that the agency maintain a reserve fund balance in an amount to sufficiently cover the aggregate of the greatest amount of interest coming due in any Fiscal Year on all Series of Bonds outstanding, determined for each Series of Bonds as of the date of the issue, which was \$108,928,000 and **H.**

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

Bonds (continued)

\$117,781,000 for 2013 and 2012, respectively. As of December 31, 2013 and 2012, the balances of the reserve were \$109,931,000 and \$119,109,000, respectively.

The Resolution also requires a bond contingency fund to be established to be equal to the greater of one-tenth of the Reserve Account requirement or the anticipated capital additions for the year, which was \$10,893,000 and \$11,778,000 for 2013 and 2012, respectively. As of December 31, 2013 and 2012, the balances of the contingency fund were \$10,962,000 and \$16,141,000, respectively.

As of December 31, the Agency had \$0 and \$32,104,000 in unspent bond funds in restricted cash and investments for 2013 and 2012, respectively.

I. Commitments and Contingencies

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

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

The Price Anderson Act expires in 2025.

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, DEP 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, DEP will be liable, on a pro rata basis, for additional assessments of up to \$40 million which represents ten times the annual premium.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2013 and 2012

I. Commitments and Contingencies (continued)

Extended Accidental Outage Coverage

DEP 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, DEP will be liable, on a pro rata basis, for additional assessments of up to \$25 million which represents ten times the annual premium for the station.

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

J. Subsequent Events

The Agency has evaluated subsequent events through April 22, 2014, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	Year Ended December 31, 2013		
	Initial Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 528,703	\$ 170,260	\$ 698,963
Sales to utilities	6		6
Investment income	4,261	974	5,235
Excess Funds valuation	9,864		9,864
Other revenues	130		130
Total Revenues	542,964	171,234	714,198
Expenses:			
Operation and maintenance	98,374	5	98,379
Fuel	56,436		56,436
Power coordination services:			
Purchased power	26,945	139,587	166,532
Transmission and distribution		22,357	22,357
Other		13,829	13,829
Total power coordination services:	26,945	175,773	202,718
Administrative and general – PEC	29,213		29,213
Power Agency services	4,269	6,692	10,961
Taxes			
Amounts in lieu of taxes	2,912		2,912
Gross receipts tax	17,024	5,405	22,429
Total taxes	19,936	5,405	25,341
Debt service:			
Debt administrative costs	166		166
Debt service	261,195		261,195
Total debt service	261,361	-	261,361
Special funds deposits:			
Reserve and contingency fund	44,930		44,930
Decommissioning fund	1,500	9,785	11,285
Total special funds deposits	46,430	9,785	56,215
Total Expenses	542,964	197,660	740,624
Revenues Over (Under) Expenses	\$ -	\$ (26,426)	\$ (26,426)

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, 2013 and 2012, respectively.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2012		
Initial Project	Supple- mental	Total
\$ 490,215	\$ 206,052	\$ 696,267
219		219
6,562	833	7,395
36,440		36,440
39		39
533,475	206,885	740,360
83,821	5	83,826
89,257		89,257
17,819	129,640	147,459
	21,776	21,776
	3,436	3,436
17,819	154,852	172,671
38,534		38,534
4,402	6,693	11,095
2,598	171	2,769
15,785	6,801	22,586
18,383	6,972	25,355
565		565
246,252		246,252
246,817	-	246,817
32,932		32,932
1,510	16,661	18,171
34,442	16,661	51,103
533,475	185,183	718,658
\$ -	\$ 21,702	\$ 21,702

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Year Ended December 31, 2013
(\$000's)

	2013 Budget		Actuals	Positive
	Original	Final	(Budgetary	(Negative)
			Basis)	Variance With
				Final Budget
Revenues:				
Sales to participants	\$ 706,129	\$ 706,129	\$ 698,963	\$ (7,166)
Sales to utilities	656	\$ 656	6	(650)
Investment income	5,689	\$ 5,689	5,235	(454)
Excess Funds valuation	8,853	\$ 8,853	9,864	1,011
Other revenues	-	-	130	130
Total Revenues	721,327	721,327	714,198	(7,129)
Expenses:				
Operation and maintenance	96,632	96,632	98,379	(1,747)
Fuel	76,338	76,338	56,436	19,902
Power coordination expenses:				
Purchased power	180,096	180,096	166,532	13,564
Transmission and distribution	23,236	23,236	22,357	879
Other	4,175	4,175	13,829	(9,654)
Total power coordination expenses	207,507	207,507	202,718	4,789
Administrative and general – PEC	29,979	29,979	29,213	766
Power Agency services	11,212	11,212	10,961	251
Taxes	25,645	25,645	25,341	304
Debt service	261,445	261,445	261,361	84
Special funds deposits	58,190	58,190	56,215	1,975
Total Expenses	766,948	766,948	740,624	26,324
Revenues Over (Under) Expenses	\$ (45,621)	\$ (45,621)	\$ (26,426)	\$ 19,195

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, 2013.

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, 2012	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers
Bond Fund:					
Construction Fund	\$ -	\$ -	\$ 14	\$ 95,000	\$ (62,909)
Interest account	60,105	-	56	(117,034)	111,379
Reserve account	133,270		5,085	1,236	(30,541)
Principal account	149,106		146	(149,015)	133,833
Total Bond Fund	342,481	-	5,287	(264,813)	214,671
Reserve and Contingency Fund	22,541		164	(72,868)	63,629
Revenue Fund	30,003	476,394	290	278	(459,943)
Operating Fund:					
Working Capital account	17,521		304	(137,431)	151,196
Fuel account	40,844			(89,291)	77,052
Total Operating Fund	58,365	-	304	(226,722)	228,248
Supplemental Fund	104,258	220,272	830	(197,457)	11,855
Reserved for Decommissioning Costs	18,753		72		15,235
Total Supplemental	123,011	220,272	902	(197,457)	27,090
	\$ 576,401	\$ 696,666	\$ 6,961	\$ (666,582)	\$ 10,786

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, 2013 and 2012, respectively.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2012	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2013
\$ 32,105	\$ -	\$ 5		\$ (32,110)	\$ -
54,506		25	(106,605)	104,540	52,466
109,050		3,443		(5,778)	106,715
134,070		83	(134,050)	156,187	156,290
297,626	-	3,551	(240,655)	254,949	315,471
13,466		181	(72,222)	69,354	10,779
47,022	524,733	192	(1,653)	(556,456)	13,838
31,590		336	(141,125)	142,295	33,096
28,605			(56,643)	63,507	35,469
60,195	-	336	(197,768)	205,802	68,565
139,758	172,056	975	(223,651)	47,612	136,750
34,060		284		10,849	45,193
173,818	172,056	1,259	(223,651)	58,461	181,943
\$ 624,232	\$ 696,789	\$ 5,524	\$ (735,949)	\$ -	\$ 590,596