



**North Carolina Eastern
Municipal Power Agency**
2014 Financial Report

**NORTH CAROLINA EASTERN MUNICIPAL
POWER AGENCY**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2014 and 2013

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**North Carolina Eastern Municipal Power Agency
Annual Financial Report
Years Ended December 31, 2014 and 2013**

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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, 2014 and 2013, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

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, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 1, 2015 and April 23, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Morehead City, North Carolina
April 1, 2015

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, 2014 and 2013. 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

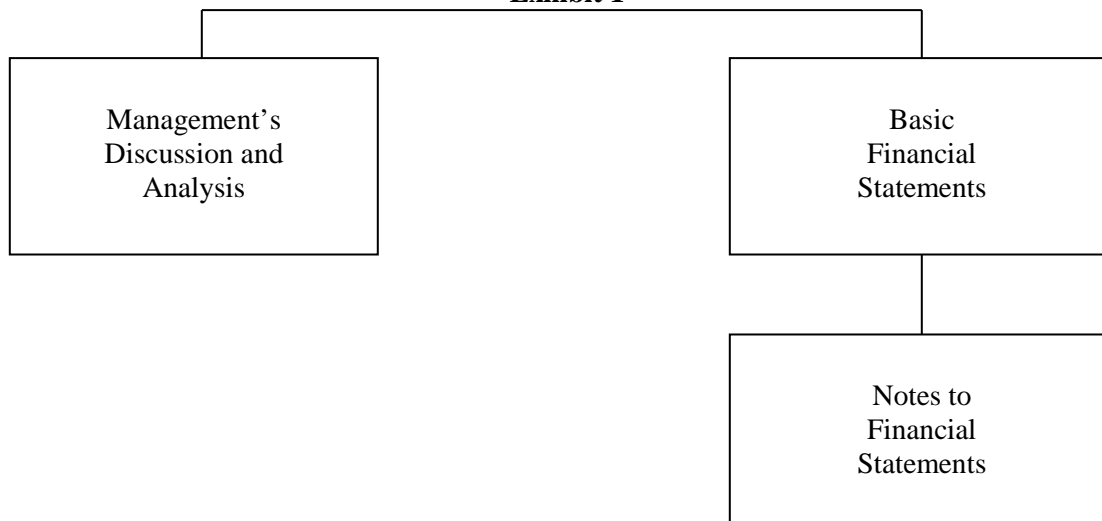
- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2014 and 2013, the Agency's assets and deferred outflows exceeded its liabilities and deferred inflows by \$117,253,000 and \$76,572,000, respectively (net position).
- The Agency's net position increased by \$40,681,000 and decreased \$26,426,000 for 2014 and 2013, respectively.
- Year-end 2014 and 2013 unrestricted net position was \$207,416,000 and \$302,624,000, respectively, and decreased \$95,208,000 and \$184,091,000 during 2014 and 2013, respectively.
- The Agency's total debt decreased \$156,265,000 and \$134,050,000 during 2014 and 2013, respectively, as follows:
 - Decreased \$156,265,000 and \$134,050,000 in 2014 and 2013, respectively, due to principal paid January 1, 2014 and 2013 in accordance with debt service schedules.
- The bond ratings increased or remained the same as follows:
 - Standard and Poor's – Unchanged at A- (stable).
 - Moody's – Unchanged at Baa1 (positive).
 - Fitch – Unchanged at A- (stable).
- There were no rate increases in 2014 or 2013.

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 35 of this report.

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

Financial Analysis

The electric enterprise fund financial statements for the years ended December 31, 2014 and 2013 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

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

| | December 31, | | |
|--|--------------------------|-------------------------|--------------------------|
| | 2014 | 2013 | 2012 |
| Assets and Deferred Outflows of Resources | | | |
| Capital assets | \$ 857,316 | \$ 822,546 | \$ 738,327 |
| Current and other assets | 947,495 | 942,717 | 1,939,841 |
| Deferred outflows of resources | <u>1,053,884</u> | <u>1,014,678</u> | <u>226,499</u> |
| Total assets and deferred outflows of resources | 2,858,695 | 2,779,941 | 2,904,667 |
| Liabilities and Deferred Inflows of Resources | | | |
| Long-term liabilities outstanding | 1,778,656 | 1,938,490 | 2,115,672 |
| Other liabilities | 709,418 | 764,879 | 685,997 |
| Deferred inflows of resources | <u>253,368</u> | <u>252,110</u> | |
| Total liabilities and deferred inflows of resources | 2,741,442 | 2,703,369 | 2,801,669 |
| Net Position | | | |
| Net Invested in capital assets | (116,436) | (257,908) | (438,752) |
| Restricted for debt service | 26,273 | 31,856 | 55,035 |
| Unrestricted | <u>207,416</u> | <u>302,624</u> | <u>486,715</u> |
| Total net position | <u><u>\$ 117,253</u></u> | <u><u>\$ 76,572</u></u> | <u><u>\$ 102,998</u></u> |

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 and deferred inflows by \$117,253,000, \$76,572,000 and \$102,998,000 at December 31, 2014, 2013 and 2012, respectively, representing an increase of \$40,681,000 and a decrease of \$26,426,000 for 2014 and 2013 respectively.

The deficit portion of net position of \$(116,436,000), \$(257,908,000) and \$(438,752,000) at December 31, 2014, 2013 and 2012, 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 2014 and 2013 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 \$26,273,000, \$31,856,000 and \$55,035,000 at December 31, 2014, 2013 and 2012, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$207,416,000, \$302,624,000 and \$486,715,000 at December 31, 2014, 2013 and 2012, respectively, is unrestricted net position.

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

| | Years Ended December 31, | | |
|--|--------------------------|------------------|-------------------|
| | 2014 | 2013 | 2012 |
| Revenues: | | | |
| Operating revenues | \$ 698,503 | \$ 699,099 | \$ 696,526 |
| Nonoperating revenues | 12,366 | 13,245 | 15,612 |
| Total Revenues | 710,869 | 712,344 | 712,138 |
| Expenses: | | | |
| Operating expenses | 630,590 | 440,154 | 443,407 |
| Interest on long-term debt | 97,611 | 105,095 | 112,054 |
| Other nonoperating (revenues)/expenses | (58,013) | 193,521 | 134,975 |
| Total Expenses | 670,188 | 738,770 | 690,436 |
| Increase in net position | 40,681 | (26,426) | 21,702 |
| Net Position, Beginning of year | 76,572 | 102,998 | 81,296 |
| Net Position, End of year | <u>\$ 117,253</u> | <u>\$ 76,572</u> | <u>\$ 102,998</u> |

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets at December 31, 2014, 2013 and 2012 totaled \$857,316,000, \$822,546,000 and \$738,327,000, respectively, (net of accumulated amortization and depreciation) for an increase of \$34,770,000 and \$84,219,000 in 2014 and 2013, respectively. These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2014 and 2013 include the following:

- CWIP increased \$47,942,000 and \$81,553,000 in 2014 and 2013, respectively, due to capital additions projects at the joint units.
- Electric Plant in Service (EPIS) increased and CWIP decreased \$40,761,000 and \$58,221,000 in 2014 and 2013, respectively, due to the transfer of completed capital additions projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$24,737,000 and \$20,733,000 for 2014 and 2013, respectively.
- Nuclear Fuel Net Amortization was \$20,341,000 and \$17,409,000 for 2014 and 2013, respectively.

Capital Assets Exhibit 4 (\$000s)

Electric Utility Plant, Net

| | December 31, 2013 | Additions | Transfers | Retirements | December 31, 2014 |
|---|----------------------|-----------|-----------|-------------|----------------------|
| Depreciable Utility Plant | | | | | |
| Electric Utility Plant | | | | | |
| Electric Plant in Service | \$ 1,764,647 | \$ 5,616 | \$ 40,761 | \$ (4,701) | \$ 1,806,323 |
| Nuclear Fuel | 157,817 | 26,281 | | | 184,098 |
| Total Depreciable Utility Plant | 1,922,464 | 31,897 | 40,761 | (4,701) | 1,990,421 |
| Accumulated Depreciation and Amortization | | | | | |
| Electric Plant in Service | (1,091,696) | (24,697) | | 4,701 | (1,111,692) |
| Nuclear Fuel | (75,044) | (20,341) | | | (95,385) |
| Total Accumulated Depreciation and Amortization | (1,166,740) | (45,038) | - | 4,701 | (1,207,077) |
| Depreciable Utility Plant, Net | 755,724 | (13,141) | 40,761 | - | 783,344 |
| Land and Other Non-Depreciable Assets | | | | | |
| Land | 14,187 | | | | 14,187 |
| Construction Work In Progress | 51,452 | 47,942 | (40,761) | | 58,633 |
| Total Electric Utility Plant, Net | \$ 821,363 | \$ 34,801 | \$ - | \$ - | \$ 856,164 |

| | 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 |

Non-Utility Plant and Equipment, Net

| | December 31, 2013 | Additions | Transfers | Retirements | December 31, 2014 |
|--|----------------------|-----------|-----------|-------------|----------------------|
| Non-Utility Property and Equipment | | | | | |
| Property and Equipment | \$ 2,242 | \$ 9 | | | \$ 2,251 |
| Accumulated Depreciation | (1,769) | (40) | | | (1,809) |
| Total Depreciable Property and Equipment, Net | 473 | (31) | | | 442 |
| Land | 710 | | | | 710 |
| Total Non-Utility Property and Equipment, Net | \$ 1,183 | \$ (31) | \$ - | \$ - | \$ 1,152 |
| | | | | | |
| | 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 |

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

Outstanding Debt

Total debt outstanding at December 31, 2014, 2013 and 2012 was \$1,869,455,000, \$2,025,720,000 and \$2,159,770,000, respectively, all of which are revenue bonds. Total debt decreased by \$156,265,000 (7.7%) and \$134,050,000 (6.2%) during 2014 and 2013, respectively, due to the principal debt payments.

The bond ratings increased or remained the same as follows:

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

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

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2015 budget:

- The 10 year average weather-normalized load (energy) growth rate is approximately 0.5% per year. 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 strong domestic natural gas supply and healthy storage inventories. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2015

- Assumes no wholesale rate change.
- The load forecast projects energy sales growing 0.6% during 2014 and annual coincident peak demand growing 0.4% per year.
- Collection through rates of \$144,370,000 for debt principal due January 1, 2016.
- Anticipates capital additions at the joint units of approximately \$71,540,000 for system improvements, equipment replacement/modifications and ongoing capital programs and projects. Approximately \$35,770,000 of these capital additions will be funded through rates.
- Scheduled outages at Brunswick Unit 2 and Harris plants for refueling and a maintenance outage at Roxboro Unit 4.

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.

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

| | December 31, | |
|--|--------------|--------------|
| | 2014 | 2013 |
| ASSETS | | |
| Non-Current Assets | | |
| Capital Assets (Note C): | | |
| Electric Utility Plant, Net | | |
| Electric plant in service | \$ 1,820,510 | \$ 1,778,834 |
| Construction work in progress | 58,633 | 51,452 |
| Nuclear fuel | 184,098 | 157,817 |
| Accumulated depreciation and amortization | (1,207,077) | (1,166,740) |
| Total Electric Utility Plant, Net | 856,164 | 821,363 |
| Non-Utility Property and Equipment, Net | | |
| Property and equipment | 2,961 | 2,952 |
| Accumulated depreciation | (1,809) | (1,769) |
| Total Non-Utility Property and Equipment, Net | 1,152 | 1,183 |
| Total Capital Assets | 857,316 | 822,546 |
| Restricted Assets | | |
| Special Funds Invested (Note D): | | |
| Construction fund | 22 | - |
| Bond fund | 306,072 | 318,690 |
| Reserve and contingency fund | 11,097 | 10,962 |
| Total Special Funds Invested | 317,191 | 329,652 |
| Trust for Decommissioning Costs (Notes D and E) | 256,992 | 239,555 |
| Total Restricted Assets | 574,183 | 569,207 |
| Total Non-Current Assets | 1,431,499 | 1,391,753 |
| Current Assets | | |
| Funds Invested (Note D): | | |
| Revenue fund | 28,805 | 14,397 |
| Operating fund | 55,889 | 68,645 |
| Supplemental fund | 172,103 | 180,611 |
| Total Funds Invested | 256,797 | 263,653 |
| Participants accounts receivable | 55,941 | 58,425 |
| Fossil fuel stock | 38 | 38 |
| Plant material and renewable certificate inventory | 57,675 | 49,067 |
| Prepaid expenses | 2,861 | 2,327 |
| Total Current Assets | 373,312 | 373,510 |
| Total Assets | \$ 1,804,811 | \$ 1,765,263 |

See accompanying notes to financial statements.

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

| | December 31, | |
|---------------------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Costs of advance refundings of debt | \$ 146,943 | \$ 177,829 |
| Unamortized debt issuance costs | 12,899 | 15,263 |
| VEPCO compensation payment (Note F) | 2,720 | 3,109 |
| Development costs | 2,030 | 2,300 |
| Costs To Be Recovered (Note G) | 889,292 | 816,177 |
| Total Deferred Outflows of Resources | <u>\$ 1,053,884</u> | <u>\$ 1,014,678</u> |
| LIABILITIES | | |
| Non-Current Liabilities | | |
| Long-Term Debt (Note H) | | |
| Bonds payable | \$ 1,721,650 | \$ 1,869,455 |
| Unamortized premium | 57,006 | 69,035 |
| Total Long-Term Debt | 1,778,656 | 1,938,490 |
| Asset Retirement Obligation (Note E) | 455,469 | 243,890 |
| Total Non-Current Liabilities | 2,234,125 | 2,182,380 |
| Current Liabilities | | |
| Operating Liabilities: | | |
| Accounts payable | 54,081 | 54,639 |
| Accrued taxes | 3,600 | 5,510 |
| Total Operating Liabilities | 57,681 | 60,149 |
| Special Funds Liabilities: | | |
| Current maturities of bonds (Note H) | 147,805 | 156,265 |
| Accrued interest on bonds | 48,463 | 52,465 |
| Total Special Funds Liabilities | 196,268 | 208,730 |
| Total Current Liabilities | 253,949 | 268,879 |
| Total Liabilities | <u>\$ 2,488,074</u> | <u>\$ 2,451,259</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Collections to be expended (Note G) | \$ 253,368 | \$ 252,110 |
| Total Deferred Inflows of Resources | <u>\$ 253,368</u> | <u>\$ 252,110</u> |
| NET POSITION | | |
| Net invested in capital assets | \$ (116,436) | \$ (257,908) |
| Restricted for debt service | 26,273 | 31,856 |
| Unrestricted | 207,416 | 302,624 |
| Total Net Position | <u>\$ 117,253</u> | <u>\$ 76,572</u> |

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

| | Years Ended December 31, | |
|---|-----------------------------|------------------|
| | 2014 | 2013 |
| Operating Revenues: | | |
| Sales to participants | \$ 698,380 | \$ 698,963 |
| Sales to utilities | 142 | 6 |
| Other revenues (expenses) | (19) | 130 |
| Total Operating Revenues | 698,503 | 699,099 |
| Operating Expenses: | | |
| Operation and maintenance | 86,837 | 92,468 |
| Fuel | 69,189 | 56,436 |
| Power coordination services: | | |
| Purchased power | 157,021 | 166,532 |
| Transmission and distribution | 24,923 | 24,658 |
| Other | 812 | 397 |
| Total power coordination services | 182,756 | 191,587 |
| Administrative and general | 40,346 | 40,174 |
| Amounts in lieu of taxes | 3,433 | 2,912 |
| Gross receipts tax | 11,334 | 22,429 |
| Depreciation and amortization | 25,116 | 21,435 |
| Amortization of asset retirement obligation | 211,579 | 12,713 |
| Total Operating Expenses | 630,590 | 440,154 |
| Operating Income | 67,913 | 258,945 |
| Nonoperating (Revenues) Expenses | | |
| Investment income | (12,366) | (13,245) |
| Net decrease (increase) in fair value of investments | (7,378) | 25,931 |
| Interest expense | 97,611 | 105,095 |
| Amortization of debt refunding cost | 30,886 | 37,139 |
| Amortization of debt discount, premium and issuance costs | (9,664) | (17,505) |
| Net decrease (increase) in costs to be recovered (Note G) | (73,115) | 127,219 |
| Net increase in collections to be expended (Note G) | 1,258 | 20,737 |
| Total nonoperating expenses (revenues) | 27,232 | 285,371 |
| Increase (Decrease) in Net Position | 40,681 | (26,426) |
| Net Position, Beginning of the year | 76,572 | 102,998 |
| Net Position, End of the year | <u>\$ 117,253</u> | <u>\$ 76,572</u> |

See accompanying notes to financial statements.

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

| | Years Ended December 31, | |
|--|--------------------------|-------------|
| | 2014 | 2013 |
| Cash Flows from Operating Activities: | | |
| Receipts from sales of electricity | \$ 700,987 | \$ 696,416 |
| Payments of operating expenses | (376,865) | (365,861) |
| Net cash provided by operating activities | 324,122 | 330,555 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Interest paid | (101,613) | (106,771) |
| Debt premium (discount), issuance costs | - | (6) |
| Additions to electric utility plant and non-utility property and equipment | (87,866) | (127,659) |
| Bonds retired or redeemed | (156,265) | (134,050) |
| Net cash used for capital and related financing activities | (345,744) | (368,486) |
| Cash Flows from Investing Activities: | | |
| Sales and maturities of investment securities | 1,513,403 | 2,913,528 |
| Purchases of investment securities | (1,498,590) | (2,882,759) |
| Investment earnings receipts | 6,770 | 7,187 |
| Net cash provided by investing activities | 21,583 | 37,956 |
| Net Change in Operating Cash | (39) | 25 |
| Operating Cash, Beginning of year | 115 | 90 |
| Operating Cash, End of year | \$ 76 | \$ 115 |
| Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating Income | \$ 67,913 | \$ 258,945 |
| Adjustments: | | |
| Depreciation and amortization | 25,116 | 21,435 |
| Amortization of asset retirement obligation | 211,579 | 12,713 |
| Additional funding for nuclear decommissioning | | |
| Amortization of nuclear fuel | 27,980 | 22,004 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in participant accounts receivable | 2,484 | (2,682) |
| Decrease in fossil fuel stock | - | - |
| Decrease (increase) in prepaid expenses | (534) | (1,499) |
| (Increase) in plant material and operating supplies | (8,608) | (5,911) |
| Decrease in deferred costs | 659 | 659 |
| Increase (decrease) in accounts payable | (557) | 24,786 |
| Increase in accrued taxes | (1,910) | 105 |
| Total Adjustments | 256,209 | 71,610 |
| Net Cash Provided by Operating Activities | \$ 324,122 | \$ 330,555 |

See accompanying notes to financial statements.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

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) | | | |
|---------------------------------|-------------------------|---------------------|---|---------------------|------|---------------------|
| | | | 2014 | | 2013 | |
| | | | Unit | Agency | Unit | Agency |
| | | | | | | |
| Nuclear-Fuel Units | | | | | | |
| Brunswick Unit 2 | 1975 | 18.33% | | 170.8 | 932 | 170.8 |
| Brunswick Unit 1 | 1977 | 18.33% | | 171.9 | 938 | 171.9 |
| Harris Unit 1 | 1987 | 16.17% | | 150.1 | 928 | 150.1 |
| Total Nuclear-Fueled Capability | | | | <u>492.8</u> | | <u>492.8</u> |
| Coal-Fired Units | | | | | | |
| Roxboro Unit 4 | 1980 | 12.94% | | 90.3 | 698 | 90.3 |
| Mayo Unit 1 | 1983 | 16.17% | | 117.6 | 727 | 117.6 |
| Total Coal-Fired Capability | | | | <u>207.9</u> | | <u>207.9</u> |
| Total of All Units | | | | <u><u>700.7</u></u> | | <u><u>700.7</u></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, 2014 and 2013

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, 2014 and 2013, the Agency paid ElectriCities \$12,594,000 and \$10,961,000, 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, 2014 and 2013

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 DEP'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, 2014, was 21 years, 8 months for Brunswick Unit 1 and 20 years for Brunswick Unit 2. The Harris plant is being depreciated over the remaining life of the plant, which at December 31, 2014, was 32 years. The two remaining units, Mayo and Roxboro Unit 4 are being depreciated over the remaining useful lives at December 31, 2014, which is 21 years and 21 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 2014 and 2013, no such impairment occurred.

Construction Work in Progress

All expenditures associated with capital additions related to the Agency's undivided ownership interests in DEP'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, 2014 and 2013

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 2014 and 2013 included a provision of \$1,331,000 and \$3,777,000, 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.

On December 12, 2011, Duke Energy Progress and Duke Energy Florida (DEF) sued the United States in the U.S. Court of Federal Claims. The lawsuit claimed the Department of Energy breached a contract in failing to accept spent nuclear fuel under the Nuclear Waste Policy Act of 1982 and asserted damages for the cost of on-site storage. DEP and DEF asserted damages for the period January 1, 2006 through December 31, 2010. Claims for all period prior to 2006 have been resolved. On March 24, 2014, the U.S. Court of Federal Claims issued a judgement in favor of DEP and DEF on this matter, awarding amount of \$83 million and \$21 million, respectively. The majority of the awards were recorded as a reduction to capital costs associated with construction of on-site storage facilities. DEP and DEF received payment of the award in September 2014. The Agency's portion of the settlement was \$13 million. On October 16, 2014, DEP and DEF filed a new action for costs incurred from 2011 through 2013.

The DOE announced that it would cease the collection of the of 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2014, in response to a November 2013 ruling by the US Court of Appeals. This action resulted from a lawsuit filed on behalf of utilities and regulators by the National Association of Regulatory Utility Commissioners (NARUC) and the Nuclear Energy Institute (NEI). The court instructed the US energy secretary to "change the fee to zero" pending either compliance with the existing US nuclear waste act or the enactment by Congress of an alternative waste management plan.

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, 2014 and 2013

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, 2014 and 2013 shown net of accumulated accretion/amortization of \$(67,534,000) and \$(55,505,000), 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, 2014 and 2013

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. The gross receipts taxes were eliminated effective July 1, 2014 as a result of legislative changes.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$48,000 and \$113,000 at December 31, 2014 and 2013, respectively, included on the statement of net position in the line item "Current Assets: Funds Invested". Restricted cash of \$28,000 and \$2,000 at December 31, 2014 and 2013, 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.

Debt Issuance Costs

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, 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.

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

arrangements that meet certain criteria. This Statement is effective for periods beginning after June 15, 2013, and did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

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 did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

In April 2013, GASB issued Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees". This Statement requires a government that extends a non-exchange 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 did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2014.

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, 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 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.

In February 2015, GASB issued Statement No 72, "Fair Value Management and Application". This Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value guidance and enhances disclosures about fair value measurements. The provisions of this statement are effective for period beginning after June 15, 2015 and are not expected to have a material impact on Agency's financial statements as a whole.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

C. Capital Assets

Changes in components of electric utility plant, net during 2014 and 2013 are as follows (in thousands of dollars):

| | December 31, 2013 | Additions | Transfers | Retirements | December 31, 2014 |
|---|----------------------|-----------|-----------|-------------|----------------------|
| Depreciable Utility Plant | | | | | |
| Electric Utility Plant | | | | | |
| Electric Plant in Service | \$ 1,764,647 | \$ 5,616 | \$ 40,761 | \$ (4,701) | \$ 1,806,323 |
| Nuclear Fuel | 157,817 | 26,281 | | | 184,098 |
| Total Depreciable Utility Plant | 1,922,464 | 31,897 | 40,761 | (4,701) | 1,990,421 |
| Accumulated Depreciation and Amortization | | | | | |
| Electric Plant in Service | (1,091,696) | (24,697) | | 4,701 | (1,111,692) |
| Nuclear Fuel | (75,044) | (20,341) | | | (95,385) |
| Total Accumulated Depreciation and Amortization | (1,166,740) | (45,038) | - | 4,701 | (1,207,077) |
| Depreciable Utility Plant, Net | 755,724 | (13,141) | 40,761 | - | 783,344 |
| Land and Other Non-Depreciable Assets | | | | | |
| Land | 14,187 | | | | 14,187 |
| Construction Work In Progress | 51,452 | 47,942 | (40,761) | | 58,633 |
| Total Electric Utility Plant, Net | \$ 821,363 | \$ 34,801 | \$ - | \$ - | \$ 856,164 |

| | 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, 2014 and 2013

C. Capital Assets (continued)

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 2015 and 2016 will be approximately \$146,000,000.

Changes in components of non-utility property and equipment, net during 2014 and 2013 are as follows (in thousands of dollars):

| | December 31, 2013 | Additions | Transfers | Retirements | December 31, 2014 |
|---|----------------------|----------------|-------------|-------------|----------------------|
| Non-Utility Property and Equipment | | | | | |
| Property and Equipment | \$ 2,242 | \$ 9 | | | \$ 2,251 |
| Accumulated Depreciation | (1,769) | (40) | | | (1,809) |
| Total Depreciable Property and Equipment, Net | 473 | (31) | | | 442 |
| Land | 710 | | | | 710 |
| Total Non-Utility Property and Equipment, Net | <u>\$ 1,183</u> | <u>\$ (31)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,152</u> |
| | | | | | |
| | 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> |

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.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

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

| | December 31, | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 | | 2013 | |
| | Cost Basis | Fair Value | Cost Basis | Fair Value |
| Repurchase agreements | \$ 67,450 | \$ 67,450 | \$ 64,240 | \$ 64,240 |
| U.S. Government Agencies | 245,801 | 247,614 | 263,206 | 264,167 |
| Treasury State and Local Government Securities | 27,068 | 27,068 | 27,068 | 27,068 |
| Treasury Coupons | 21,209 | 21,269 | 9,977 | 9,947 |
| Treasury Strips | - | - | 1,242 | 2,598 |
| Money market | 109,468 | 109,468 | 215,177 | 215,177 |
| Collateralized Certificates of Deposit | 94,300 | 94,300 | - | - |
| Collateralized mortgage obligations | 5,201 | 5,776 | 8,061 | 9,070 |
| Sub-total funds invested | 570,497 | 572,945 | 588,971 | 592,267 |
| Decommissioning Trust securities | 202,895 | 256,525 | 193,382 | 239,095 |
| Cash | | | | |
| Operating cash | 48 | 48 | 113 | 113 |
| Restricted cash | 28 | 28 | 2 | 2 |
| Accrued interest | 1,434 | 1,434 | 1,383 | 1,383 |
| Total funds invested | <u>\$ 774,902</u> | <u>\$ 830,980</u> | <u>\$ 783,851</u> | <u>\$ 832,860</u> |
| Consisting of: | | | | |
| Special funds invested | | \$ 317,191 | | \$ 329,652 |
| Decommissioning Trust | | 256,992 | | 239,555 |
| Operating assets | | 256,797 | | 263,653 |
| Total funds invested | | <u>\$ 830,980</u> | | <u>\$ 832,860</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, 2014 and 2013, 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, 2014 and 2013

D. Investments (continued)

| | December 31, 2014 | | | | |
|--|-------------------|--------------------------------|-------------------|-------------------|-----------------|
| | Fair Value | Investment Maturity (In Years) | | | |
| | | Under 1 | 1-5 | 6-10 | Over 10 |
| Repurchase agreements | \$ 67,450 | \$ 67,450 | \$ - | \$ - | \$ - |
| U.S. government agencies | 247,614 | 31,995 | 200,908 | 14,711 | |
| Treasury State and Local Government Securities | 27,068 | | 14,378 | 12,690 | |
| Treasury Coupons | 21,269 | | 21,269 | | |
| Treasury Strips | - | | | | |
| Money market | 109,468 | 109,468 | | | |
| Collateralized Certificates of Deposit | 94,300 | 94,300 | | | |
| Collateralized mortgage obligations | 5,776 | | 5,776 | | |
| | 572,945 | 303,213 | 242,331 | 27,401 | - |
| Decommissioning Trust securities | 256,525 | 16,612 | 104,145 | 129,169 | 6,599 |
| Total | <u>\$ 829,470</u> | <u>\$ 319,825</u> | <u>\$ 346,476</u> | <u>\$ 156,570</u> | <u>\$ 6,599</u> |

| | 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> |

As of December 31, 2014 and 2013 the Agency's impaired 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, 2014 and 2013

D. Investments (continued)

| | December 31, 2014 | | | | | |
|-------------------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| | 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 | 89,491 | 356 | 70,997 | 678 | 160,488 | 1,034 |
| Agency strips | - | - | - | - | - | - |
| Treasury strips | - | - | - | - | - | - |
| Money market | - | - | - | - | - | - |
| Collateralized mortgage obligations | - | - | - | - | - | - |
| Sub-total | 89,491 | 356 | 70,997 | 678 | 160,488 | 1,034 |
| Decommissioning Trust securities | 14,445 | 104 | 40,705 | 804 | 55,150 | 908 |
| Total | <u>\$ 103,936</u> | <u>\$ 460</u> | <u>\$ 111,702</u> | <u>\$ 1,482</u> | <u>\$ 215,638</u> | <u>\$ 1,942</u> |

| | 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> |

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, 2014 and 2013 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.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

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, 2014 and 2013, the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

| | December 31, 2014 | | December 31, 2013 | |
|---|-------------------|-------------------------|-------------------|-------------------------|
| | Fair Value | Percentage of Portfolio | Fair Value | Percentage of Portfolio |
| Federal Home Loan Mortgage Corporation | \$ 89,096 | 11% | \$ 101,274 | 12% |
| Federal National Mortgage Association | 103,827 | 13% | 109,180 | 13% |
| Federal Home Loan Bank | 93,805 | 11% | 90,536 | 11% |
| Federal Farm Credit Bank | 93,779 | 11% | 100,554 | 12% |
| Resolution Funding Corporation | 5,701 | 1% | 10,195 | 1% |
| Repurchase Agreements | | | | |
| Morgan Stanley/Dean Witter | 4,225 | 1% | 64,240 | 8% |
| Bank of America | 63,225 | 8% | | |
| Collateralized CD's | | | | |
| Bank of America | 94,300 | 11% | - | - |
| Money Market Fund - NC Capital Management Trust | 110,303 | 13% | 215,968 | 26% |
| U.S. Treasury Department | 171,209 | 20% | 139,415 | 17% |
| Total | <u>\$ 829,470</u> | <u>100%</u> | <u>\$ 831,362</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 \$76,000 and \$115,000 at December 31, 2014 and 2013, respectively, covered by federal depository insurance.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

E. Decommissioning Costs

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.

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 2014 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 \$148,119,000 for Brunswick Unit 1, \$129,565,000 for Brunswick Unit 2 and \$177,785,000 for Harris, all stated in 2014 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 2014 and 2013 are as follows (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

E. Decommissioning Costs (continued)

| | Years Ended December 31, | |
|-----------------------------------|--------------------------|-------------------|
| | 2014 | 2013 |
| Balance, beginning of year | \$ 243,890 | \$ 231,177 |
| Accretion expense | 13,412 | 12,713 |
| Revisions in estimated cash flows | 198,167 | - |
| Balance, end of year | <u>\$ 455,469</u> | <u>\$ 243,890</u> |

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, 2014 and 2013 is net of accumulated amortization of \$12,828,000 and \$12,439,000, 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.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

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

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

| | Years Ended December 31, | | Inception to December 31, | |
|--|-----------------------------|---------------------|------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Costs To Be Recovered | | | | |
| Deferred interest expense | \$ - | \$ - | \$ 649,984 | \$ 649,984 |
| Amortization of debt discount, premium and issuance costs | (9,664) | (17,505) | 30,745 | 40,409 |
| Net (increase) decrease in fair value of investments and derivative financial instruments | (7,378) | 25,931 | 78,869 | 86,247 |
| Depreciation and amortization | 25,116 | 21,435 | 1,330,689 | 1,305,573 |
| Amortization of asset retirement obligation | 13,412 | 12,713 | 122,918 | 109,506 |
| Amortization of debt refunding costs | 30,886 | 37,139 | 853,354 | 822,468 |
| Participant billing offsets | (177,424) | (206,932) | (2,425,984) | (2,248,560) |
| Asset Retirement Obligation Provision | 198,167 | | 203,631 | 5,464 |
| New project negotiation and Harris Plant litigation costs | | | 45,086 | 45,086 |
| Costs To Be Recovered | <u>\$ 73,115</u> | <u>\$ (127,219)</u> | <u>\$ 889,292</u> | <u>\$ 816,177</u> |

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

| | Years Ended December 31, | | Inception to December 31, | |
|---|-----------------------------|------------------|------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Collections To Be Expended | | | | |
| Net special funds withdrawals | \$ (13,646) | \$ 9,785 | \$ 44,246 | \$ 57,892 |
| Restricted investment income | 7,748 | 8,010 | 167,344 | 159,596 |
| Rate stabilization funds used for other than operations | - | - | (21,839) | (21,839) |
| Special funds valuations | 550 | (4,478) | (81,270) | (81,820) |
| Prepaid fuel | (2,000) | - | 90,000 | 92,000 |
| Other collections to be expended | 8,606 | 7,420 | 54,887 | 46,281 |
| Net Collections To Be Expended | <u>\$ 1,258</u> | <u>\$ 20,737</u> | <u>\$ 253,368</u> | <u>\$ 252,110</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 2014 and 2013 (in thousands of dollars):

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

| | 2014 | 2013 |
|---------------------------------------|---------------------|---------------------|
| Bonds Outstanding - Beginning of year | \$ 2,025,720 | \$ 2,159,770 |
| Principal payments January 2 | (156,265) | (134,050) |
| Bonds Outstanding - End of year | <u>\$ 1,869,455</u> | <u>\$ 2,025,720</u> |

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

| | December 31, 2014 | 2013 |
|--|----------------------|------------------|
| 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 2003 D | | |
| 4.375% to 5.375% maturing annually from 2011 to 2015 | <u>-</u> | <u>57,010</u> |
| Series 2003 E (Federally Taxable) | | |
| 5.5% maturing in 2014 | - | 13,410 |
| 6.58% maturing in 2026 | 4,195 | 4,195 |
| Total Series 2003 E | <u>4,195</u> | <u>17,605</u> |
| Series 2003 F | | |
| 4.375% to 5.5% maturing annually from 2011 to 2017 | <u>-</u> | <u>27,840</u> |
| Series 2003 G (Federally Taxable) | | |
| 5.55% maturing annually from 2013 to 2014 | <u>-</u> | <u>1,130</u> |
| Series 2005 A | | |
| 3.65% to 5.00% maturing annually from 2011 to 2016 | 23,255 | 23,415 |
| 4.25% to 5.00% maturing annually from 2020 to 2021 | 101,145 | 101,145 |
| Total Series 2005 A | <u>124,400</u> | <u>124,560</u> |
| Series 2008 A | | |
| 3.25% to 5.25% maturing annually from 2013 to 2020 | 255,865 | 275,070 |
| 5.00% to 5.25% maturing annually from 2022 to 2024 | 61,730 | 61,730 |
| Total Series 2008 A | <u>317,595</u> | <u>336,800</u> |

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

| | December 31, | |
|---|----------------|----------------|
| | 2014 | 2013 |
| Series 2008 B (Federally Taxable) | | |
| 6.217% maturing in 2017 with annual sinking fund requirements beginning in 2014 | \$ 33,740 | \$ 36,420 |
| 6.55% maturing in 2024 with annual sinking fund requirements beginning in 2020 | 8,105 | 8,105 |
| Total Series 2008 B | <u>41,845</u> | <u>44,525</u> |
| Series 2008 C | | |
| 6.00% maturing in 2019 with annual sinking fund requirements beginning in 2014 | 12,925 | 15,090 |
| 6.75% maturing in 2024 with annual sinking fund requirements beginning in 2020 | 17,555 | 17,555 |
| Total Series 2008 C | <u>30,480</u> | <u>32,645</u> |
| Series 2009 A | | |
| 3.00% to 4.625% maturing annually from 2011 to 2019 | 360 | 595 |
| 5.00% maturing annually from 2012 to 2019 | 19,315 | 22,485 |
| 5.5% maturing in 2026 with annual sinking fund requirements beginning in 2020 | 32,760 | 32,760 |
| Total Series 2009 A | <u>52,435</u> | <u>55,840</u> |
| Series 2009 B | | |
| 3.00% to 4.2% maturing annually from 2011 to 2022 | 34,335 | 41,910 |
| 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>364,160</u> | <u>371,735</u> |
| Series 2009 C (Federally Taxable) | | |
| 3.38% to 4.68% maturing annually from 2011 to 2015 | 3,790 | 9,640 |
| 6% maturing in 2023 with annual sinking fund requirements beginning in 2016 | 2,860 | 2,860 |
| Total Series 2009 C | <u>6,650</u> | <u>12,500</u> |
| Series 2009 D | | |
| 3.00% to 5.00% maturing annually from 2011 to 2022 | 7,955 | 8,795 |
| 5% maturing in 2026 with annual sinking fund requirements beginning in 2023 | 5,240 | 5,240 |
| Total Series 2009 D | <u>13,195</u> | <u>14,035</u> |

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

| | December 31, | |
|---|---------------------|---------------------|
| | 2014 | 2013 |
| 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 | - | - |
| 2.00% maturing annually from 2014 to 2015 | 5,335 | 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>79,100</u> | <u>84,330</u> |
| 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 | 75,075 | 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>126,865</u> | <u>136,630</u> |
| Total Bonds Outstanding | 1,869,455 | 2,025,720 |
| Current maturities of bonds | (147,805) | (156,265) |
| Long-Term Debt, Bonds Payable | <u>\$ 1,721,650</u> | <u>\$ 1,869,455</u> |

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Bonds (continued)

The fair market value of the Agency's long-term debt was estimated using the Dobbins Scale. The individual maturities were priced and summed to arrive at an estimated fair market value of \$2,134,656,000 and \$2,188,048,000 at December 31, 2014 and 2013, 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 \$3,466,935,000 of previously issued bonds at December 31, 2012. At December 31, 2014, \$3,052,815,000 of these bonds has been redeemed leaving \$414,120,000 still outstanding. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 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 \$147,805,000 at December 31, 2014 were collected through rates during 2014 and were deposited monthly into the Bond Fund to make the January 1, 2015 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2014 are as follows (in thousands of dollars):

| | Principal | Interest | Total |
|--------------|---------------------|-------------------|---------------------|
| 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 | 185,795 | 57,987 | 243,782 |
| 2020 to 2024 | 822,455 | 143,270 | 965,725 |
| 2025 to 2026 | 86,990 | 4,582 | 91,572 |
| Total | <u>\$ 1,721,650</u> | <u>\$ 521,401</u> | <u>\$ 2,243,051</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.

**North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013**

H. Bonds (continued)

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

| | |
|------------------------|-----------------|
| Series 1993 B | January 1, 2003 |
| 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 \$108,928, 000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the reserve were \$109,696,000 and \$109,931,000, 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 \$10,893,000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the contingency fund were \$11,097,000 and \$10,962,000, respectively.

As of December 31, the Agency had \$0 and \$0 in unspent bond funds in restricted cash and investments for 2014 and 2013, respectively.

In April 2014, the BOD approved entering into a revolving credit agreement in the amount of \$175,000,000 with JPMorganChase to fund all capital additions through the asset sale discussions for 2014 and 2015. As of December 31, 2014 the outstanding balance is \$19,366,000.

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 \$13.2 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The \$13.2 billion amount will increase by \$127 million as each new nuclear reactor is licensed and decrease by \$127 million for each insured nuclear reactor that in no longer operational and has been exempted from the program. The Agency is liable for its proportionate share of these premiums associated with the Harris and Brunswick units.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

I. Commitments and Contingencies (continued)

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$127 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 \$19 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.

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 1, 2015, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

North Carolina Eastern Municipal Power Agency (NCEMPA) announced on July 28, 2014, that it had reached an agreement to sell its jointly-owned power plants to Duke Energy Progress (DEP). State and Federal approvals are required to close the transaction which is expected to close on or after July 1, 2015.

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, 2014 | | |
|------------------------------------|---------------------------------|-------------------|------------|
| | Initial Project | Supple- mental | Total |
| Revenues: | | | |
| Sales to participants | \$ 496,973 | \$ 201,407 | \$ 698,380 |
| Sales to utilities | 142 | | 142 |
| Investment income | 3,806 | 813 | 4,619 |
| Excess Funds valuation | 19,635 | 21,553 | 41,188 |
| Other revenues | (19) | | (19) |
| Total Revenues | 520,537 | 223,773 | 744,310 |
| Expenses: | | | |
| Operation and maintenance | 94,200 | 142 | 94,342 |
| Fuel | 66,476 | 713 | 67,189 |
| Power coordination services: | | | |
| Purchased power | 17,945 | 139,077 | 157,022 |
| Transmission and distribution | | 22,781 | 22,781 |
| Other | | 8,413 | 8,413 |
| Total power coordination services: | 17,945 | 170,271 | 188,216 |
| Administrative and general – PEC | 28,057 | | 28,057 |
| Power Agency services | 5,026 | 7,263 | 12,289 |
| Taxes | | | |
| Amounts in lieu of taxes | 3,433 | | 3,433 |
| Gross receipts tax | 9,383 | 1,951 | 11,334 |
| Total taxes | 12,816 | 1,951 | 14,767 |
| Debt service: | | | |
| Debt administrative costs | 684 | | 684 |
| Debt service | 245,588 | | 245,588 |
| Total debt service | 246,272 | - | 246,272 |
| Special funds deposits: | | | |
| Revenue Fund | 5,155 | | 5,155 |
| Reserve and contingency fund | 42,500 | | 42,500 |
| Decommissioning fund | 2,090 | 2,752 | 4,842 |
| Total special funds deposits | 49,745 | 2,752 | 52,497 |
| Total Expenses | 520,537 | 183,092 | 703,629 |
| Revenues Over (Under) Expenses | \$ - | \$ 40,681 | \$ 40,681 |

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, 2014 and 2013, respectively.

See accompanying Report of Independent Auditor.

| Year Ended December 31, 2013 | | |
|---------------------------------|-------------------|-------------|
| Initial Project | Supple- mental | Total |
| \$ 528,703 | \$ 170,260 | \$ 698,963 |
| 6 | | 6 |
| 4,261 | 974 | 5,235 |
| 9,864 | | 9,864 |
| 130 | | 130 |
| 542,964 | 171,234 | 714,198 |
| 98,374 | 5 | 98,379 |
| 56,436 | | 56,436 |
| 26,945 | 139,587 | 166,532 |
| | 22,357 | 22,357 |
| | 13,829 | 13,829 |
| 26,945 | 175,773 | 202,718 |
| 29,213 | | 29,213 |
| 4,269 | 6,692 | 10,961 |
| 2,912 | | 2,912 |
| 17,024 | 5,405 | 22,429 |
| 19,936 | 5,405 | 25,341 |
| 166 | | 166 |
| 261,195 | | 261,195 |
| 261,361 | - | 261,361 |
| | | - |
| 44,930 | | 44,930 |
| 1,500 | 9,785 | 11,285 |
| 46,430 | 9,785 | 56,215 |
| 542,964 | 197,660 | 740,624 |
| \$ - | \$ (26,426) | \$ (26,426) |

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Year Ended December 31, 2014
(\$000's)

| | 2014 Budget | | Actuals | Positive |
|-----------------------------------|-------------|------------|------------|---------------|
| | Original | Final | (Budgetary | (Negative) |
| | | | Basis) | Variance With |
| | | | | Final Budget |
| Revenues: | | | | |
| Sales to participants | \$ 692,792 | \$ 701,148 | \$ 698,380 | \$ (2,768) |
| Sales to utilities | 54 | 54 | 142 | 88 |
| Investment income | 4,489 | 4,726 | 4,619 | (107) |
| Excess Funds valuation | 2,400 | 25,371 | 41,188 | 15,817 |
| Other revenues | - | - | (19) | (19) |
| Total Revenues | 699,735 | 731,299 | 744,310 | 13,011 |
| Expenses: | | | | |
| Operation and maintenance | 94,878 | 99,878 | 94,342 | 5,536 |
| Fuel | 61,588 | 61,588 | 67,189 | (5,601) |
| Power coordination expenses: | | | | |
| Purchased power | 154,881 | 154,881 | 157,022 | (2,141) |
| Transmission and distribution | 24,784 | 24,784 | 22,781 | 2,003 |
| Other | 2,124 | 2,124 | 8,413 | (6,289) |
| Total power coordination expenses | 181,789 | 181,789 | 188,216 | (6,427) |
| Administrative and general – PEC | 30,176 | 30,176 | 28,057 | 2,119 |
| Power Agency services | 11,208 | 11,207 | 12,289 | (1,082) |
| Taxes | 14,021 | 14,021 | 14,767 | (746) |
| Debt service | 260,973 | 260,973 | 246,272 | 14,701 |
| Special funds deposits | 54,637 | 54,637 | 52,497 | 2,140 |
| Total Expenses | 709,270 | 714,269 | 703,629 | 10,640 |
| Revenues Over (Under) Expenses | \$ (9,535) | \$ 17,030 | \$ 40,681 | \$ 23,651 |

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, 2014.

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 | \$ 32,105 | \$ - | \$ 5 | | \$ (32,110) |
| Interest account | 54,506 | - | 25 | (106,605) | 104,540 |
| Reserve account | 109,050 | | 3,443 | | (5,778) |
| Principal account | 134,070 | | 83 | (134,050) | 156,187 |
| Total Bond Fund | 297,626 | - | 3,551 | (240,655) | 254,949 |
| Reserve and Contingency Fund | 13,466 | | 181 | (72,222) | 69,354 |
| Revenue Fund | 47,022 | 524,733 | 192 | (1,653) | (556,456) |
| Operating Fund: | | | | | |
| Working Capital account | 31,590 | | 336 | (141,125) | 142,295 |
| Fuel account | 28,605 | | | (56,643) | 63,507 |
| Total Operating Fund | 60,195 | - | 336 | (197,768) | 205,802 |
| Supplemental Fund | 139,758 | 172,056 | 975 | (223,651) | 47,612 |
| Reserved for Decommissioning Costs | 34,060 | | 284 | | 10,849 |
| Total Supplemental | 173,818 | 172,056 | 1,259 | (223,651) | 58,461 |
| | \$ 624,232 | \$ 696,789 | \$ 5,524 | \$ (735,949) | \$ - |

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, 2014 and 2013, respectively.

See accompanying Report of Independent Auditor.

| Funds Invested December 31, 2013 | Power Billing Receipts | Invest- ment Income | Receipts (Disburse- ments) | Transfers | Funds Invested December 31, 2014 |
|---|------------------------------|---------------------------|----------------------------------|-------------|---|
| \$ - | \$ - | \$ - | \$ 10,365 | \$ (10,343) | \$ 22 |
| 52,466 | | 26 | (100,928) | 96,906 | 48,470 |
| 106,715 | | 2,474 | | (2,238) | 106,951 |
| 156,290 | | 107 | (156,265) | 147,774 | 147,906 |
| 315,471 | - | 2,607 | (257,193) | 242,442 | 303,327 |
| 10,779 | | 189 | (48,118) | 48,104 | 10,954 |
| 13,838 | 521,286 | 623 | (2,512) | (504,430) | 28,805 |
| 33,096 | | 396 | (126,853) | 123,965 | 30,604 |
| 35,469 | | | (78,113) | 68,001 | 25,357 |
| 68,565 | - | 396 | (204,966) | 191,966 | 55,961 |
| 136,750 | 180,283 | 812 | (222,867) | 51,177 | 146,155 |
| 45,193 | | 358 | | (18,916) | 26,635 |
| 181,943 | 180,283 | 1,170 | (222,867) | 32,261 | 172,790 |
| \$ 590,596 | \$ 701,569 | \$ 4,985 | \$ (725,291) | \$ - | \$ 571,859 |