NCEMPA

North Carolina Eastern Municipal Power Agency

2017 Financial Report

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2017 and 2016

Page(s)

RSM US LLP

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, 2017 and 2016, 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 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, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017 and 2016, 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 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 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 13, 2018

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, 2017 and 2016. 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.

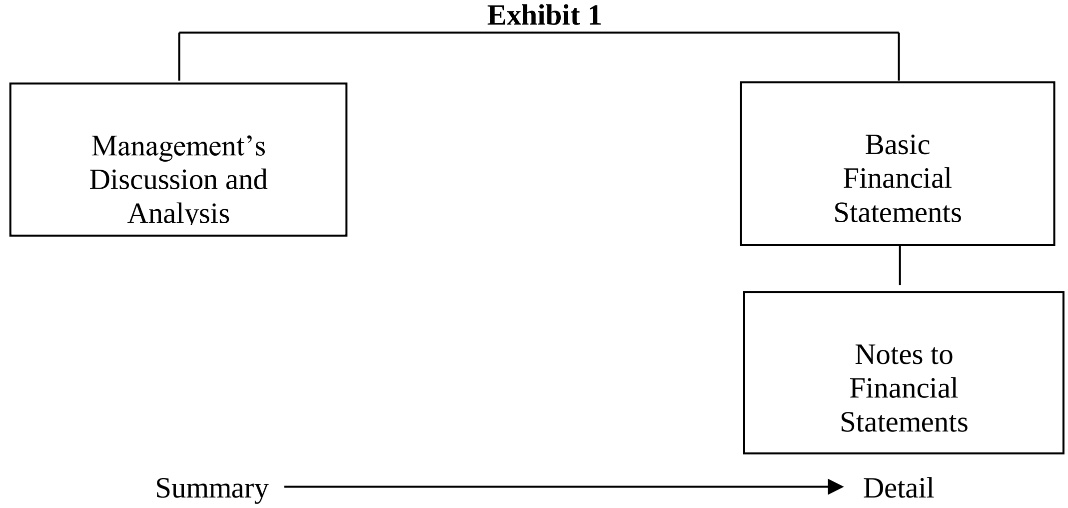
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2017 and 2016, the Agency's assets and deferred outflows exceeded its liabilities and deferred inflows by $145,524,000 and $159,141,000 (net position).
- The Agency's net position decreased by $13,617,000 for 2017 and increased by $52,125,000 2016.
- Principal payments were made in the amount of $38,675,000 and $35,215,000 during 2017 and 2016 respectively, in accordance with the debt payment schedule.
- The bond ratings remained the same as follows:
  - Standard and Poor's – A- (stable).
  - Fitch –A (stable).
- The Agency decreased rates to Members by 4.5% effective July 1, 2017, in accordance with the Agency's Rate Plan. There were no rate changes in 2016.

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 15 to 29 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 31 to 36 of this report.

Financial Analysis

The electric enterprise fund financial statements for the year ended December 31, 2017 and 2016 are presented in accordance with Governmental Accounting Standards Board.

Comparative data for the year ended December 31, 2015 is not included on the Condensed Statement of Net Position or the Condensed Statement of Revenues, Expenses, and Changes in Net Position due to the fact that the Agency sold its ownership interests in three nuclear fueled and two coal fired generating units on July 31, 2015. As a result of the sale of the assets the Operating and Fuel agreement (OFA) and Power Coordination agreement (PCA) were effectively terminated as of July 31, 2015. 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 Duke Energy Progress (DEP) effective July 1, 2015.

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

	December 31,	
	2017	2016
Assets and Deferred Outflows of Resources		
Capital assets	$ 13,777	$ 14,282
Current and other assets	280,528	248,815
Deferred outflows of resources	311,647	350,127
Total assets and deferred outflows of resources	605,952	613,224
Liabilities and Deferred Inflows of Resources		
Long-term liabilities outstanding	308,260	347,540
Other liabilities	127,193	83,006
Deferred inflows of resources	24,975	23,537
Total liabilities and deferred inflows of resources	460,428	454,083
Net Position		
Net Investment in capital assets	13,777	14,282
Restricted for debt service	1,402	901
Unrestricted	130,345	143,958
Total net position	$ 145,524	$ 159,141

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 $145,524,000 and $159,141,000 at December 31, 2017 and 2016, respectively, representing a decrease of $13,617,000 and an increase of $52,125,000 for 2017 and 2016, respectively.

A portion of the Agency's net position in the amount of $13,777,000 and $14,282,000 at December 31, 2017 and 2016, respectively, is the net investment in capital assets (e.g. land, buildings, distributed generators, and equipment).

An additional portion of the Agency's net position of $1,402,000 and $901,000 at December 31, 2017 and 2016, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of $130,345,000 and $143,958,000 at December 31, 2017 and 2016, respectively, is unrestricted net position.

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

	Year Ended December 31, 2017	2016
Revenues:		
Operating revenues	$ 531,180	$ 552,099
Nonoperating revenues	2,297	1,245
Total Revenues	533,477	553,344
Expenses:		
Operating expenses	494,744	448,073
Interest on long-term debt	11,934	12,469
Other nonoperating (revenues)/expenses	40,416	40,677
Total Expenses	547,094	501,219
(Decrease)/Increase in net position	(13,617)	52,125
Net Position, Beginning of year	159,141	107,016
Net Position, End of year	$ 145,524	$ 159,141

Financial Highlights

The Agency decreased rates to Members by 4.5% effective April 1, 2017, in accordance with the Agency's Rate Plan. There were no rate increases in 2016.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2017 and 2016 totaled $13,777,000 and $14,282,000 (net of accumulated amortization and depreciation), respectively. These assets include land, buildings, distributed generators, and equipment.

Major capital asset transactions during 2017 include the following:

- Electric Utility Plant and Non-Utility Property and Equipment were depreciated $609,000 and $609,000 for 2017 and 2016, respectively.
- CWIP increased $104,000 and $0 in 2017 and 2016, respectively, due to capital additions projects to the distributed generators.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(1,448)	(566)			(2,014)
Total Accumulated Depreciation and Amortization	(1,448)	(566)	-	-	(2,014)
Depreciable Utility Plant/DG, Net	12,925	(566)	-	-	12,359
Land and Other Non-Depreciable Assets					
Land	291				291
Construction Work In Progress	-	104			104
Total Electric Utility Plant, Net	$ 13,216	$ (462)	$ -	$ -	$ 12,754

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(882)	(566)			(1,448)
Total Accumulated Depreciation and Amortization	(882)	(566)	-	-	(1,448)
Depreciable Utility Plant/DG, Net	13,491	(566)	-	-	12,925
Land and Other Non-Depreciable Assets					
Land	291				291
Construction Work In Progress	-				-
Total Electric Utility Plant, Net	$ 13,782	$ (566)	$ -	$ -	$ 13,216

Non-Utility Plant and Equipment, Net

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544			$ -	$ 1,544
Accumulated Depreciation	(1,188)	(43)		-	(1,231)
Total Depreciable Property and Equipment, Net	356				313
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,066	$ (43)	$ -	$ -	$ 1,023

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Non-Utility Property and Equipment					
Property and Equipment	$ 2,251	$ -		$ (707)	$ 1,544
Accumulated Depreciation	(1,852)	(43)		707	(1,188)
Total Depreciable Property and Equipment, Net	399				356
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,109	$ (43)	$ -	$ -	$ 1,066

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

Outstanding Debt

Total debt outstanding at December 31, 2017 and 2016 was $347,540,000 and $386,215,000, respectively, all of which consists of bonds issued during 2015. Total debt decreased by $38,675,000 and $35,215,000 during 2017 and 2016, respectively, due to principal payments made in accordance with the debt service schedule.

The bond ratings remained the same as follows:

- Standard and Poor's – A- (stable).
- Fitch – A (stable).

Additional information regarding the Agency's long-term debt can be found in Note G beginning on page 26 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2017 budget:

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.4%/year. Load is expected to grow at a rate of 0.5% annually for the next 10 years for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for steam coal are expected to correct downward due to weaker demand and low gas prices until late this decade.
- Market prices for natural gas are expected to stay relatively flat or rising slightly in the near and mid-term due to lower load forecasts and inventory surplus. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2018

- Budget included a 2.5% overall rate increase. This increase was mitigated by the Federal Tax Reform.
- The Rate Plan review is scheduled for the January 2018 Rate Committee meeting.
- The load forecast projects compound load growth 0.3% for energy and 0.3% for coincident peak demand.
- Collection through rates of $39,280,000 for debt principal from July 1, 2017 through June 30, 2018 due July 1, 2018.

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, 2017	December 31, 2016
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service/DG	$ 14,664	$ 14,664
Construction work in process	104	-
Accumulated depreciation and amortization	(2,014)	(1,448)
Total Electric Utility Plant, Net	12,754	13,216
Non-Utility Property and Equipment, Net		
Property and equipment	2,254	2,254
Accumulated depreciation	(1,231)	(1,188)
Total Non-Utility Property and Equipment, Net	1,023	1,066
Total Capital Assets	13,777	14,282
Restricted Assets		
Special Funds Invested (Note D):		
Revenue fund	1,308	834
Bond fund	37,630	37,605
Contingency fund	5,102	5,102
Total Special Funds Invested	44,040	43,541
Total Restricted Assets	44,040	43,541
Total Non-Current Assets	57,817	57,823
Current Assets		
Funds Invested (Note D):		
Supplemental fund	180,424	150,821
Total Funds Invested	180,424	150,821
Members accounts receivable	45,311	45,976
Renewable Energy Certificate Inventory (Note E)	7,928	6,311
Prepaid expenses	2,825	2,166
Total Current Assets	236,488	205,274
Total Assets	$ 294,305	$ 263,097

See accompanying Notes to Financial Statements.

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

	December 31, 2017	December 31, 2016
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized debt issuance costs	$ 1,144	$ 1,391
Costs To Be Recovered (Note F)	310,503	348,736
Total Deferred Outflows of Resources	311,647	350,127
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note G)		
Bonds payable	308,260	347,540
Total Non-Current Liabilities	308,260	347,540
Current Liabilities		
Operating Liabilities:		
Accounts payable	82,142	38,258
Total Operating Liabilities	82,142	38,258
Special Funds Liabilities:		
Current maturities of bonds (Note G)	39,280	38,675
Accrued interest on bonds	5,771	6,073
Total Special Funds Liabilities	45,051	44,748
Total Current Liabilities	127,193	83,006
Total Liabilities	435,453	430,546
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note F)	24,975	23,537
Total Deferred Inflows of Resources	24,975	23,537
NET POSITION		
Net investment in capital assets	13,777	14,282
Restricted for debt service	1,402	901
Unrestricted	130,345	143,958
Total Net Position	$ 145,524	$ 159,141

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, 2017	Year Ended December 31, 2016
Operating Revenues:		
Sales to participants/members	$ 531,175	$ 551,404
Other revenues	5	695
Total Operating Revenues	531,180	552,099
Operating Expenses:		
Operation and maintenance	172	285
Fuel	566	390
Power coordination services/FRPP:		
Purchased power	415,754	412,821
Transmission and distribution	23,352	21,686
Other	42,996	682
Total power coordination services	482,102	435,189
Administrative and general	11,112	11,412
Amounts in lieu of taxes	183	188
Depreciation and amortization	609	609
Total Operating Expenses	494,744	448,073
Operating Income	36,436	104,026
Nonoperating (Revenues) Expenses		
Investment income	(2,297)	(1,245)
Net decrease in fair value of investments	498	351
Interest expense	11,934	12,469
Amortization of debt issuance costs	247	263
Net decrease in costs to be recovered (Note F)	38,233	37,931
Net increase in collections to be expended (Note F)	1,438	2,132
Total nonoperating expenses (revenues)	50,053	51,901
(Decrease)/Increase in Net Position	(13,617)	52,125
Net Position, Beginning of the year	159,141	107,016
Net Position, End of the year	$ 145,524	$ 159,141

See accompanying Notes to Financial Statements.

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

	Year Ended December 31, 2017	2016
Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 531,845	$ 545,595
Payments of operating expenses	(452,527)	(454,684)
Net cash provided by operating activities	79,318	90,911
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(12,236)	(11,651)
Debt issuance costs	-	(77)
Additions to electric utility plant and non-utility property and equipment	(104)	-
Bonds Principal Payment	(38,675)	(35,215)
Net cash used for capital and related financing activities	(51,015)	(46,943)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,349,037	934,681
Purchases of investment securities	(1,378,789)	(979,655)
Investment earnings receipts	1,477	1,039
Net cash provided by (used in) investing activities	(28,275)	(43,935)
Net Change in Operating Cash	28	33
Operating Cash, Beginning of year	63	30
Operating Cash, End of year	$ 91	$ 63
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 36,436	$ 104,026
Adjustments:		
Depreciation and amortization	609	609
Changes in assets and liabilities:		
(Increase)/Decrease in participant accounts receivable	665	(6,504)
(Increase)/Decrease in prepaid expenses	(659)	736
Increase in renewable energy certificate inventory	(1,617)	(2,423)
Increase/(Decrease) in accounts payable	43,884	(5,443)
Decrease in accrued taxes	-	(90)
Total Adjustments	42,882	(13,115)
Net Cash Provided by Operating Activities	$ 79,318	$ 90,911

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.

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 Duke Energy Progress (DEP) effective July 1, 2015.

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 charges 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 also charges 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 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 2016 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.

A. General Matters (continued)

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 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, 2018, 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. The Agency paid ElectriCities $11,790,000 and $10,692,000 for the years ended December 31, 2017 and 2016, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

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.

B. Significant Accounting Policies (continued)

Electric Plant in Service

The Agency installed 20MW of diesel generation as term of the Merger Agreement with Progress Energy. This diesel generation was installed at a substation in Greenville, NC at one of the Agency member substations. The purpose of this generation is to be operated during the monthly coincident billing peak, thus reducing costs paid to DEP (capacity, energy, and transmission). Each month the members are provided a DG Credit under Rider No. 6 of the FR-1 Wholesale rate in equivalent amount that is saved from DEP. The diesel generation is being depreciated over 25 years on a straight-line basis.

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. 72 "Fair Value Management and Application" which requires investments to be reported at fair value, GASB Statement No. 79 "Certain External Investment Pools and Pool Participants", which allows certain whole investment pools to be reported at amortized cost, and GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which allows certain investments to be reported at amortized cost. 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.

Renewable Energy Certificate Inventory

The Renewable Energy and Energy Efficiency Portfolio Standard (REPS) in North Carolina requires electric utilities to procure a certain portion of the energy sold to retail customers from renewable energy generators or energy efficiency programs. The Agency complies with REPS through the procurement of Renewable Energy Certificates (RECs) from renewable generators, without the purchase of the physical energy from that generator. The Agency forecasts the number of RECs needed in future years and procure RECs accordingly. RECs are recorded at cost and are being retired on an annual basis in accordance with the quantities determined by the North Carolina Utilities Commission. Once a REC is retired, it can never be used or resold again.

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

B. Significant Accounting Policies (continued)

would otherwise be assessed on the real and personal property of the Agency.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of $63,311 and $42,978 at December 31, 2017 and 2016, respectively, and is included on the statement of net position in the line item "Current Assets: Funds Invested". Restricted cash of $28,131 and $19,523 at December 31, 2017 and 2016, respectively, is included on the statement of net position in the line item "Restricted Assets: Special Funds Invested". "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 position that applies to a future period and so will not be recognized as revenue until then. See Note F beginning on page 25 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 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 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 periods beginning after June 15, 2015. The agency has implemented the provisions of this statement as shown in Note D. The provisions of this statement did not have a material impact on the Agency's financial position, overall cash flow or balances or results of operations for 2016 or 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

B. Significant Accounting Policies (continued)

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 nonauthoritative literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and did not have a material impact on the Agency's financial position, overall cash flow, balances, or results of operations for 2016 or 2017.

In December 2015, GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants." This Statement enhances 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, and did not have a material impact on the Agency's financial position, overall cash flow, balances, or results of operations for 2016 or 2017.

Future Accounting Standards

The Agency has not yet evaluated the effect of implementation of the following GASB pronouncements.

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.

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on this guidance. This Statement is effective for fiscal years beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

B. Significant Accounting Policies (continued)

In March 2017, GASB issued Statement No. 85, Omnibus 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for fiscal years beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87, “Leases”. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. This Statement is effective for fiscal years beginning after December 15, 2019.

In March 2018, GASB issued Statement No.88, “Certain Disclosures Related to Debt, Including Borrowings and Direct Placements”. This statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. The requirements for this statement are effective for reporting periods after June 15, 2018.

C. Capital Assets

Changes in components of electric utility plant, net during 2017 and 2016 are as follows (in thousands of dollars):

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(1,448)	(566)			(2,014)
Total Accumulated Depreciation and Amortization	(1,448)	(566)	-	-	(2,014)
Depreciable Utility Plant/DG, Net	12,925	(566)	-	-	12,359
Land and Other Non-Depreciable Assets					
Land	291				291
Construction Work In Progress	-	104			104
Total Electric Utility Plant, Net	$ 13,216	$ (462)	$ -	$ -	$ 12,754

C. Capital Assets (Continued)

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(882)	(566)			(1,448)
Total Accumulated Depreciation and Amortization	(882)	(566)	-	-	(1,448)
Depreciable Utility Plant/DG, Net	13,491	(566)	-	-	12,925
Land and Other Non-Depreciable Assets					
Land	291	-	-	-	291
Total Electric Utility Plant, Net	$ 13,782	$ (566)	$ -	$ -	$ 13,216

Changes in components of non-utility property and equipment, net during 2017 and 2016 are as follows (in thousands of dollars):

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544			$ -	$ 1,544
Accumulated Depreciation	(1,188)	(43)		-	(1,231)
Total Depreciable Property and Equipment, Net	356				313
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,066	$ (43)	$ -	$ -	$ 1,023

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Non-Utility Property and Equipment					
Property and Equipment	$ 2,251	$ -		$ (707)	$ 1,544
Accumulated Depreciation	(1,852)	(43)		707	(1,188)
Total Depreciable Property and Equipment, Net	399				356
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,109	$ (43)	$ -	$ -	$ 1,066

D. Investments

The Agency's investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. The agency categorizes investments based on the fair value hierarchy established by GASB Statement No. 72. Level 1 securities are valued using directly observable, quoted prices (unadjusted) in active markets. Level 2 securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

The Agency invests in the North Carolina Cash Management Trust (NCCMT). The NCCMT government portfolio is a SEC-registered 2a-7 external investment pool measured at amortized cost, which is NCCMT's share price of $1. The valuation of NCCMT's Term portfolio is measured at fair value. For both portfolios, the valuation of the underlying assets is performed by the custodian.

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

		December 31, 2017		December 31, 2016	
	Method of Valuation	Cost Basis	Reported Value	Cost Basis	Reported Value
U.S. Government Agencies	Fair Value Level 1	107,052	106,174	99,182	98,598
Treasury Coupons	Fair Value Level 1	41,722	41,546	27,639	27,529
Treasury Discount Notes	Fair Value Level 1	-	-	3,222	3,223
Commercial Paper	Fair Value Level 2	58,949	59,035		
Collateralized Certificates of Deposit			-		-
NC Capital Management Trust -Government	Amortized Cost	2,086	2,086	48,877	48,877
NC Capital Management Trust -Term Portfolio	Fair Value Level 1	15,058	15,058	15,708	15,708
Sub-total funds invested		224,867	223,899	194,628	193,935
Cash					
Unrestricted cash		63	63	43	43
Restricted cash		28	28	20	20
Accrued interest		474	474	364	364
Total funds invested		$ 225,432	$ 224,464	$ 195,055	$ 194,362
Consisting of:					
Unrestricted Assets			$ 180,424		$ 150,821
Restricted Assets			44,040		43,541
Total funds invested			$ 224,464		$ 194,362

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.

D. Investments (Continued)

As of December 31, 2017 and 2016, the maturities of the Agency's investments are as follows (in thousands of dollars):

	December 31, 2017				
	Reported Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
U.S. government agencies	106,174	31,508	74,666	-	-
Treasury State and Local Government Securities					
Treasury Coupons	41,546	29,561	11,985	-	-
Commercial Paper	59,035	59,035			
Money Market (NCCMT)	17,144	17,144	-	-	-
Total	$ 223,899	$ 137,248	$ 86,651	$ -	$ -

	December 31, 2016				
	Fair Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
U.S. government agencies	$ 98,598	$ 33,782	$ 62,910	$ 1,906	$ -
Treasury State and Local Government Securities					
Treasury Coupons	27,529	-	25,417	2,112	-
Treasury Discount Notes	3,223	3,223	-	-	-
Money Market (NCCMT)	64,585	64,585	-	-	-
Total	$ 193,935	$ 101,590	$ 88,327	$ 4,018	$ -

As of December 31, 2017 and 2016, the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2017					
	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	39,118	241	58,945	938	98,063	1,179
Total	$ 39,118	$ 241	$ 58,945	$ 938	$ 98,063	$ 1,179

	December 31, 2016					
	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	45,327	628	29,334	241	74,661	869
Total	$ 45,327	$ 628	$ 29,334	$ 241	$ 74,661	$ 869

D. Investments (Continued)

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, 2017 and 2016, the Agency's investments in U.S. Government Agencies and U.S. Treasury Securities are rated Aaa by Moody's Investor Service and AAA by Standard and Poor's Corporation. The Agency's investments in Money Market Instruments and the North Carolina Capital Management Trusts' Government Portfolio are rated AAAm by Standard and Poor's Corporation. The investments in the North Carolina Capital Management Trust Term Portfolio are not rated by any rating agency.

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, 2017 and 2016 the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2017		December 31, 2016	
	Reported Value	Percentage of Portfolio Portfolio	Reported Value	Percentage of Portfolio Portfolio
Federal Home Loan Mortgage Corporation	$ 31,812	14%	$ 24,444	13%
Federal National Mortgage Association	34,988	16%	40,805	21%
Federal Home Loan Bank	26,133	12%	20,508	10%
Federal Farm Credit Bank	13,241	6%	12,841	7%
Commercial Paper:				
Bank of Nova Scotia	5,182	2%	-	-
Mitsubishi UFJ T&B NY	35,977	16%	-	-
Nordea Bank AB	3,996	2%	-	-
Toronto Dominion Holding	13,880	6%	-	-
Money Market Fund:				
NC Capital Management Trust	17,144	8%	64,585	33%
U.S. Treasury Department	41,546	18%	30,752	16%
Total	$ 223,899	100%	$ 193,935	100%

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.

D. Investments (Continued)

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. At December 31, 2017 and 2016, the Agency had $91,000 and $63,000, respectively, covered by federal depository insurance.

E. Renewable Energy Certificate Inventory

The following show RECs activity during 2017 (in thousands of dollars):

	Summary of Changes in RECs			
	Balance 12/31/2016	Additions and other adjustments	Retirements	Balance 12/31/2017
RECs	6,311	2,503	(886)	7,928

F. 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 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.

F. Costs To Be Recovered and Collections to be Expended (Continued)

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):

	Year Ended December 31,		Inception to December 31,	
	2017	2016	2017	2016
Costs To Be Recovered				
Net decrease in fair value of investments	$ 498	$ 351	$ 1,146	$ 648
Participant billing offsets	(38,731)	(38,282)	(93,020)	(54,289)
Defeased Bonds	-	-	402,377	402,377
Costs To Be Recovered	$ (38,233)	$ (37,931)	$ 310,503	$ 348,736

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

	Year Ended December 31,		Inception to December 31,	
	2017	2016	2017	2016
Collections To Be Expended				
Net special funds withdrawals	$ -	$ (707)	$ 19,326	$ 19,326
Restricted investment income	430	318	812	382
Special funds valuations	-	-	154	154
Depreciation and amortization	(609)	98	(3,245)	(2,636)
Other collections to be expended	1,617	2,423	7,928	6,311
Net Collections To Be Expended	$ 1,438	$ 2,132	$ 24,975	$ 23,537

G. Bonds

The Agency has been authorized to issue Power System Revenue Bonds (bonds) in accordance with the terms, conditions and limitations of the Resolution.

Resolution (BDR-5-15) was adopted May 22, 2015 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 to Duke in 2015.

G. Bonds (continued)

The following shows bond activity during 2017 and 2016 (in thousands of dollars):

Summary of Changes in Long Term Liabilities

	Balance 12/31/2016	Additions	Reductions	Balance 12/31/2017	Amount Due within one year
Bonds Payable	386,215	-	(38,675)	347,540	39,280

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Amount Due within one year
Bonds Payable	421,430	-	(35,215)	386,215	38,675

	2017	2016
Bonds Outstanding - Beginning of year	$ 386,215	$ 421,430
Principal payments July 1	(38,675)	(35,215)
Net Bonds Outstanding after Principal Payment	$ 347,540	$ 386,215

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

Series 2015A	December 31, 2017	December 31, 2016
1.561% maturing in 2017	$ -	$ 38,675
2.003% maturing in 2018	39,280	39,280
2.578% maturing in 2019	40,065	40,065
2.928% maturing in 2020	41,100	41,100
3.308% maturing in 2021	42,300	42,300
3.558% maturing in 2022	43,705	43,705
3.808% maturing in 2023	45,260	45,260
3.958% maturing in 2024	46,985	46,985
4.058% maturing in 2025	48,845	48,845
	347,540	386,215
Total Bonds Outstanding	347,540	386,215
Current maturities of bonds	(39,280)	(38,675)
Long-Term Debt, Bonds Payable	$ 308,260	$ 347,540

The fair market value of the Agency's long-term debt was estimated using the Bloomberg. The individual maturities were priced and summed to arrive at an estimated fair market value of $356,909,228 and $433,769,452 at December 31, 2017 and 2016, respectively.

G. Bonds (continued)

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. $3,556,480,000 and $3,359,540,000 of these bonds has been redeemed at December 31, 2017 and 2016, respectively, leaving $1,676,015,000 and $1,872,995,000 still outstanding, respectively. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2017 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 $38,977,500 were collected during 2017. These amounts were deposited monthly into the Bond Fund to provide for the July 1, 2017 and a portion of 2018 principal payments due in the amount of $38,675,000 and $39,280,000, respectively. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2017 are as follows (in thousands of dollars):

	Principal	Interest	Total
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	$ 347,540	$ 59,051	$ 406,591

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

G. Bonds (continued)

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 maintains a reserve fund balance from the proceeds of the 2015 Series. As of December 31, 2017, and 2016, the balance of the bond fund reserve was $12,305,000 and $12,235,000, respectively.

The Resolution also establishes a contingency account to be funded with the proceeds of the 2015 bond issuance. As of December 31, 2017 and 2016, the balance of the contingency account was $5,102,000 and $5,122,000, respectively.

H. Duke Settlement and Coal Combustion Residual Rule (CCR)

The Agency sold its ownership interests in three nuclear fueled and two coal fired generating units on July 31, 2016. Prior to the sale of assets, the Agency was subject to the Operating and Fuel agreement (OFA), and Power Coordination agreement (PCA) which 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, 2016. 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 paid DEP $8,082,562 in 2016 as a result of the final settlement of all amounts owed to either Party under any of the of the Plant Agreements, including the OFA and PCA. The Agency also received $376,289 of NEIL nuclear “good experience” premium credits from Duke related to Harris and Brunswick nuclear plants for the 7 months of 2015.

In 2017 the Agency and Duke Energy Progress (DEP) reached an agreement to amend the Full Requirements Power Purchase Agreement (FRPPA) to allow for the recovery of cost associated with the cleanup of DEP’s coal ash ponds. The Agency’s contract between DEP and the Agency did not include a provision for recovering its compliance costs related to coal ash remediation, so the contract was amended to allow DEP to recover NCEMPA’s pro-rata share of “CCR Costs” beginning August 1, 2015. For 2017 the total amount was $44,583,000, which included $42,300,000 for the prior period 2015 through 2016.

I. Subsequent Events

The Agency has evaluated subsequent events through April 13, 2018, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

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, 2017	Year Ended December 31, 2016
Revenues:		
Sales to members/participants	$ 531,175	$ 551,404
Investment income	1,867	927
Other revenues	5	695
Total Revenues	533,047	553,026
Expenses:		
Operation and maintenance	172	285
Fuel	566	390
Power coordination services/FRPP:		
Purchased power	415,754	412,821
Transmission and distribution	23,352	21,686
Other	44,614	3,105
Total power coordination services/FRPP:	483,720	437,612
Administrative and general	11,112	11,412
Taxes		
Amounts in lieu of taxes	183	188
Total taxes	183	188
Debt service:		
Debt administrative costs	89	131
Debt service	50,822	50,883
Total debt service	50,911	51,014
Total Expenses	546,664	500,901
Revenues Over (Under) Expenses	$ (13,617)	$ 52,125

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, 2017 and 2016.

See Accompanying Report of Independent Auditor.

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North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Years Ended December 31, 2017 and 2016
($000's)

	2017 Budget Original	2017 Budget Final	Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
Revenues:				
Sales to participants	$ 564,391	$ 564,391	$ 531,175	$ (33,216)
Investment income	855	855	1,867	1,012
Other revenues	-	-	5	5
Total Revenues	565,246	565,246	533,047	(32,199)
Expenses:				
Operation and maintenance	365	365	172	193
Fuel	700	700	566	134
Power coordination expenses:				
Purchased power	425,761	425,761	415,754	10,007
Transmission and distribution	26,032	26,032	23,352	2,680
Other	54,362	54,362	44,614	9,748
Total power coordination expenses	506,155	506,155	483,720	22,435
Administrative and general – DEP	11,740	11,740	11,112	628
Taxes	75	75	183	(108)
Debt service	51,057	51,057	50,911	146
Total Expenses	570,092	570,092	546,664	23,428
Revenues Over (Under) Expenses	$ (4,846)	$ (4,846)	$ (13,617)	$ (8,771)

Note: The schedules above have 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, 2017 and 2016.

See Accompanying Report of Independent Auditor.

	2016 Budget		Actuals	Positive (Negative)
	Original	Final	(Budgetary Basis)	Variance With Final Budget
Revenues:				
Sales to participants	$ 555,567	$ 568,960	$ 551,404	$ (17,556)
Investment income	45	45	927	882
Other revenues	-	-	695	695
Total Revenues	555,612	569,005	553,026	(15,979)
Expenses:				
Operation and maintenance	355	355	285	70
Fuel	800	800	390	410
Power coordination expenses:				
Purchased power	451,085	473,242	412,821	60,421
Transmission and distribution	24,510	27,102	21,686	5,416
Other	3,182	3,182	3,105	77
Total power coordination expenses	478,777	503,526	437,612	65,914
Administrative and general – DEP	12,465	12,065	11,412	653
Taxes	75	75	188	(113)
Debt service	51,163	51,163	51,014	149
Total Expenses	543,635	567,984	500,901	67,083
Revenues Over (Under) Expenses	$ 11,977	$ 1,021	$ 52,125	$ 51,104

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

	Funds Invested January 1, 2015	Power Billing Receipts	Investment Income	Receipts (Disbursements)	Transfers
Bond Fund:					
Interest account	$ 5,258	$ -	$ 12	$ (11,521)	$ 12,324
Reserve account	12,292	-	169		(224)
Principal account	16,015	-	70	(35,213)	38,465
Total Bond Fund	33,565	-	251	(46,734)	50,565
Contingency Fund	5,146	-	69		(93)
Revenue Fund	354	-	1	1,841	(1,362)
Supplemental Fund	110,732	545,498	935	(456,648)	(49,110)
	$ 149,797	$ 545,498	$ 1,256	$ (501,541)	$ -

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, 2017 and 2016.

See Accompanying Report of Independent Auditor.

Funds Invested December 31, 2016	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2017
$ 6,073	$ -	$ 29	$ (12,146)	$ 11,865	$ 5,822
12,237	-	172	-	(102)	12,307
19,337	-	155	(38,675)	38,811	19,628
37,647	-	356	(50,821)	50,574	37,757
5,122	-	69	-	(42)	5,149
834	-	8	(85)	552	1,309
151,407	532,469	1,877	(453,274)	(51,084)	181,394
$ 195,010	$ 532,469	$ 2,310	$ (504,180)	$ -	$ 225,609