REGENERATION

North Carolina Eastern Municipal Power Agency
2015 Financial Report

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2015

Independent Auditor's Report

RSM

RSM US LLP

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 statement of net position as of December 31, 2015, and the related statement of revenues and expenses and changes in net position, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Eastern Municipal Power Agency as of December 31, 2015, and the results of its operations and its cash flows for the year ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A on page 13 to the financial statements, effective July 31, 2015, the Agency closed on the sale of substantially all generation assets to Duke Energy Progress (DEP). The approximate $1.25 billion sale by the Agency to DEP included ownership interests in several DEP plants, including Brunswick Nuclear Plant Units 1 and 2, Mayo Plant, Roxboro Plant Unit 4 and the Harris Nuclear Plant. Subsequent to the sale, the Agency purchases power from DEP for re-sale to its members. The Agency's members' distribution assets were not part of the sale agreement and continue to be owned and maintained by the members. Our opinion is not modified with respect to this matter.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Carolina Eastern Municipal Power Agency's basic financial statements. The budgetary schedules and statements as listed in the table of contents as "Supplementary Information" are presented for purposes of additional analysis and are not a required part of the basic financial statements of North Carolina Eastern Municipal Power Agency.

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

RSM US LLP

Morehead City, North Carolina
April 15, 2016

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 year ended December 31, 2015. 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.

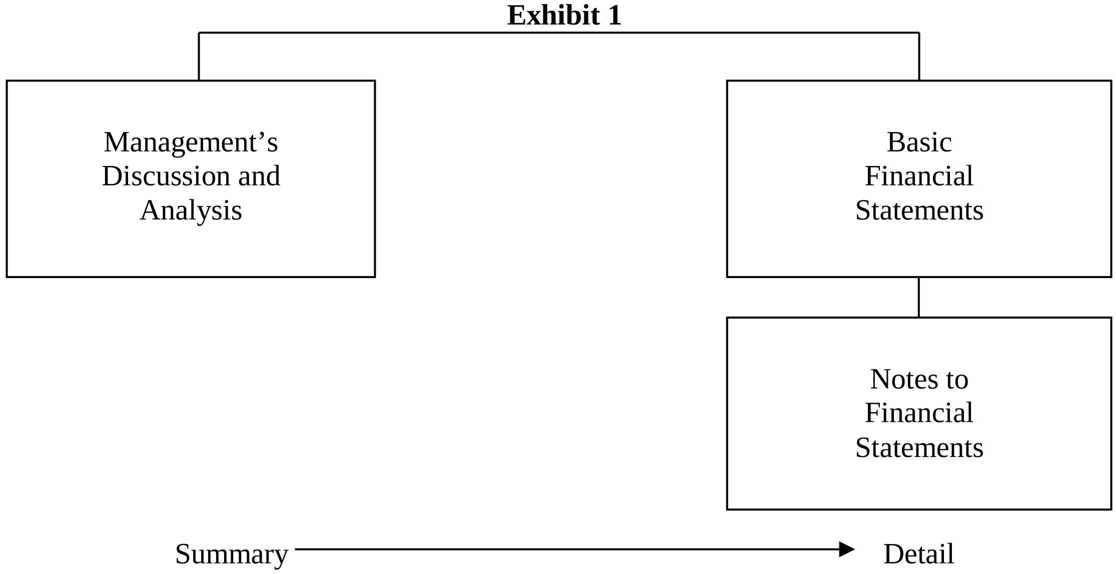
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2015, the Agency's assets and deferred outflows exceeded its liabilities and deferred inflows by $107,016,000 (net position).
- The Agency's net position decreased by $10,237,000 for 2015.
- Year-end 2015 unrestricted net position was $53,234,000, and decreased $154,182,000 during 2015.
- The Agency sold jointly owned electric generation facilities and other assets to Duke Energy Progress on July 31, 2015. A net gain on the sale was reported in the amount of $303,077,000.
- The Agency defeased its previously outstanding power system revenue bonds as part of the sale of assets and issued new bonds in the amount of $421,430,000.
  - A net loss on the defeasance of debt was recorded in the amount of $313,843,000
  - The Agency's total debt decreased $1,448,025,000 during 2015. Principal payments were made in the amount of $147,805,000 and prior revenue bonds in the amount of $1,721,650,000 were defeased.
- The bond ratings increased or remained the same as follows:
  - Standard and Poor's – Unchanged at A- (stable).
  - Fitch – increased to A (positive).
- There were no rate increases in 2015.

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 13 to 32 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 34 to 37 of this report.

Financial Analysis

The electric enterprise fund financial statements for the year ended December 31, 2015 are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Condensed Statement of Net Position Exhibit 2 ($000s)

	December 31, 2015	December 31, 2014
Assets and Deferred Outflows of Resources		
Capital assets	$ 14,891	$ 857,316
Current and other assets	195,762	947,495
Deferred outflows of resources	390,978	1,053,884
Total assets and deferred outflows of resources	601,631	2,858,695
Liabilities and Deferred Inflows of Resources		
Long-term liabilities outstanding	386,215	1,778,656
Other liabilities	84,261	709,418
Deferred inflows of resources	24,139	253,368
Total liabilities and deferred inflows of resources	494,615	2,741,442
Net Position		
Net Invested in capital assets	14,891	(116,436)
Restricted for debt service	5,952	26,273
Unrestricted	86,173	207,416
Total net position	$ 107,016	$ 117,253

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 $107,016,000 at December 31, 2015, representing a decrease of $10,237,000 for 2015.

A portion of the Agency's net position in the amount of $14,891,000 at December 31, 2015 is investment in capital assets (e.g. land, buildings, distributed generators, and equipment). An additional portion of the Agency's net position of $5,952,000 at December 31, 2015 represents resources that are restricted for the payment of debt service. The remaining balance of $86,173,000 at December 31, 2015 is unrestricted net position.

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

	Year Ended December 31,	
	2015	2014
Revenues:		
Operating revenues	$ 616,788	$ 698,503
Nonoperating revenues	9,514	12,366
Total Revenues	626,302	710,869
Expenses:		
Operating expenses	266,386	630,590
Interest on long-term debt	58,421	97,611
Other nonoperating (revenues)/expenses	311,732	(58,013)
Total Expenses	636,539	670,188
Decrease in net position	(10,237)	40,681
Net Position, Beginning of year	117,253	76,572
Net Position, End of year	$ 107,016	$ 117,253

Capital Assets and Debt Administration

Capital Assets

Investments in capital assets at December 31, 2015 is $14,891,000 (net of accumulated amortization and depreciation) which is a decrease of $842,425,000 for 2015. These assets include land, buildings, distributed generators, and equipment.

Major capital asset transactions during 2015 include the following:

- All jointly owned electric utility plant assets were sold to Duke Energy Progress on July 31, 2015 for $1,250,575,000.
- The purchase price includes reimbursement to the Agency for payments relating to capital additions projects incurred during 2015 prior to the sale in the amount of $50,575,000.
- The net book value of the assets sold to DEP as of July 31, 2015 of $917,904,440. (See note I on page 30)
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated by $15,768,000 in 2015.
- Nuclear Fuel Net Amortization was $14,166,000 for 2015.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2014	Additions	Transfers	Retirements	Asset Sale/Disposal	December 31, 2015
Depreciable Utility Plant						
Electric Utility Plant						
Electric Plant in Service/DG	$ 1,806,323	$ 27,797	$ 12,988	$ (3,529)	$ (1,829,206)	$ 14,373
Nuclear Fuel	184,098	9,494			(193,592)	-
Total Depreciable Utility Plant	1,990,421	37,291	12,988	(3,529)	(2,022,798)	14,373
Accumulated Depreciation and Amortization						
Electric Plant in Service/DG	(1,111,692)	(15,725)	1,626	3,529	1,121,380	(882)
Nuclear Fuel	(95,385)	(14,166)			109,551	-
Total Accumulated Depreciation and Amortization	(1,207,077)	(29,891)	1,626	3,529	1,230,931	(882)
Depreciable Utility Plant/DG, Net	783,344	7,400	14,614	-	(791,867)	13,491
Land and Other Non-Depreciable Assets						
Land	14,187		291		(14,187)	291
Construction Work In Progress	58,633	23,833	(14,905)		(67,561)	-
Total Electric Utility Plant, Net	$ 856,164	$ 31,233	$ -	$ -	$ (873,615)	$ 13,782

Non-Utility Plant and Equipment, Net

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Non-Utility Property and Equipment					
Property and Equipment	$ 2,251				$ 2,251
Accumulated Depreciation	(1,809)	(43)			(1,852)
Total Depreciable Property and Equipment, Net	442				399
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,152	$ (43)	$ -	$ -	$ 1,109

Additional information on capital assets can be found in Note C beginning on page 22 of this report.

Outstanding Debt

Total debt outstanding at December 31, 2015 is $421,430,000 all of which consists of bonds issued during 2015. Total debt decreased by $1,448,025,000 (77.5%) during 2015 due to principal payments of $147,805,000 and the defeasance of previously outstanding Power System Revenue Bonds in the amount of $1,721,650,000 which were associated with all of the electric generating and other assets that the Agency jointly owned with Duke Energy Progress which were sold to DEP on July 31, 2015.

The bond ratings increased or remained the same as follows:

- Standard and Poor's – Unchanged at A- (stable).
- Fitch – Increased to A (Positive).

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 28 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2016 budget:

- The 10 year average weather-normalized load (energy) growth rate has been approximately 0.5% per year. Load is expected to grow at the same rate over the next 10 years based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for coal are expected to continue to decline as current and anticipated environmental regulations cause electric utilities to shut down coal-fired generating facilities.
- Market prices for natural gas remain low and are expected to stay relatively flat or rising slightly 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 2016

- A decrease in demand and energy rates became effective July 1, 2015
- Assumes a 2.7% increase in the Full Requirements rates in April, 2016.
- The load forecast projects energy sales growing 0.6% and annual coincident peak demand growing 0.5% per year.
- Collection through rates of $35,215,000 for debt principal from August 1, 2015 through June 30, 2016 due July 1, 2016.

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
Statement of Net Position
($000s)

		December 31, 2015
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service/DG	$	14,664
Accumulated depreciation and amortization		(882)
Total Electric Utility Plant, Net		13,782
Non-Utility Property and Equipment, Net		
Property and equipment		2,961
Accumulated depreciation		(1,852)
Total Non-Utility Property and Equipment, Net		1,109
Total Capital Assets		14,891
Restricted Assets		
Special Funds Invested (Note D):		
Revenue fund		354
Bond fund		33,441
Contingency fund		5,096
Total Special Funds Invested		38,891
Total Restricted Assets		38,891
Total Non-Current Assets		53,782
Current Assets		
Funds Invested (Note D):		
Supplemental fund		110,609
Total Funds Invested		110,609
Members accounts receivable		39,472
Renewable Energy Certificate Inventory		3,888
Prepaid expenses		2,902
Total Current Assets		156,871
Total Assets	$	210,653

See accompanying notes to financial statements.

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

	December 31, 2015
DEFERRED OUTFLOWS OF RESOURCES	
Unamortized debt issuance costs	1,577
Costs To Be Recovered (Note G)	389,401
Total Deferred Outflows of Resources	$ 390,978
LIABILITIES	
Non-Current Liabilities	
Long-Term Debt (Note H)	
Bonds payable	$ 386,215
Total Non-Current Liabilities	386,215
Current Liabilities	
Operating Liabilities:	
Accounts payable	43,701
Accrued taxes	90
Total Operating Liabilities	43,791
Special Funds Liabilities:	
Current maturities of bonds (Note H)	35,215
Accrued interest on bonds	5,255
Total Special Funds Liabilities	40,470
Total Current Liabilities	84,261
Total Liabilities	$ 470,476
DEFERRED INFLOWS OF RESOURCES	
Collections to be expended (Note G)	$ 24,139
Total Deferred Inflows of Resources	$ 24,139
NET POSITION	
Net invested in capital assets	$ 14,891
Restricted for debt service	5,952
Unrestricted	86,173
Total Net Position	$ 107,016

See accompanying notes to financial statements.

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

	Year Ended December 31, 2015
Operating Revenues:	
Sales to participants/members	$ 616,535
Sales to utilities	22
Other revenues	231
Total Operating Revenues	616,788
Operating Expenses:	
Operation and maintenance	67,107
Fuel	34,267
Power coordination services/FRPP:	
Purchased power	290,762
Transmission and distribution	23,557
Other	2,019
Total power coordination services	316,338
Administrative and general	26,613
Amounts in lieu of taxes	1,947
Depreciation and amortization	17,430
Amortization of asset retirement obligation	(197,316)
Total Operating Expenses	266,386
Operating Income	350,402
Nonoperating (Revenues) Expenses	
Investment income	(9,514)
Net decrease in fair value of investments	20,857
Interest expense	58,421
Amortization of debt refunding cost	14,399
Amortization of debt discount, premium and issuance costs	(4,952)
Net Gain on Sale of Assets (Note I)	(303,077)
Net Loss on Bond Defeasance (Note H)	313,843
Net decrease in costs to be recovered (Note G)	499,891
Net increase in collections to be expended (Note G)	(229,229)
Total nonoperating expenses (revenues)	360,639
Decrease in Net Position	(10,237)
Net Position, Beginning of the year	117,253
Net Position, End of the year	$ 107,016

See accompanying notes to financial statements.

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

	Year Ended December 31, 2015
Cash Flows from Operating Activities:	
Receipts from sales of electricity	$ 633,257
Payments of operating expenses	(447,945)
Net cash provided by operating activities	185,312
Cash Flows from Capital and Related Financing Activities:	
Interest paid	(101,628)
Debt premium (discount), issuance costs	(225,580)
Sale of electric utility plant	919,786
Bonds Principal Payment	(147,805)
Bonds Refunded	(1,721,650)
Bonds Issued	421,430
Net cash used for capital and related financing activities	(855,447)
Cash Flows from Investing Activities:	
Sales and maturities of investment securities	1,941,167
Purchases of investment securities	(1,278,465)
Investment earnings receipts	7,387
Net cash provided by investing activities	670,089
Net Change in Operating Cash	(46)
Operating Cash, Beginning of year	76
Operating Cash, End of year	$ 30

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$ 350,402
Adjustments:	
Depreciation and amortization	16,152
Amortization of asset retirement obligation	(196,039)
Amortization of nuclear fuel	14,166
Changes in assets and liabilities:	
Decrease in participant accounts receivable	16,469
Increase in prepaid expenses	(344)
Increase in plant material and operating supplies	(1,989)
Decrease in deferred costs	384
Decrease in accounts payable	(10,379)
Decrease in accrued taxes	(3,510)
Total Adjustments	(165,090)
Net Cash Provided by Operating Activities	$ 185,312

See accompanying notes to financial statements.

A. General Matters

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

The Agency entered into to an Asset Purchase Agreement with Duke Energy Progress to sell its ownership interests in three nuclear fueled and two coal fired generating units "Initial Project Assets" and executed contemporaneously a Full Requirements Purchase Power Agreement with Duke Energy Progress. As a result of this transaction the financial reporting for the operations prior to the asset sale is distinct from the reporting for the operations subsequent to the sale. The distinctions are identified in these financial statements as the Initial Project and the Full Requirements Project. The Initial Project includes operating activities prior to the sale of assets on July 31, 2015 and the Full Requirements Project includes operating activities subsequent to the sale of assets on July 31, 2015.

Initial Project

The initial project was 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:

			Maximum Net Dependable Capability (MNDC) (MW) Initial Project January 1, 2015 - July 31, 2015	
	Commercial Operation	Agency Ownership	Unit	Agency
Nuclear-Fuel Units				
Brunswick Unit 2	1975	18.33%	932	170.8
Brunswick Unit 1	1977	18.33%	938	171.9
Harris Unit 1	1987	16.17%	928	150.1
Total Nuclear-Fueled Capability				492.8
Coal-Fired Units				
Roxboro Unit 4	1980	12.94%	698	90.3
Mayo Unit 1	1983	16.17%	727	117.6
Total Coal-Fired Capability				207.9
Total of All Units				700.7

In conjunction with the purchase of its ownership interest in the Initial Project, 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 provided, among other things, for the Agency to purchase its ownership share of the project from DEP.
- The Operation and Fuel Agreement provided 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.

A. General Matters (continued)

- The Power Coordination Agreement provided 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.

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

The initial project was 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 were 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 were to be deposited and from which initial project operating costs, debt service and other specified payments were to be made.

The sale by Power Agency of its interest in the Joint Facilities constitutes the disposition by Power Agency of all of its electric generating assets (except for a very small amount of distributed generation). At closing of the sale, Power Agency conveyed to DEP all of Power Agency's interest in the Joint Facilities, all real property associated with the Joint Facilities, Power Agency's interest in the trust funds set aside for the decommissioning of the portion of the Joint Facilities that are nuclear facilities and $26,000,000 of additional funds set aside by Power Agency as a reserve for the decommissioning of the Joint Facilities, Power Agency's interest in the nuclear fuel inventory for those nuclear plants, the spare parts inventory of the Joint Facilities and all permits acquired or held by or in the name of Power Agency in connection with the ownership, operation, maintenance or use of the Joint Facilities. Power Agency's cash or cash equivalents associated with the Joint Facilities (other than the nuclear decommissioning funds mentioned above) and bank deposits, and accounts and notes receivable were excluded from the sale. Also excluded from the sale and retained by Power Agency are all rights Power Agency has to any damages, costs or settlement amounts that may be collected by DEP pursuant to or as a result of certain legal proceedings against the United States related to damages associated with spent fuel storage costs.

Under the Asset Purchase Agreement, DEP assumed all liabilities, costs, fees and expenses (including operating expenses) of Power Agency arising after the closing out of, or related to, the operation, ownership or use of the Joint Facilities prior to the closing of the sale, regardless of when such liabilities are actually suffered or incurred (other than liabilities for any indebtedness incurred by Power Agency in connection with the Joint Facilities). DEP also assumed all liabilities of Power Agency directly related to the decommissioning of those Joint Facilities that are nuclear facilities.

A. General Matters (continued)

Power Agency and DEP also entered into an agreement that terminated all existing agreements between Power Agency and DEP relating to the ownership and operation of the Joint Facilities and the interconnection and purchase or sale of power.

Full Requirements Project

In order to provide the power and energy that Power Agency has agreed to provide to the Members under the Full Requirements Power Sales Agreements, Power Agency has entered into the Full Requirements Power Purchase Agreement with DEP.

Under the Full Requirements Power Purchase Agreement DEP agrees to provide firm capacity and energy in the amounts required by Power Agency to reliably serve the electrical loads of its Members. Member loads (i) not located in the geographic area DEP serves, and (ii) of a type and size that would not have been included by DEP in planning its system and that would require an enlargement of DEP's generating facilities or would impair DEP's ability to serve other wholesale and retail customers are excluded from DEP's commitment. In providing the services required by the Full Requirements Power Purchase Agreement, DEP is required to exercise reasonable care (consistent with industry practices) to provide an uninterrupted supply of electricity and may not adversely distinguish between the provision of service to Power Agency and the provision of service to other wholesale and retail DEP customers.

Under the Full Requirements Power Purchase Agreement, DEP will charge Power Agency a monthly capacity charge and monthly energy charge. The monthly capacity charge for each month is determined by applying the measured demand of Power Agency in the hour that is coincident with the hour of the DEP system peak demand (less SEPA capacity and certain alternative base load capacity sources) to a capacity rate that is determined pursuant to the Full Requirements Power Purchase Agreement. The monthly energy charge is based on the amount of energy actually used by Power Agency in a given month. Under the Full Requirements Power Purchase Agreement, DEP will also charge Power Agency a monthly charge for reserve capacity maintained by DEP for certain noticed distributed generation that have capacity ratings in excess of 2,500 kW. The rates to be charged to Power Agency are based on DEP's system wide average cost of producing power and energy.

The term of the Full Requirements Power Purchase Agreement continues through December 31, 2043. Power Agency has certain options to terminate the Full Requirements Power Purchase Agreement on an earlier date, the earliest such date being after the final maturity date of the 2015 Bonds.

In conjunction with the FRPPA the Agency entered into two agreements with each of the Agency's Members effective July 1, 2015:

- The Power Sales Agreement governs the purchase of each Member's full requirements bulk power supply from the Agency. This agreement effectively terminates the prior Initial Project Power Sales Agreement and the Supplemental Power Sales Agreement.
- The Debt Service Support Contract governs the Member's obligation to pay its share of debt service under Bond Resolution BDR-5-15.

Under the prior bond resolution, R-2-82, and as a condition to the Asset Purchase Agreement, the Agency was required to defease all prior outstanding Power System Revenue Bonds. Such defeasance obligated the Agency to incur costs associated therewith along with other obligations. Those costs and obligations were funded, in part, from proceeds of the Asset Sale and other funds available to the Agency for

A. General Matters (continued)

this purpose with the remaining balance of the costs financed by the issuance of Bonds governed under Bond Resolution BDR-5-15.

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, 2015, 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 year ended December 31, 2015 the Agency paid ElectriCities $14,844,000.

B. Significant Accounting Policies

Basis of Accounting

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

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

The Agency operated under the Initial Project Agreements from January 1, 2015 until July 31, 2015. During that time all direct and indirect expenses associated with the development and construction of the Agency's undivided ownership interests in the generating units were recorded at original cost (plus acquisition adjustment) and were being depreciated (or amortized) on a straight-line basis. Both Brunswick nuclear power units were being depreciated over the remaining life of the plants, which at July 31, 2015, was

B. Significant Accounting Policies (continued)

21 years, 1 month for Brunswick Unit 1 and 19 years and 5 months for Brunswick Unit 2. The Harris nuclear power plant was being depreciated over the remaining life of the plant, which at July 31, 2015, was 31 years and 5 months. The two coal-fired units, Mayo and Roxboro Unit 4 were being depreciated over the remaining useful lives at July 31, 2015, which was 20 years, 5 months, and 20 years, 5 months, respectively.

The asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs beginning on page 25) was also included with the Electric Plant in Service while operating under the Initial Project Agreement. It was being depreciated over the remaining life of the plants from which the asset retirement obligation arises.

The Agency had implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" which required 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 2015, no such impairment occurred prior to July 31, 2015 and accordingly, no adjustments for any impairment were considered.

The Agency's undivided ownership interest in the three nuclear-fueled and two coal-fired electric generating units was sold to Duke Energy Progress on July 31, 2015. As a result of the asset sale the Agency is no longer required to pay any direct or indirect expenses, including related interest expenses associated with the development, construction, or operation of the respective plant assets.

Construction Work in Progress

Prior to the sale of the assets to Duke Energy Progress on July 31, 2015, all expenditures associated with capital additions related to the Agency's undivided ownership interests in DEP's generating units were capitalized as construction work in progress until the respective capital additions were completed, at which time they were transferred to Electric Plant in Service. No interest was capitalized on those capital additions. Depreciation expense was recognized on these items after being transferred. The balance of capital additions reported as Construction Work in Progress as of July 31, 2015 was included in the sale of the assets to DEP. The net book value of Construction Work in Progress sold to DEP was $67,561,000.

Nuclear Fuel

Prior to the Asset Sale, nuclear fuel, net of amortization, included all expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores. These expenditures were capitalized until such time as the cores are placed in the reactor. No interest was capitalized on fuel cores. Once placed in the reactor, they were amortized to fuel expense utilizing the units of production method. Amounts were considered fully amortized upon disposal of the spent nuclear fuel and, accordingly, were written off of the books at that time. The Balance of Nuclear fuel, net of amortization as of July 31, 2015 was included in the sale of assets. The net book value of the unamortized nuclear fuel inventory sold to Duke Energy Progress was $84,041,000.

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

B. Significant Accounting Policies (continued)

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 the amounts 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.

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.

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/Members in the project and accordingly, management does not believe an allowance for doubtful accounts is required.

Decommissioning Costs

U.S. GAAP required 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 was 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 was also capitalized and amortized over the remaining life of the asset. Decommissioning obligations were assumed by DEP as part of the sale of assets. Accordingly, as of December 31, 2015, no obligation or liability remains in the financial statements of the Agency.

B. Significant Accounting Policies (continued)

Pollution Remediation Obligations

The Agency reported according to GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligatio.ns" 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. As a result of the sale of the Agency's undivided ownership interest in the electric generating units the Agency no longer has future potential obligations with respect to the retirement or decommissioning of nuclear or coal-fired power plants.

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. 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 $11,406 and restricted cash of $18,953 at December 31, 2015 included on the statement of net position in the line item "Current Assets: Funds Invested" and "Restricted Assets: Special Funds Invested," respectively. "Restricted Assets: Special Funds Invested" is also included on the statement 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, deferred outflows, liabilities and deferred inflows, 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.

Deferred Outflows/Inflows of resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. Deferred Outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred Inflows of Resources represents an acquisition of net positon that applies to a future period and so will not be recognized as revenue until then. See Note G beginning on page 26 for more detailed information.

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

B. Significant Accounting Policies (continued)

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

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. For 2015 the provisions of GASB 68 did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations.

In November 2013, GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68". This Statement addresses an issue regarding application of the transition provisions of Statement No. 68 "Accounting and Financial Reporting for Pensions". The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and did not have a material impact on the Agency's financial position, over cash flow or balances or results of operations for 2015.

Future Accounting Standards

Management has not concluded its evaluation of the impact, if any, on implementation of the following GASB Pronouncements may have on the agency financial statements.

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.

In June 2015, GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

B. Significant Accounting Policies (continued)

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This Statement is effective for fiscal years beginning after June 15, 2017.

In June 2015, GASB issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

In August 2015, GASB issued Statement No. 77, "Tax Abatement Disclosures." This Statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

In December 2015, GASB issued Statement No. 78, "Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

B. Significant Accounting Policies (continued)

In December 2015, GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants." This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14." The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

C. Capital Assets

Changes in components of electric utility plant, net during 2015 are as follows (in thousands of dollars):

	December 31, 2014	Additions	Transfers	Retirements	Asset Sale/Disposal	December 31, 2015
Depreciable Utility Plant						
Electric Utility Plant						
Electric Plant in Service/DG	$ 1,806,323	$ 27,797	$ 12,988	$ (3,529)	$ (1,829,206)	$ 14,373
Nuclear Fuel	184,098	9,494			(193,592)	-
Total Depreciable Utility Plant	1,990,421	37,291	12,988	(3,529)	(2,022,798)	14,373
Accumulated Depreciation and Amortization						
Electric Plant in Service/DG	(1,111,692)	(15,725)	1,626	3,529	1,121,380	(882)
Nuclear Fuel	(95,385)	(14,166)			109,551	-
Total Accumulated Depreciation and Amortization	(1,207,077)	(29,891)	1,626	3,529	1,230,931	(882)
Depreciable Utility Plant/DG, Net	783,344	7,400	14,614	-	(791,867)	13,491
Land and Other Non-Depreciable Assets						
Land	14,187		291		(14,187)	291
Construction Work In Progress	58,633	23,833	(14,905)		(67,561)	-
Total Electric Utility Plant, Net	$ 856,164	$ 31,233	$ -	$ -	$ (873,615)	$ 13,782

C. Capital Assets (continued)

Changes in components of non-utility property and equipment, net during 2015 are as follows (in thousands of dollars):

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Non-Utility Property and Equipment					
Property and Equipment	$ 2,251				$ 2,251
Accumulated Depreciation	(1,809)	(43)			(1,852)
Total Depreciable Property and Equipment, Net	442				399
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,152	$ (43)	$ -	$ -	$ 1,109

D. Investments

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

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

	December 31, 2015	
	Cost Basis	Fair Value
U.S. Government Agencies	68,592	68,324
Treasury Coupons	16,650	16,602
Treasury Discount Notes	3,204	3,203
Money market	61,110	61,110
Sub-total funds invested	149,556	149,239
Cash		
Unrestricted cash	11	11
Restricted cash	19	19
Accrued interest	231	231
Total funds invested	$ 149,817	$ 149,500
Consisting of:		
Unrestricted Assets		$ 110,609
Restricted Assets		38,891
Total funds invested		$ 149,500

D. Investments (continued)

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, 2015 the maturities of the Agency's investments are as follows (in thousands of dollars):

	December 31, 2015				
	Fair	Investment Maturity (In Years)			
	Value	Under 1	1-5	6-10	Over 10
U.S. government agencies	$ 68,324	$ 16,094	$ 52,230		
Treasury Coupons	16,602	7,499	6,990	2,113	
Treasury Discount Notes	3,203	3,203			
Money Market	61,110	61,110			
Total	$ 149,239	$ 87,906	$ 59,220	$ 2,113	$ -

As of December 31, 2015 the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	35,505	309	20,922	110	56,427	419
Total	$ 35,505	$ 309	$ 20,922	$ 110	$ 56,427	$ 419

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, 2015 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.

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, 2015 the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2015	
	Fair Value	Percentage of Portfolio Portfolio
Federal Home Loan Mortgage Corporation	$ 12,610	8%
Federal National Mortgage Association	31,082	21%
Federal Home Loan Bank	16,709	11%
Federal Farm Credit Bank	7,924	5%
NC Capital Management Trust	61,108	41%
First American Gov't Obligations Fund (US Bank Sweep)	2	1%
U.S. Treasury Department	19,804	13%
Total	$ 149,239	100%

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

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. The Agency had $30,000 at December 31, 2015 covered by federal depository insurance.

E. Decommissioning Costs

<u>Custodial Credit Risk</u>

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.

E. Decommissioning Costs (Continued)

Due to the sale by the Power Agency of its interest in the Joint Facilities, funds in the Decommissioning Trust, which were associated with the assets sold, were remitted to Duke Energy Progress as a part of the sale. Prior to July 31, 2015, the Agency had 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 2015 and subsequent to the sale of the associated assets were as follows (in thousands of dollars):

	Year Ended December 31, 2015
Balance, beginning of year	$ 455,470
Accretion expense	11,425
Sale of Assets	(466,895)
Balance, end of year	$ -

F. VEPCO Compensation Payment

The VEPCO compensation payment represented compensation to VEPCO for early termination of service for those Members/Participants previously served by VEPCO. This payment of $15,515,000 and the related capitalized interest of $33,000 were deferred and were being amortized on a straight-line basis over 40 years, the original expected life of the initial project. The sale of the assets to DEP effectively terminated the operations under the Initial Project Agreements. Accordingly, the remaining balance of the unamortized VEPCO compensation payment was fully recognized as part of the cost of the asset sale transaction. The balance as of July 31, 2015 was net of accumulated amortization of $13,055,041 which includes $226,744 of 2015 amortization expense through July 31st.

G. Costs To Be Recovered and Collections to be Expended

Rates for power billings to Members/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 Members/Participants are sufficient to recover all of the

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

Agency's current annual costs of the Members/Participants' bulk power needs. Each Member/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 Members/Participants have done so.

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

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

	Inception to December 31, 2014	Year Ended December 31, 2015	Inception to December 31, 2015
Costs To Be Recovered			
Deferred interest expense	$ 649,984	$ (649,984)	$ -
Amortization of debt discount, premium and issuance costs	30,745	(30,745)	-
Net (increase) decrease in fair value of investments and derivative financial instruments	78,869	(78,572)	297
Depreciation and amortization	1,330,689	(1,327,955)	2,734
Amortization of asset retirement obligation	122,918	(122,918)	-
Amortization of debt refunding costs	853,354	(853,354)	-
Participant billing offsets	(2,425,984)	2,409,977	(16,007)
Asset Retirement Obligation Provision	203,631	(203,631)	-
Defeased Bonds	-	402,377	402,377
New project negotiation and Harris Plant litigation costs	45,086	(45,086)	-
Costs To Be Recovered	$ 889,292	$ (499,891)	$ 389,401

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

	Inception to December 31, 2014	Year Ended December 31, 2015	Inception to December 31, 2015
Collections To Be Expended			
Net special funds withdrawals	$ 44,246	$ (24,213)	$ 20,033
Restricted investment income	167,344	(167,280)	64
Rate stabilization funds used for other than operations	(21,839)	21,839	-
Special funds valuations	(81,270)	81,424	154
Prepaid fuel	90,000	(90,000)	-
Other collections to be expended	54,887	(50,999)	3,888
Net Collections To Be Expended	$ 253,368	$ (229,229)	$ 24,139

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. Prior to the asset sale the total to be issued was 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. Any refunding of bonds may have resulted in the issuance of additional bonds.

Upon the sale of the assets the Agency was required by the Resolution and as a condition of the Asset Purchase Agreement to redeem, purchase, otherwise retire or defease all of its Outstanding Prior Bonds issued under the Prior Bond Resolution R-2-82. Additionally, a new Resolution (BDR-5-15) was adopted authorizing the Agency to issue new revenue bonds in order to finance the remaining cost of defeasance of prior outstanding bonds in excess of proceeds from the sale of assets.

The following shows bond activity during 2015 (in thousands of dollars):

Summary of Changes in Long Term Liabilities

	Balance 12/31/2014	Additions	Reductions	Balance 12/13/2015	Amount Due within one year
Bonds Payable	1,869,455	421,430	(1,869,455)	421,430	35,215

The issue comprising the outstanding debt is as follows (in thousands of dollars):

	December 31, 2015
Series 2015A	
1.085% maturing in 2016	35,215
1.561% maturing in 2017	38,675
2.003% maturing in 2018	39,280
2.578% maturing in 2019	40,065
2.928% maturing in 2020	41,100
3.308% maturing in 2021	42,300
3.558% maturing in 2022	43,705
3.808% maturing in 2023	45,260
3.958% maturing in 2024	46,985
4.058% maturing in 2025	48,845
	421,430
Total Bonds Outstanding	421,430
Current maturities of bonds	(35,215)
Long-Term Debt, Bonds Payable	$ 386,215

H. Bonds (continued)

The Agency realized a net loss on the defeasance of prior outstanding revenue bonds. The loss was calculated as follows:

Revenue Bond Defeasance
July 31, 2015
($000s)

Initial Project Revenue Bonds Defeased				
Outstanding Principal Balance of Initial Project Revenue Bonds	$	1,721,650,000		
Accrued Interest Payable on Revenue Bonds		7,493,838		
Net Premium (Discount) on Bonds less Accumulated Amortization		50,709,502		
Debt Issuance Costs (net of Accumulated Amortization)		(11,554,125)		
Refunding Loss on Revenue Bonds (Net of Accumulated Amortization		(132,544,165)		
Net Basis in Revenue Bonds Defeased			**$**	**1,635,755,050**
Escrow Funding for Defeasance of Revenue Bonds:				
Proceeds from Sale of Assets		1,220,982,323		
Equity Contribution from working capital funds		329,646,766		
Issuance of New Revenue Bonds		421,430,000		
Less Amounts for Reserve and Issuance Cost		(18,910,337)		
Total Funds to Escrow				1,953,148,752
Loss on Defeasance of Revenue Bonds				(317,393,702)
Escrow Requirement Adjustment after issuance				3,550,308
Net Loss on Defeasance of Revenue Bonds			**$**	**(313,843,394)**

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 $432,099,300 at December 31, 2015.

Certain proceeds of the Series 1991 A, 1993 B, 2003 E, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C, 2010 A, 2012 B, 2012 C, 2012 D bonds, were used to establish trusts for refunding $5,232,495,000 of previously issued bonds at December 31, 2012. At December 31, 2015, $3,062,490,000 of these bonds has been redeemed leaving $2,170,005,000 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, 2015 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 during the 12 months prior to the July 1st maturity and deposited into the Bond Fund as collected for payment when due. Under the Debt Service Agreement between the Agency and the Members, Principal Debt service costs in the amount of $16,007,000 were collected. These amounts were deposited monthly into the Bond Fund to provide for the July 1, 2016 principal payment due in the amount of $35,215,000. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2015 are as follows (in thousands of dollars):

H. Bonds (continued)

	Principal	Interest	Total
2016	$ 35,215	$ 11,519	$ 46,734
2017	38,675	12,146	50,821
2018	39,280	11,543	50,823
2019	40,065	10,756	50,821
2020	41,100	9,723	50,823
2021	42,300	8,520	50,820
2022	43,705	7,120	50,825
2023	45,260	5,565	50,825
2024	46,985	3,842	50,827
2025	48,845	1,982	50,827
Total	$ 421,430	$ 82,716	$ 504,146

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 Project Power Sales Agreement and the Debt Service Support Agreement. The purpose of the individual funds is specifically defined in the Resolution.

Interest on the bonds is payable semi-annually. The bonds are subject to redemption at any time prior to maturity at the option of the Agency, in whole or in part at the "Make-Whole Redemption Price" defined as the greater of (i) 100% of the principal amount of the 2015 Bonds to be redeemed and (ii) the sum of the Bonds to be redeemed to the maturity date thereof, not including any portion of those payments of interest accrued and unpaid as of the respective dates on which the 2015 Bonds are to be redeemed, discounted to the respective dates on which the 2015 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of 12 30-day months, at the Treasury rate (as defined in the bond issuance documents) plus thirty basis points, plus in each case, accrued and unpaid interest on the 2015 Bonds to be redeemed on the redemption date.

The Resolution (BDR-6-15) establishes that the agency maintain a reserve fund balance from the proceeds of the 2015 Series. As of December 31, 2015 the balance of the bond fund reserve was $12,292,000.

The Resolution also establishes a contingency account to be funded with the proceeds of the 2015 bond issuance. As of December 31, 2015 the balance of the contingency account was $5,096,000.

I. Sale of Assets

The Agency entered in to an agreement with Duke Energy Progress to sell its undivided ownership interest in Brunswick Unit 1, Brunswick Unit 2, and Harris nuclear generation plants and Mayo Unit 1, and Roxboro Unit 4 coal-fired generation plants along with related fuel inventory and plant stock on July 31, 2015 for $1,200,000,000. The net gain on the sale of those assets was calculated as follows:

I. Sale of Assets (Continued)

Sale of Plant Assets to Duke Energy Progress
July 31, 2015
($000s)

Sales Price	$	1,200,000,000		
Reimbursement of 2015 Capital Additions		50,575,102		
Total Gross Sales Price				1,250,575,102
Total Costs of Sale				29,592,779
Net Sales Proceeds			**$**	**1,220,982,323**
Less Basis:				
Total Cost of EPIS-Net of Depreciation	$	711,291,361		
EPIS Land		14,185,170		
Capital Additions Projects in Process		67,560,927		
Net Book Value of Fuel Inventory (Including Fossil Fuel Stock)		83,683,704		
Final Plant Stock & Fuel Inventory True-up		56,080,229		
Net ARO Adjustment		(15,323,919)		
Plant related deferred costs net of accumulated amortization		4,365,654		
Allowance for Property Tax Expense paid by DEP		(1,947,021)		
Final Settlement True-up Adjustments - Net		(1,991,665)		
Net Basis of Assets Sold or Disposed			**$**	**917,904,440**
Net Gain on Sale of Assets			**$**	**303,077,883**

J. 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 was liable for its proportionate share of these premiums associated with the Harris and Brunswick units while operating under the Initial Project Agreements from January 1, 2015 to July 31, 2015.

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 had been required, the Agency would have been liable for its proportionate share of those payments applicable to the Harris and Brunswick units.

The Price Anderson Act expires in 2025.

Due to the sale of the assets to DEP on July 31, 2015 the Agency is no longer subject to the requirements of The Price Anderson Act and, accordingly, is no longer obligated to assume a pro rata share

J. Commitments and Contingencies (Continued)

of any liability for retrospective premium assessments relating to Nuclear Electric Insurance policies applicable to the joint ownership agreements. Accordingly the Agency is no longer liable for any costs associated with the occurrence of property damage, decontamination, decommissioning, or extended accidental outages relating to the ownership and operation of the nuclear generating units sold to Duke Energy Progress on July 31, 2015.

Termination and Release Settlement

Prior to the sale of assets, the Agency was subject to the agreements under the initial power project outlined above. The Operating and Fuel agreement (OFA), and Power Coordination agreement (PCA) provided for certain costs to be deferred under a payment equalization provision whereby applicable costs would be accrued during the year and billed or reimbursed plus interest to the Agency during the first quarter of the year following the deferral year. As a result of the sale of the assets the OFA and PCA agreements were effectively terminated as of July 31, 2015. Certain items remained outstanding relating to those agreements including the balance of deferred costs and other items that were identified as billing errors or final true-up amounts (including interest) per the provisions of the agreements.

The Agency is currently in discussions with DEP to finalize a Termination and Release agreement which would settle all of the outstanding items mentioned herein. As of December 31, 2015 the amount due DEP under the proposed Termination and Release Agreement included the following amounts (Interest has been accrued through April 1, 2016):

Operating and Maintenance (OFA) Deferral	10,885,395
Nuclear Fuel (OFA) Deferral	(4,889,104)
Pension (OFA) Deferral	1,268,787
Supplemental Power (PCA) Deferral	4,132,335
Other Charges (credits) for Settlement	(2,995,893)
Total Deferred Liability	8,401,520

Upon reaching final agreement the Agency will remit the amounts due thereunder within three business days following the date on which the agreement is signed by both parties. As of April 15, 2016 a final draft of the agreement is pending approval.

K. Subsequent Events

The Agency has evaluated subsequent events through April 15, 2016, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

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

	Year Ended December 31, 2015		
	January 1 - July 31 Initial Project	August 1 - December 31 Full Requirements Project	Total
Revenues:			
Sales to members/participants	$ 402,700	$ 213,835	$ 616,535
Sales to utilities	22		22
Investment income	4,707	294	5,001
Excess Funds valuation	25,471	(155)	25,316
Other revenues	(10,765)	17	(10,748)
Total Revenues	422,135	213,991	636,126
Expenses:			
Operation and maintenance	17,640	(1,664)	15,976
Fuel	(56,134)	401	(55,733)
Power coordination services/FRPP:			
Purchased power	112,940	177,822	290,762
Transmission and distribution	17,482	8,398	25,880
Other	7	204	211
Total power coordination services/FRPP:	130,429	186,424	316,853
Administrative and general	13,333		13,333
Power Agency services	7,280	5,989	13,269
Taxes			
Amounts in lieu of taxes	1,855	92	1,947
Gross receipts tax	(214)		(214)
Total taxes	1,641	92	1,733
Debt service:			
Debt administrative costs	102	63	165
Debt service	137,216	21,262	158,478
Total debt service	137,318	21,325	158,643
Special funds deposits:			
Reserve and contingency fund	11,923		11,923
Decommissioning fund	1,277		1,277
Revenue Deposit	111,692		111,692
Equity Contribution for Bond Defeasance	57,397		57,397
Total special funds deposits	182,289	-	182,289
Total Expenses	433,796	212,567	646,363
Revenues Over (Under) Expenses	$ (11,661)	$ 1,424	$ (10,237)

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, 2015.

See Accompanying Report of Independent Auditor.

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Year Ended December 31, 2015
($000's)

	2015 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
Sales to participants	$ 685,359	$ 629,012	$ 616,535	$ (12,477)
Sales to utilities	429	22	22	-
Investment income	4,370	4,739	5,001	262
Excess Funds valuation		25,471	25,316	(155)
Other revenues		(16,373)	(10,748)	5,625
Total Revenues	690,158	642,871	636,126	(6,745)
Expenses:				
Operation and maintenance	101,444	17,834	15,976	1,858
Fuel	48,006	(55,718)	(55,733)	15
Power coordination expenses:				
Purchased power	163,054	297,351	290,762	6,589
Transmission and distribution	27,751	25,451	23,857	1,594
Other	2,203	3,720	2,234	1,486
Total power coordination expenses	193,008	326,522	316,853	9,669
Administrative and general – PEC	30,489	15,201	13,333	1,868
Power Agency services	13,630	13,430	13,269	161
Taxes	3,114	1,733	1,733	-
Debt service	235,763	158,561	158,643	(82)
Special funds deposits	47,860	178,898	182,289	(3,391)
Total Expenses	673,314	656,461	646,363	10,098
Revenues Over (Under) Expenses	$ 16,844	$ (13,590)	$ (10,237)	$ 3,353

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, 2015.

See Accompanying Report of Independent Auditor.

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

	Funds Invested January 1, 2015	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers	Funds Invested December 31, 2015
Bond Fund:						
Construction Fund	$ 22			$ 26,258	$ (26,280)	$ -
Interest account	48,470		14	(100,920)	57,694	5,258
Reserve account	106,951		3,652	(97,022)	(1,289)	12,292
Principal account	147,906		53	(232,060)	100,116	16,015
Total Bond Fund	303,327	-	3,719	(430,002)	156,521	33,565
Contingency/Reserve & Contingency Fund	10,954		236	(44,222)	38,178	5,146
Revenue Fund	28,805	324,881	17	(93,484)	(259,865)	354
Operating Fund:						
Working Capital account	30,604		103	(79,592)	48,885	-
Fuel account	25,357			(30,056)	4,699	-
Total Operating Fund	55,961	-	103	(109,648)	53,584	-
Supplemental Fund	146,155	308,376	1,004	(409,479)	64,676	110,732
Reserved for Decommissioning Costs	26,635		179		(26,814)	-
Total Supplemental	172,790	308,376	1,183	(409,479)	37,862	110,732
	$ 571,859	$ 633,257	$ 5,258	$ (1,060,577)	$ -	$ 149,797

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, 2015.

See Accompanying Report of Independent Auditor.