

**NORTH CAROLINA MUNICIPAL
POWER AGENCY NUMBER 1**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2014 and 2013

This page intentionally left blank.

	<u>Page(s)</u>
Report of Independent Auditor	1-2
Management’s Discussion and Analysis - Unaudited.....	3-9
 Basic Financial Statements	
Statements of Net Position, December 31, 2014 and 2013	10-11
Statements of Revenues and Expenses and Changes in Net Position, Years Ended December 31, 2014 and 2013	12
Statements of Cash Flows, Years Ended December 31, 2014 and 2013	13
Notes to Financial Statements	14-33
 Supplementary Information	
Schedules of Revenues and Expenses per Bond Resolution and Other Agreements	36-37
Schedule of Budgetary Comparison	38
Schedule of Changes in Assets of Funds Invested	40-41

This page intentionally left blank.

Report of Independent Auditor

The Board of Directors
North Carolina Municipal Power Agency Number 1
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying statements of net position of North Carolina Municipal Power Agency Number 1 (the "Agency") as of December 31, 2013 and 2012, and the related statements of revenues and expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency as of December 31, 2013 and 2012, and results of their operations and their cash flow for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

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

Required Supplementary Information

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

Other Information

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

April 1, 2014
Raleigh, North Carolina

Management's Discussion and Analysis (MD&A)

Unaudited

As management of North Carolina Municipal Power Agency Number 1 (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2014 and 2013. We encourage you to read this information in conjunction with additional information furnished in the Agency's audited financial statements and accompanying notes that follow this narrative.

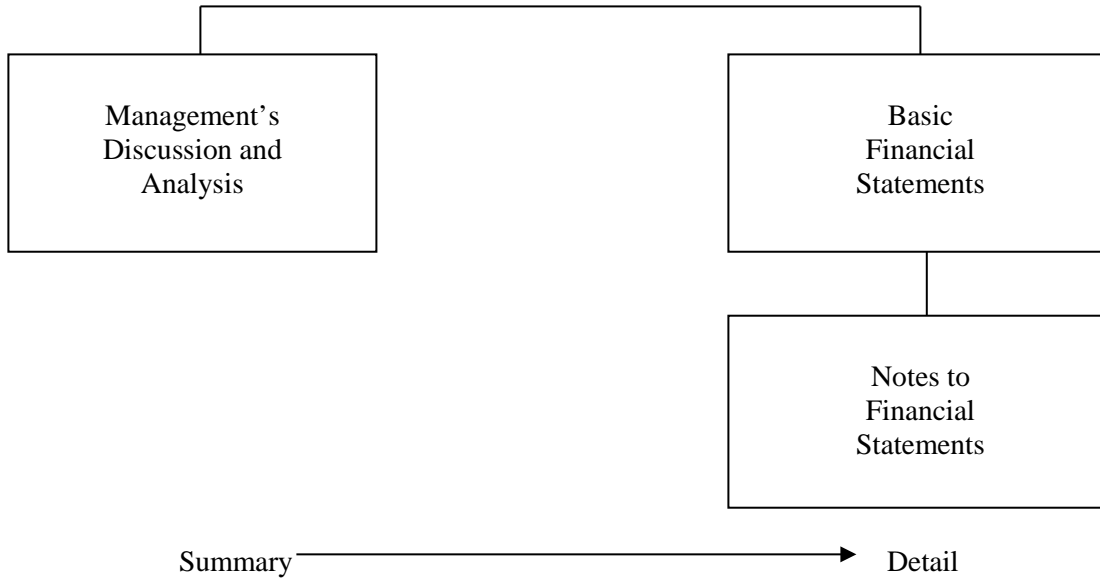
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2014 and 2013, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$78,524,000 and \$51,276,000 (net position).
- The Agency's net position increased by \$27,248,000 for 2014 and decreased by \$17,276,000 for 2013.
- Year-end 2014 and 2013 unrestricted net position deficit was \$(608,801,000) and \$(578,129,000), respectively, after decreasing \$30,672,000 and \$112,643,000, respectively.
- The Agency's total debt decreased by \$118,635,000 and \$83,425,000 during 2014 and 2013, respectively, due to principal paid, in accordance with debt service schedules.
 - Decreased \$115,510,000 and \$83,425,000 due to principal paid in 2014 and 2013, respectively, in accordance with the debt service schedules.
 - Decreased \$3,125,000 in 2014 due to the early redemption of 2009D bonds.
- The bond ratings remained the same as follows:
 - Standard and Poor's – Unchanged at A (stable).
 - Moody's – Unchanged at A2 (stable).
 - Fitch – Unchanged at A (stable).
- The Agency increased rates to Participants by 1.8% and 5.0% effective July 1, 2014 and 2013, respectively, in accordance with the Agency's Rate Plan.

Overview of the Financial Statements

This MD&A serves as 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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes are on pages 14 to 33 of this report.

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

Financial Analysis

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

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

	December 31,		
	2014	2013	2012
Assets and Deferred Outflows of Resources			
Capital assets	\$ 1,162,774	\$ 1,162,326	\$ 1,141,008
Current and other assets	1,016,155	1,010,009	1,234,503
Deferred outflows of resources	66,573	108,367	124,211
Total assets and deferred outflows of resources	<u>2,245,502</u>	<u>2,280,702</u>	<u>2,308,965</u>
Liabilities and Deferred Inflows			
Non-current liabilities	1,604,577	1,726,625	1,864,004
Current liabilities	175,090	192,420	160,413
Deferred inflows of resources	387,311	310,381	215,996
Total liabilities and deferred inflows of resources	<u>2,166,978</u>	<u>2,229,426</u>	<u>2,240,413</u>
Net Position			
Net invested in capital assets	489,567	395,232	308,688
Restricted for debt service	197,758	234,173	225,350
Unrestricted	<u>(608,801)</u>	<u>(578,129)</u>	<u>(465,486)</u>
Total Net Position	<u>\$ 78,524</u>	<u>\$ 51,276</u>	<u>\$ 68,552</u>

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows of resources by \$78,524,000, \$51,276,000 and \$68,552,000 at December 31, 2014, 2013 and 2012, respectively, representing an increase of \$27,248,000 in 2014 and a decrease of \$17,276,000 in 2013.

The first portion of net position of \$489,567,000, \$395,232,000 and \$308,688,000 at December 31, 2014, 2013 and 2012, respectively, reflects the Agency's investments in capital assets (e.g. land, buildings, generation facilities, nuclear fuel and equipment), less any related debt still outstanding that was issued to acquire those items.

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

An additional portion of the Agency's net position of \$197,758,000, \$234,173,000 and \$225,350,000 as of December 31, 2014, 2013 and 2012, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(608,801,000), \$(578,129,000) and \$(465,486,000) as of December 31, 2014, 2013 and 2012, respectively, is the deficit of unrestricted net position.

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

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Sales of electricity and other operating revenue	\$ 535,454	\$ 514,164	\$ 471,495
Nonoperating revenues and changes in fair value	26,866	(17,124)	18,540
Total Revenues	<u>562,320</u>	<u>497,040</u>	<u>490,035</u>
Expenses:			
Operating expenses	370,777	356,302	364,196
Interest on long-term debt	65,136	68,466	74,380
Other nonoperating expenses	99,159	89,548	71,357
Total Expenses	<u>535,072</u>	<u>514,316</u>	<u>509,933</u>
Change in Net Position	27,248	(17,276)	(19,898)
Net Position, Beginning of the year	<u>51,276</u>	<u>68,552</u>	<u>88,450</u>
Net Position, End of the year	<u>\$ 78,524</u>	<u>\$ 51,276</u>	<u>\$ 68,552</u>

Financial Highlights

- The Agency implemented a 1.8% and 5.0% rate increase effective July 1, 2014 and 2013, respectively, in accordance with the Agency's Rate Plan.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2014, 2013 and 2012 totaled \$1,162,774,000, \$1,162,326,000 and \$1,141,009,000 respectively (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

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

- Construction work in progress increased \$34,468,000 and \$32,605,000 in 2014 and 2013, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$14,052,000 and \$42,693,000 in 2014 and 2013, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$35,165,000 and \$30,870,000 for 2014 and 2013, respectively.
- Nuclear Fuel was amortized \$33,534,000 and \$36,594,000 for 2014 and 2013, respectively.
- In 2014 and 2013 there were retirements of Electric Utility Plant of \$19,551,000 and \$8,632,000, respectively. There were no write-offs of spent nuclear fuel in 2014 and 2013.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,847,361	\$ 8,631	\$ 14,534	\$ (19,551)	\$ 1,850,975
Nuclear fuel	211,192	25,961	(35,838)	-	201,315
Total Depreciable Utility Plant	2,058,553	34,592	(21,304)	(19,551)	2,052,290
Accumulated Depreciation and Amortization					
Electric plant in service	(849,719)	(35,086)	(482)	19,551	(865,736)
Nuclear fuel	(89,728)	(33,534)	35,838	-	(87,424)
Total Accumulated Depreciation and Amortization	(939,447)	(68,620)	35,356	19,551	(953,160)
Depreciable Utility Plant, Net	1,119,106	(34,028)	14,052	-	1,099,130
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	22,222	34,468	(14,052)	-	42,638
Total Electric Utility Plant, Net	<u>\$ 1,161,096</u>	<u>\$ 440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,536</u>

	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,808,565	\$ 5,758	\$ 41,670	\$ (8,632)	\$ 1,847,361
Nuclear fuel	182,234	50,419	(21,461)	-	211,192
Depreciable Utility Plant	1,990,799	56,177	20,209	(8,632)	2,058,553
Accumulated Depreciation and Amortization					
Electric plant in service	(828,607)	(30,767)	1,023	8,632	(849,719)
Nuclear fuel	(74,595)	(36,594)	21,461	-	(89,728)
Total Accumulated Depreciation and Amortization	(903,202)	(67,361)	22,484	8,632	(939,447)
Depreciable Utility Plant, Net	1,087,597	(11,184)	42,693	-	1,119,106
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	32,310	32,605	(42,693)	-	22,222
Total Electric Utility Plant, Net	<u>\$ 1,139,675</u>	<u>\$ 21,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,096</u>

Non-Utility Plant and Equipment, Net

	December 31, 2013	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	December 31, 2014
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ 87	\$ -	\$ -	\$ 5,040
Accumulated depreciation	<u>(4,433)</u>	<u>(79)</u>	<u>-</u>	<u>-</u>	<u>(4,512)</u>
Total Depreciable Non-Utility Property and Equipment, Net	520	8	-	-	528
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 1,230</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238</u>

	December 31, 2012	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	December 31, 2013
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ -	\$ -	\$ -	\$ 4,953
Accumulated depreciation	<u>(4,330)</u>	<u>(103)</u>	<u>-</u>	<u>-</u>	<u>(4,433)</u>
Total Depreciable Non-Utility Property and Equipment, Net	623	(103)	-	-	520
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 1,333</u>	<u>\$ (103)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230</u>

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

Outstanding Debt

The Agency's total debt outstanding at December 31, 2014, 2013 and 2012 was \$1,314,455,000, \$1,433,090,000 and 1,516,515,000, respectively, all of which are revenue bonds. Total debt decreased by \$118,635,000 (8.28%) and \$83,425,000 (5.50%) during 2014 and 2013, respectively. The decreases were due to principal payments made in accordance with debt service schedules, net of issuance of new debt.

The Agency's bond ratings stayed the same or improved over the two year period as follows:

- Standard and Poor's Corporation – Unchanged at A (stable).
- Moody's – Unchanged at A2 (stable).
- Fitch – Unchanged at A (stable).

Additional information regarding the Agency's long-term debt can be found in Note G 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 2015 budget.

- The 10 year average weather-normalized load (energy) growth rate is approximately 0.4%/year. Load is expected to grow by less than 1% annually for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for coal are expected to remain flat in the near term with modest increases comparable with inflation in the mid to long term.
- Market prices for natural gas remain low and are expected to stay relatively flat in the near and mid-term due to strong domestic natural gas supply and healthy storage inventories. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2015

- Forecasts a 5.0% increase in wholesale rates effective July 1; the actual increase will be considered at the Spring 2015 Rate Committee Meeting.
- The load forecast estimates energy and demand growth of 0.6% and 0.5%, respectively, for the period.
- Collection through rates of \$131,270,000 for debt principal due January 1, 2016.
- Anticipates scheduled refueling outages for Catawba Unit 1 & Unit 2 and McGuire Unit 2.
- Projects that total \$65,321,000 will be spent on capital additions at the Catawba plant funded from bonds.
- Release \$20M from Reserved for Decommissioning Costs Fund to fund Project Working Capital in the Revenue Fund.

Requests for Information

This report is designed to provide an overview of the Agency's finances for those with an interest in this area. 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 Municipal Power Agency Number 1, P.O. Box 29513, Raleigh, NC 27626-0513.

North Carolina Municipal Power Agency Number 1
Statements of Net Position
(\$000s)

	December 31,	
	2014	2013
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,870,743	\$ 1,867,129
Construction work in progress	42,638	22,222
Nuclear fuel	201,315	211,192
Accumulated depreciation and amortization	(953,160)	(939,447)
Total Electric Utility Plant, Net	<u>1,161,536</u>	<u>1,161,096</u>
Non-Utility Property and Equipment, Net		
Property and Equipment	5,750	5,663
Accumulated depreciation	(4,512)	(4,433)
Total Non-Utility Property and Equipment, Net	<u>1,238</u>	<u>1,230</u>
Total Capital Assets	<u>1,162,774</u>	<u>1,162,326</u>
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	56,260	95,470
Bond fund	340,530	340,588
Reserve and contingency fund	19,040	19,054
Total Special Funds Invested	<u>415,830</u>	<u>455,112</u>
Trust for Decommissioning Costs (Notes D and E)	<u>308,324</u>	<u>288,172</u>
Total Restricted Assets	<u>724,154</u>	<u>743,284</u>
Total Non-Current Assets	<u>1,886,928</u>	<u>1,905,610</u>
Current Assets		
Funds Invested (Notes D):		
Revenue fund	\$ 21,710	\$ 22,036
Operating fund	84,466	68,210
Supplemental fund	90,443	80,252
Total Funds Invested	<u>196,619</u>	<u>170,498</u>
Participant accounts receivable	34,062	32,462
Operating accounts receivable	8,775	16,418
Plant materials and renewable certificate inventory	<u>52,545</u>	<u>47,347</u>
Total Current Assets	<u>292,001</u>	<u>266,725</u>
Total Assets	<u>\$ 2,178,929</u>	<u>\$ 2,172,335</u>

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Statements of Net Position
(\$000s)

	December 31,	
	2014	2013
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	\$ 61,773	\$ 78,220
Unamortized debt issuance costs	4,800	5,755
Costs to be recovered (Note F)	-	24,392
Total Deferred Outflows of Resources	\$ 66,573	\$ 108,367
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt:		
Bonds (Note G)	\$ 1,196,735	\$ 1,317,580
Unamortized premium	72,389	91,952
Total Long-Term Debt, net	1,269,124	1,409,532
Asset Retirement Obligation (Note E)	335,453	317,093
Total Non-Current Liabilities	1,604,577	1,726,625
Current Liabilities		
Operating Liabilities:		
Accounts payable	24,742	17,924
Accrued taxes	585	24,845
Total Operating Liabilities	25,327	42,769
Special Funds Liabilities:		
Current maturities of bonds (Note G)	117,720	115,510
Accrued interest on bonds	32,043	34,141
Total Special Funds Liabilities	149,763	149,651
Total Current Liabilities	175,090	192,420
Total Liabilities	\$ 1,779,667	\$ 1,919,045
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note F)	387,311	310,381
Total Deferred Inflows of Resources	\$ 387,311	\$ 310,381
NET POSITION		
Net investment in capital assets	\$ 489,567	\$ 395,232
Restricted for debt service	197,758	234,173
Unrestricted (deficit)	(608,801)	(578,129)
Total Net Position	\$ 78,524	\$ 51,276

North Carolina Municipal Power Agency Number 1
Statement of Revenues and Expenses and Changes in Net Position
(\$000s)

	Years Ended December 31,	
	2014	2013
Operating Revenues:		
Sales to participants	\$ 437,656	\$ 414,824
Sales to utilities	96,133	97,874
Other revenues	1,665	1,466
Total Operating Revenues	<u>535,454</u>	<u>514,164</u>
Operating Expenses:		
Operation and maintenance	120,520	119,556
Fuel	36,752	44,220
Interconnection services:		
Purchased power	69,371	62,516
Transmission and distribution	14,946	14,078
Other	974	827
Total interconnection services	<u>85,291</u>	<u>77,421</u>
Administrative and general	45,968	47,450
Gross receipts and excise taxes	9,366	16,237
Property tax	19,355	21,409
Depreciation	35,165	30,870
Amortization of asset retirement obligation	18,360	(861)
Total Operating Expenses	<u>370,777</u>	<u>356,302</u>
Operating Income	164,677	157,862
Nonoperating (Revenues) Expenses		
Investment income	(17,677)	(16,428)
Net (increase) decrease in fair value of investments	(9,189)	33,552
Interest expense	65,136	68,466
Amortization of debt refunding costs	16,447	18,313
Amortization of debt discount, premium costs and issuance costs	(18,610)	(19,978)
Net decrease/(increase) in costs to be recovered (Note F)	70,650	(3,172)
Net increase in collections to be expended (Note F)	30,672	94,385
Total Nonoperating (Revenues) Expenses	<u>137,429</u>	<u>175,138</u>
Change in Net Position	27,248	(17,276)
Net Position, Beginning of Year	51,276	68,552
Net Position, End of Year	<u>\$ 78,524</u>	<u>\$ 51,276</u>

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Statements of Cash Flows
(\$000s)

	Years Ended December 31,	
	2014	2013
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 539,833	\$ 506,987
Receipts from other revenues	1,664	1,466
Payments of operating expenses	(303,662)	(294,994)
Net cash provided by operating activities	<u>237,835</u>	<u>213,459</u>
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(67,234)	(59,444)
Additions to electric utility plant and non-utility property and equipment	(71,843)	(95,795)
Bonds redeemed or retired	(118,635)	(83,425)
Debt (discount) premium net of issuance costs	3	(324)
Investment earnings receipts from construction fund	376	378
Net cash used for capital and related financing activities	<u>(257,333)</u>	<u>(238,610)</u>
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,231,346	2,850,839
Purchases of investment securities	(1,222,145)	(2,834,198)
Investment earnings receipts	10,229	8,499
Net cash provided by investing activities	<u>19,430</u>	<u>25,140</u>
Net Increase in Operating Cash	(68)	(11)
Operating Cash, Beginning of year	100	111
Operating Cash, End of year	<u>\$ 32</u>	<u>\$ 100</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 164,677	\$ 157,862
Adjustments:		
Depreciation	35,165	30,870
Amortization of nuclear fuel	36,230	43,603
Amortization of asset retirement obligation	18,360	(861)
Changes in assets and liabilities:		
(Increase) in participant accounts receivable	(1,600)	(1,988)
Decrease (increase) in operating accounts receivable	7,643	(3,723)
(Increase) in plant materials and operating supplies	(5,198)	(3,204)
Increase (decrease) in accounts payable	6,818	(9,373)
(Decrease) increase in accrued taxes	(24,260)	273
Total Adjustments	<u>73,158</u>	<u>55,597</u>
Net Cash Provided by Operating Activities	<u>\$ 237,835</u>	<u>\$ 213,459</u>

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

A. General Matters

North Carolina Municipal Power Agency Number 1 (Agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipalities owning electric distribution systems, through the organization of the Agency, to finance, construct, own, operate and maintain electric generation and transmission facilities. The Agency is comprised of 19 municipal electric systems (Participants) with interests ranging from 0.0869% to 18.96%, which receive power from the Agency.

The Project

The project consists of the Agency's undivided ownership interest in 75% of Unit 2 of the Catawba Nuclear Station and in 37.5% of certain support facilities. Catawba Unit 2 has a maximum net dependable capability (MNDC) of 1,145 MW with the Agency's ownership share being 858.75 MW.

In conjunction with the purchase of its ownership interest, the Agency entered into several agreements with Duke Energy Corporation (Duke) which govern the purchase, ownership, construction, operation and maintenance of the project.

- The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase its ownership share of the project. However, by virtue of various exchange provisions contained in the Interconnection Agreement and the Operation and Fuel Agreement, the Agency (1) bears the costs of acquisition, construction, operation and maintenance of 37.5% of both Unit 1 and Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units.
- The Operation and Fuel Agreement provides for Duke to operate, maintain and fuel the station; to make renewals, replacements and capital additions as approved by the Agency; and for the ultimate decommissioning of the station at the end of its useful life.
- The Interconnection Agreement provides for the interconnection of the Project with the Duke system and for the exchange of power between Unit 1 and Unit 2 of Catawba and between the Catawba units and Duke's McGuire Nuclear Station (Reliability Exchanges).

Pursuant to the reliability exchanges, project output is provided in essentially equal amounts from Catawba Unit 2, Catawba Unit 1, McGuire Unit 1 and McGuire Unit 2, all in operation on the Duke system and all of similar size and capacity. The reliability exchanges are intended to make more reliable the supply of capacity and energy to the Agency in the amount to which the Agency is entitled pursuant to its ownership interest in Catawba Unit 2 and to mitigate potential adverse economic effects on the Agency and the Participants from unscheduled outages of Catawba Unit 2. Correspondingly, the Agency bears risks resulting from unscheduled outages of any Catawba or McGuire Unit.

Under the terms of the Operating and Fuel Agreement, The Agency paid Duke cash amounts of \$238,483,000 and \$257,811,000 in 2014 and 2013, respectively.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

A. General Matters (continued)

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

To meet its supplemental power requirements, the Agency entered into several contractual arrangements to assure a reliable and affordable source of supplemental power and energy. The contracts are as follows:

- Agreement with Southern Power Company for the purchase of 50 MW of capacity and the associated energy as scheduled by the Agency through 2015.
- Agreement with Duke for the purchase of 50 MW of energy as scheduled by the Agency, and for the sale by the Agency of up to 100 MWh per hour of energy through 2014, and a separate similar agreement for 2015.
- Agreement with Southern Power Company for the purchase of 100 MW of capacity and the associated energy as scheduled by the Agency for the period 2011 through 2015, and increasing to 150 MW for the period 2016 through 2030.
- Agreement with Southern Power Company for the purchase of approximately 185 MW of capacity and associated energy as scheduled by the Agency for the period 2012 through 2031.
- Agreement with The Energy Authority (TEA) for TEA to provide hourly scheduling and dispatching services for the period 2014 through 2016.
- Agreement with Southern Power Company for a put option related to Catawba Project surplus energy, involving the sale of up to 200 MW of energy to Southern Power Company as scheduled by NCMPA1, for the period January 1, 2011 through December 31, 2018.

In addition to the agreements with third parties mentioned above, the Agency has developed or assisted the Participants and/or certain of their customers in developing additional generating facilities. The Agency had 65 MW of Distributed Generation which the Agency constructed to be called upon as needed. In addition, the Agency also has under remote control operation 90 MW of city-owned and customer-owned generation and has been successful in placing an additional 17 MW of generation owned by cities and retail customers under contract for local operation under the Agency's power supply program. The Agency also has 24 MW of gas turbine generation that became commercially operable in 2010.

Agency administers a load management program by which customers may reduce load during peak billing time periods. The operation of this program results in a total peak reduction of approximately 58 MW each month.

Agency personnel and TEA, pursuant to the agreement described above, provided all scheduling and dispatching services for the Agency's various power supply resources to coordinate the Agency's utilization of Project Output and other power supply arrangements and the Participants use of their SEPA power allotments.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

A. General Matters (continued)

The Agency's acquisition of its ownership interest is being financed by electric revenue bonds pursuant to Resolution No. R-16-78, as amended, (Resolution) of the Board of Commissioners of the Agency. The Resolution established special funds to hold proceeds from debt issuance, such proceeds to be used for costs of acquisition and construction of the project, for working capital and to establish certain reserves. The Resolution also established special funds in which project revenues are deposited and from which project operating costs, debt service and other specified payments relating to the project are made.

ElectriCities of North Carolina, Inc.

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

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

For the years ended December 31, 2014 and 2013, the Agency paid ElectriCities \$13,653,000 and \$13,295,000, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

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 equity may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted equity might be used to meet an obligation, the Agency first uses the restricted net position.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Electric Plant in Service

All expenses associated with the development and construction of the Agency's ownership interest in the Catawba station, including interest expense net of investment income on funds not yet expended and the asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs on page 18) have been recorded at original cost and are being depreciated on a straight-line basis over the average composite life of each unit's assets. At December 31, 2014, the remaining life for Catawba Units 1 and 2 was 29 years.

The Agency has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" which requires the Agency to report the effect of capital asset impairments in the financial statements when they occur rather than in the ongoing depreciation expense for the capital asset. Any insurance recovery associated with the impairment will be netted with the impairment loss. During 2014 and 2013, no such impairment occurred.

Construction Work in Progress

All expenditures related to capital additions at Catawba and expenditures related to distributive generation units that have not been declared commercial are capitalized as construction work in progress until such time as they are completed and transferred to Electric Plant in Service. Interest is not capitalized on capital additions. Depreciation expense is recognized on these assets after they are transferred to Electric Plant in Service.

Nuclear Fuel

Nuclear Fuel, net of amortization, includes all expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until such time as the cores are placed in the reactor. Interest is not capitalized on fuel cores. Once placed in the reactor, the cores are amortized to fuel expense utilizing the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal costs which is being collected currently from members. Amortization of nuclear fuel costs includes estimated disposal costs of \$2,696,000 and \$7,009,000 for the years ended December 31, 2014 and 2013, respectively.

Under provisions of the Nuclear Waste Policy Act of 1982, Duke, on behalf of all co-owners of the Catawba station, has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel in 1998, the date provided by the Nuclear Waste Policy Act and Duke's contract with the DOE. As a result of a partial breach of contract claim filed against the DOE by Duke for damages arising out of the DOE's failure to begin accepting the spent nuclear fuel, Duke and the U.S. Department of Justice signed a settlement agreement which provides for an initial payment to Duke Energy for certain storage costs incurred through July 2005, with additional amounts reimbursed annually for future storage costs. The Agency's share of the settlement for 2014 and 2013 was \$3,744,778 and \$0 respectively.

While it is uncertain when the DOE will begin accepting spent fuel, Duke has plans in place to provide adequate storage capacity until such time as DOE begins receiving spent fuel.

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Non-Utility Property and Equipment

The Agency purchased computer equipment for its load management and telemetry programs. This equipment is being depreciated over the estimated useful life of the equipment. Also included are the land and administrative office building jointly owned with North Carolina Eastern Municipal Power Agency and used by both agencies and ElectriCities. The administrative office building is being depreciated over 37 1/2 years on a straight-line basis.

Pollution Remediation Obligations

The Agency reports in accordance with GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" (GASB No. 49) 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.

Accounts Receivable

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

Premiums/Discounts on Bonds

Premiums (net of discounts) on bonds, shown net of accumulated accretion/amortization of \$8,747,000 and \$10,816,000, at December 31, 2014 and 2013 respectively, are amortized over the terms of the related bonds in a manner that yields a constant rate of interest.

Decommissioning

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

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 risks such as credit risk and interest rate risk.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

Taxes

Income of the Agency is excludable from 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 North Carolina property taxes, the Agency pays an amount that would otherwise be assessed on the non-utility property and equipment and North Carolina generation of the Agency. In lieu of a franchise or privilege tax, the Agency pays to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to Participants. The Catawba plant is located in South Carolina and subject to South Carolina property tax. An electric power excise tax equal to 0.05% (5/10 mill) for each kilowatt-hour of electric power generated and sold for resale within South Carolina is also paid. 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 \$27,000 and \$78,000 at December 31, 2014 and 2013 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$5,000 and \$22,000 at December 31, 2014 and 2013, respectively, included on the balance sheet in the line item "Restricted Assets: Special Funds Invested" is also included on the statements of cash flows. Accounts payable includes special fund liabilities of \$4,373,000 and \$9,393,000 at December 31, 2014 and 2013, respectively. The cash flows associated with the increase/ (decrease) in accounts payable of \$6,818,000 and (\$9,373,000) in 2014 and 2013, respectively, includes the impact of the special fund liabilities noted above.

Use of Estimates

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

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

Recently Adopted GASB Standards

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

B. Significant Accounting Policies (continued)

In June 2012, GASB issued Statement No. 67, “Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25”. This Statement improves accounting and financial reporting for state and local governments for pensions. It replaces the requirements of Statements No. 25 “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributed Plans”, and No. 50 “Pension Disclosures” as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for periods beginning after June 15, 2013, and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2014.

In January 2013, GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations”. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 15, 2013 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2014.

In April 2013, GASB issued Statement No. 70, “Accounting and Financial Reporting for Non-exchange Financial Guarantees”. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for reporting periods beginning after June 15, 2013 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2014.

Future 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, and the Agency is evaluating the potential impact on the Agency’s financial position, overall 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 are not expected to have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

C. Capital Assets

Electric Utility Plant, Net

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

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,847,361	\$ 8,631	\$ 14,534	\$ (19,551)	\$ 1,850,975
Nuclear fuel	211,192	25,961	(35,838)	-	201,315
Total Depreciable Utility Plant	2,058,553	34,592	(21,304)	(19,551)	2,052,290
Accumulated Depreciation and Amortization					
Electric plant in service	(849,719)	(35,086)	(482)	19,551	(865,736)
Nuclear fuel	(89,728)	(33,534)	35,838	-	(87,424)
Total Accumulated Depreciation and Amortization	(939,447)	(68,620)	35,356	19,551	(953,160)
Depreciable Utility Plant, Net	1,119,106	(34,028)	14,052	-	1,099,130
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	22,222	34,468	(14,052)	-	42,638
Total Electric Utility Plant, Net	<u>\$ 1,161,096</u>	<u>\$ 440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,536</u>
	December 31, 2012	Additions	Transfers	Retirements	December 31, 2013
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,808,565	\$ 5,758	\$ 41,670	\$ (8,632)	\$ 1,847,361
Nuclear fuel	182,234	50,419	(21,461)	-	211,192
Depreciable Utility Plant	1,990,799	56,177	20,209	(8,632)	2,058,553
Accumulated Depreciation and Amortization					
Electric plant in service	(828,607)	(30,767)	1,023	8,632	(849,719)
Nuclear fuel	(74,595)	(36,594)	21,461	-	(89,728)
Total Accumulated Depreciation and Amortization	(903,202)	(67,361)	22,484	8,632	(939,447)
Depreciable Utility Plant, Net	1,087,597	(11,184)	42,693	-	1,119,106
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	32,310	32,605	(42,693)	-	22,222
Total Electric Utility Plant, Net	<u>\$ 1,139,675</u>	<u>\$ 21,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,096</u>

The Agency has commitments to Duke in connection with capital additions for the station. Current estimates indicate the Agency's portion of these costs for 2015 and 2016 will be approximately \$109,607,000.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

C. Capital Assets (continued)

Non-Utility Property and Equipment

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

	December 31, <u>2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	December 31, <u>2014</u>
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ 87	\$ -	\$ -	\$ 5,040
Accumulated depreciation	<u>(4,433)</u>	<u>(79)</u>	<u>-</u>	<u>-</u>	<u>(4,512)</u>
Total Depreciable Non-Utility Property and Equipment, Net	520	8	-	-	528
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 1,230</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238</u>

	December 31, <u>2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	December 31, <u>2013</u>
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ -	\$ -	\$ -	\$ 4,953
Accumulated depreciation	<u>(4,330)</u>	<u>(103)</u>	<u>-</u>	<u>-</u>	<u>(4,433)</u>
Total Depreciable Non-Utility Property and Equipment, Net	623	(103)	-	-	520
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 1,333</u>	<u>\$ (103)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,230</u>

D. Investments

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

	December 31,			
	2014		2013	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ 53,200	\$ 53,200	\$ 54,375	\$ 54,375
U.S. government agencies	352,801	356,735	385,370	388,768
Money Market	109,878	109,878	167,641	167,642
Collateralized Certificates of Deposit	82,766	82,766		
Collateralized mortgage obligations	7,649	8,548	11,838	13,405
Sub-total funds invested	606,294	611,127	619,224	624,190
Decommissioning Trust securities	246,064	307,786	235,151	287,649
Cash				
Operating cash	27	27	78	78
Restricted cash	5	5	22	22
Accrued interest	1,828	1,828	1,843	1,843
Total funds invested	<u>\$ 854,218</u>	<u>\$ 920,773</u>	<u>\$ 856,318</u>	<u>\$ 913,782</u>
Consisting of:				
Special funds invested		\$ 415,830		\$ 455,112
Decommissioning Trust		308,324		288,172
Operating assets		196,619		170,498
Total funds invested		<u>\$ 920,773</u>		<u>\$ 913,782</u>

Interest Rate Risk

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

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

	December 31, 2014				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 53,200	\$ 53,200	\$ -	\$ -	\$ -
U.S. government agencies	356,735	71,017	264,274	21,444	-
Money Market	109,878	109,878	-	-	-
Collateralized Certificates of Deposit	82,766	82,766	-	-	-
Collateralized mortgage obligations	8,548	-	8,179	369	-
Sub-total	611,127	316,861	272,453	21,813	-
Decommissioning Trust securities	307,786	12,475	145,257	146,253	3,801
Total	<u>\$ 918,913</u>	<u>\$ 329,336</u>	<u>\$ 417,710</u>	<u>\$ 168,066</u>	<u>\$ 3,801</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

D. Investments (continued)

	December 31, 2013				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 54,375	\$ 54,375	\$ -	\$ -	\$ -
U.S. government agencies	388,768	78,353	217,598	92,817	-
Money Market	167,642	167,642	-	-	-
Collateralized mortgage obligations	13,405	-	7,241	6,164	-
Sub-total	624,190	300,370	224,839	98,981	-
Decommissioning Trust securities	287,649	24,467	43,878	196,507	22,797
Total	<u>\$ 911,839</u>	<u>\$ 324,837</u>	<u>\$ 268,717</u>	<u>\$ 295,488</u>	<u>\$ 22,797</u>

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

	December 31, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 94,682	\$ 488	\$ 38,741	\$ 586	\$ 133,423	\$ 1,074
Collateralized mortgage obligations	-	-	-	-	-	-
Sub-total	94,682	488	38,741	586	133,423	1,074
Decommissioning Trust securities	43,082	587	25,051	537	\$ 68,133	\$ 1,124
Total	<u>\$ 137,764</u>	<u>\$ 1,075</u>	<u>\$ 63,792</u>	<u>\$ 1,123</u>	<u>\$ 201,556</u>	<u>\$ 2,198</u>

	December 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Repurchase agreements	\$ 59,090	\$ 1,164	\$ 64,298	\$ 989	\$ 123,388	\$ 2,153
U.S. government agencies	9,505	524	34,946	113	\$ 44,451	\$ 637
Collateralized mortgage obligations	68,595	1,688	99,244	1,102	167,839	2,790
Sub-total	25,682	1,388	27,233	1,489	52,915	2,877
Decommissioning Trust securities	<u>\$ 94,277</u>	<u>\$ 3,076</u>	<u>\$ 126,477</u>	<u>\$ 2,591</u>	<u>\$ 220,754</u>	<u>\$ 5,667</u>
Total						

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

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, 2014 and 2013 the Agency's investments in repurchase agreements are all collateralized by US Treasury or US Government securities. The Agency's investments in US Government Agencies, US Treasury Strips, US Government Agency Strips and Collateralized Mortgage Obligations are rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's Corporation. The Agency's investments in Money Market Instruments are rated AAAM by Standard and Poor's Corporation.

The Agency places no limit on the amount the Agency may invest with any one issuer. The Agency's investments by issuer are detailed in the following schedule (in thousands of dollars):

Issuer	December 31, 2014		December 31, 2013	
	Fair Value	Percentage	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 123,512	13.4%	\$ 138,818	15.2%
Federal National Mortgage Association	126,647	13.8%	139,903	15.3%
Federal Home Loan Bank	161,165	17.5%	167,497	18.4%
Federal Farm Credit Bank	52,443	5.7%	93,843	10.3%
Resolution Funding Corporation	2,659	0.3%	8,518	0.9%
Repurchase Agreements				
Morgan Stanley	53,200	5.8%	54,375	6.0%
Bank of America	-	0.0%	-	0.0%
Money Market Fund - NC Capital Management Trust	111,022	12.1%	168,651	18.5%
Bank of America Collateralized CD's	82,766	9.0%	-	0.0%
US Treasury Department	205,499	22.4%	140,234	15.4%
Total	<u>\$ 918,913</u>	<u>100.0%</u>	<u>\$ 911,839</u>	<u>100.0%</u>

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

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, 2014 and 2013, the Agency had \$27,000 and \$100,000, respectively, covered by federal depository insurance.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk. All deposits are currently held in the name of North Carolina Municipal Power Agency Number 1.

E. Decommissioning Costs

As a co-licensee of Catawba Unit 2 and in accordance with the terms of the Catawba reliability exchange, the Agency has furnished certification of its financial capability to fund its share of the costs of nuclear decommissioning of the Catawba Station to the U.S. Nuclear Regulatory Commission (NRC) as required by its regulations. To satisfy the NRC's financial capability regulations, the Agency established an external trust fund (Decommissioning Trust) pursuant to a trust agreement with a bank. The Agency's certification requires that the Agency make annual deposits to the Decommissioning Trust which, together with the investment earnings, amounts previously on deposit in the trust and certain reserve assets, are anticipated to result in sufficient funds being held in the Decommissioning Trust at the expiration of the current operating licenses for the Catawba Units (2043) to meet the Agency's share of decommissioning.

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

Estimates of the future costs of decommissioning the units are based on the 2013 site-specific study that was conducted on behalf of Duke utilizing the unit factor method, which follows the approach as outlined in the DOE Decommissioning handbook. The Agency's portion of decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, is \$529,084,000, stated in 2013 dollars.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

E. Decommissioning Costs (continued)

The Agency has identified certain asset retirement obligations, which are primarily associated with the decommissioning of NCMPA1's ownership interest in Catawba Unit 2. Changes in components of the asset retirement obligation during 2014 and 2013 are as follows (in thousands of dollars):

	Years Ended December 31,	
	2014	2013
Balance, beginning of year	\$ 317,093	\$ 317,954
Liabilities incurred during the year		-
Liabilities settled during the year		-
Accretion expense	18,360	18,410
Revisions in estimated cash flows		(19,271)
Balance, end of year	\$ 335,453	\$ 317,093

F. Costs To Be Recovered and Collections To Be Expended

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

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

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

F. Costs To Be Recovered and Collections To Be Expended (continued)

Other costs and collections to be recovered include the following (in thousands of dollars):

	Years Ended December 31,		Inception to December 31,	
	2014	2013	2014	2013
Costs to be recovered				
Net deferred interest	\$ -	\$ -	\$ 155,316	\$ 155,316
Amortization of debt discount, premium & issuance costs	(18,610)	(19,978)	64,992	83,602
Depreciation and amortization	53,525	49,280	1,265,956	1,212,431
Amortization of debt refunding costs	16,447	18,313	565,542	549,095
Deferred Fuel	-	(16,373)	(12,543)	(12,543)
Participant billing offsets	(122,012)	(28,070)	(2,109,270)	(1,987,258)
Other unrecovered costs	-	-	23,749	23,749
Total Costs To Be Recovered *	<u>\$ (70,650)</u>	<u>\$ 3,172</u>	<u>\$ (46,258)</u>	<u>\$ 24,392</u>

	Years Ended December 31,		Inception to December 31,	
	2014	2013	2014	2013
Collections to be expended				
Net special funds (withdrawals)/deposits	\$ 6,677	\$ 6,239	\$ 28,856	\$ 22,179
Restricted investment income	9,467	9,910	290,840	281,373
Rate stabilization funds used for other than operations	-	88,845	(53,393)	(53,393)
Special Funds Valuations	141	471	(18,024)	(18,165)
Net decrease (increase) in fair value of investments and derivative financial instruments	9,189	(33,552)	26,305	17,116
Asset Retirement Obligation Provision	-	19,271	31,288	31,288
Other collections to be expended	5,198	3,201	35,181	29,983
Total Collections To Be Expended	<u>\$ 30,672</u>	<u>\$ 94,385</u>	<u>\$ 341,053</u>	<u>\$ 310,381</u>

*Due to the high Participant billing collections, the total cost to be recovered has a credit balance. For presentation purposes on the Statement of Net Position, the credit balance was combined with collections to be expended.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

G. Bonds

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

The following shows bond activity during 2014 and 2013 (in thousands of dollars):

	<u>2014</u>	<u>2013</u>
Bonds Outstanding - Beginning of year	\$ 1,433,090	\$ 1,516,515
Principal payments January 1	(115,510)	(83,425)
Bonds Early Redemption		
Series 2009A	(3,125)	-
Bonds Outstanding - End of year	<u>\$ 1,314,455</u>	<u>\$ 1,433,090</u>

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Series 1998A		
5.5% maturing annually from 2014 to 2015	<u>\$ 19,390</u>	<u>\$ 29,550</u>
Series 2008A		
5.25% maturing annually from 2013 to 2020	<u>289,205</u>	<u>321,275</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

G. Bonds (continued)

	December 31,	
	2014	2013
Series 2008C		
4.0% to 5.25% maturing annually from 2010 to 2020	\$ 42,750	\$ 48,740
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026	104,985	104,985
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027	16,750	16,750
5% maturing in 2030 with annual sinking fund requirements beginning in 2027	77,260	77,260
Total 2009A	198,995	198,995
Series 2009B (Federally Taxable)		
5.482% maturing in 2021	9,200	9,200
Series 2009C		
5% maturing in 2021	8,000	8,000
Series 2009D (Federally Taxable Build America Bonds)		
6.184% maturing in 2032 with annual sinking fund requirements beginning in 2030	65,525	68,650
Series 2010A		
3.00% to 5.00% maturing annually from 2014 to 2021	69,420	74,765
Series 2010B		
5.00% maturing annually from 2020 to 2021	68,885	68,885
Series 2012A		
2.00% to 5% maturing annually from 2014 to 2020	400,605	462,550
Series 2012B		
3.00% to 5% maturing annually from 2021 to 2032	101,295	101,295
Series 2012C (Federally Taxable)		
2.447% to 3.922% maturing annually from 2021 to 2032	41,185	41,185
Total Bonds Outstanding	1,314,455	1,433,090
Current maturities of bonds	(117,720)	(115,510)
Total Long-Term Debt, Bonds	\$ 1,196,735	\$ 1,317,580

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

G. Bonds (continued)

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates the year prior to the January 1 maturity and deposited into the Bond Fund for payment when due. Current maturities of \$117,720,000 at December 31, 2014 were collected monthly through rates during 2014 and were deposited into the Bond Fund to make the January 1, 2015 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2014 are as follows (in thousands of dollars):

Year	Principal	Interest	Total
2015	\$ 128,150	\$ 58,079	\$ 186,229
2016	138,235	52,158	190,393
2017	147,475	45,081	192,556
2018	154,075	38,145	192,220
2019 to 2023	321,735	108,501	430,236
2024 to 2028	180,145	60,291	240,436
2029 to 2032	126,920	13,497	140,417
Total	<u>\$ 1,196,735</u>	<u>\$ 375,752</u>	<u>\$ 1,572,487</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2014 and 2013 market prices for similar securities. Using these yield curves, market prices were estimated for each individual maturity and the individual maturities were summed to arrive at an estimated fair market value of \$1,478,019,000 and \$1,501,339,564 at December 31, 2014 and 2013, respectively.

Certain proceeds of the Series 1998A, 2003A, 2003B (subsequently paid at maturity), 2008A, 2008B, 2009A, 2009B, 2010A, 2010B, and 2012A bonds were used to establish trusts for the refunding of \$2,454,110,000 of previously issued bonds at December 31, 2012. At December 31, 2014, \$2,415,835,000 of these bonds has been redeemed leaving \$38,275,000 of defeased bonds 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 respective Refunding Trust Funds along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due and to redeem all refunded bonds at various dates prior to their original maturities at par. The monies on deposit in each Refunding Trust Fund, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

Interest on the bonds is payable semi-annually.

Certain of the following bonds are subject to redemption prior to maturity at the option of the Agency, on or after the following dates at a maximum of 100% of the respective principal amounts:

Series 2003A	January 1, 2013
Series 2008A and C	January 1, 2018
Series 2009A and C	January 1, 2019
Series 2010A and B	January 1, 2020

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

G. Bonds (continued)

The Series 2009 B and D Bonds are subject to redemption on any business day at the Make Whole Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. The Series 2009D are also subject to redemption on any business day at the Extraordinary Optional Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. An Extraordinary Event will have occurred if the Agency determines that a material adverse change has occurred which is not the Agency's fault, which results in a reduction or elimination of the Federal subsidy payment.

The bonds are special obligations of the Agency, payable solely from and secured solely by (1) project revenues (as defined by the Resolution) after payment of project 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 project revenues (as defined by the Resolution) generated as a result of the Project Power Sales Agreements and Interconnection Agreement. The purpose of the individual funds is specifically defined in the Resolution.

The Resolution requires that the agency maintains a reserve fund balance in an amount to sufficiently cover the highest annual debt service payment over the life of the bonds, which was \$189,281,000 and \$189,281,000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the reserve were \$190,678,000 and \$190,916,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling \$18,928,000 and \$18,928,000 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the balances of the contingency fund were \$19,040,000 and \$19,109,000, respectively.

As of December 31, the Agency had \$56,243,000 and \$99,712,000 in unspent bond funds in restricted cash and investments for 2014 and 2013, respectively.

H. Commitments and Contingencies

Duke maintains, on behalf of all co-owners of the Catawba station, 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, Duke, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$13.6 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The remaining amount of approximately \$13.2 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. 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 is no longer operational and has been exempted from the program. The Agency is liable for 37.5% of these premiums.

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$127 million per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of \$19 million per unit owned. If any such payments are required, the Agency would be liable for 37.5% of those payment amounts.

The Price Anderson Act expires in 2025.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

H. Commitments and Contingencies (continued)

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the station is \$1.5 billion. If the insurer's losses ever exceed its reserves, Duke will be liable, on a pro rata basis, for additional assessments of up to \$25.64 million. This amount represents ten times of Catawba's annual premium. Excess property damage, decontamination and decommissioning liability insurance of \$1.25 billion have also been purchased. If industry losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, Catawba will be liable, on a pro rata basis, for additional assessments of up to \$7.32 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

Duke also purchases on behalf of all co-owners, increased cost of generation and/or purchased power insurance resulting from an accidental outage of a nuclear unit. Each unit at Catawba is insured for up to approximately \$3.5 million per week, after a 12-week deductible period, with declining amounts per unit where more than one unit is involved in the accidental outage. The coverage continues at 100% for 52 weeks and 80% for the next 110 weeks. The accident outage policy limit is \$490 million per unit. If the insurer's losses exceed its reserves for this program, Catawba will be liable, on a pro rata basis, for additional assessments of up to \$9.25 million which represents ten times Catawba's annual premium.

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

I. Subsequent Events

The Agency has evaluated subsequent events through April 1, 2015, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

North Carolina Municipal Power Agency Number 1
Schedules of Revenues and Expenses Per Bond Resolution and Other Agreements
(\$000s)

	Year Ended December 31, 2014		
	Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 348,900	\$ 88,756	\$ 437,656
Sales to utilities	96,133	-	96,133
Investment income	7,334	876	8,210
Excess Funds valuation	18,843	-	18,843
Other revenue	1,572	93	1,665
Total Revenues	472,782	89,725	562,507
Expenses:			
Operation and maintenance	124,769	829	125,598
Nuclear fuel	36,229	-	36,229
Fossil fuel	-	523	523
Interconnection services:			
Purchased power	38,685	30,686	69,371
Transmission and distribution	-	13,993	13,993
Other	-	2,047	2,047
Total interconnection services	38,685	46,726	85,411
Administrative and general – Duke	33,193	-	33,193
Administrative and general – Agency	4,371	5,106	9,477
Miscellaneous Agency expenses	387	2,998	3,385
Gross receipts and excise taxes	8,822	544	9,366
Property tax	18,981	374	19,355
Debt service	185,981	-	185,981
Special funds deposits:			
Decommissioning fund	2,000	5,377	7,377
Revenue	1,300	-	1,300
Reserve and contingency fund	18,064	-	18,064
Total special funds deposits	21,364	5,377	26,741
Total Expenses	472,782	62,477	535,259
Excess of (Expenses) Over Revenues	\$ -	\$ 27,248	\$ 27,248

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014 and 2013.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2013		
<u>Project</u>	<u>Supple- mental</u>	<u>Total</u>
\$ 375,841	\$ 38,983	\$ 414,824
97,874	-	97,874
5,500	1,017	6,517
18,414	-	18,414
1,368	98	1,466
<u>498,997</u>	<u>40,098</u>	<u>539,095</u>
121,018	1,610	122,628
59,976	-	59,976
-	617	617
39,767	22,747	62,514
-	13,059	13,059
-	1,974	1,974
<u>39,767</u>	<u>37,780</u>	<u>77,547</u>
33,134	-	33,134
4,799	9,517	14,316
-	-	-
15,022	1,215	16,237
21,013	396	21,409
183,976	-	183,976
1,137	6,239	7,376
-	-	-
<u>19,155</u>	<u>-</u>	<u>19,155</u>
<u>20,292</u>	<u>6,239</u>	<u>26,531</u>
<u>498,997</u>	<u>57,374</u>	<u>556,371</u>
<u>\$ -</u>	<u>\$ (17,276)</u>	<u>\$ (17,276)</u>

North Carolina Municipal Power Agency Number 1
Budgetary Comparison Schedule
Year Ended December 31, 2014
(\$000's)

	2014 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
Sales to participants	\$436,116	\$440,616	\$ 437,656	\$ (2,960)
Sales to utilities	88,021	93,021	96,133	3,112
Investment income	8,312	8,312	8,210	(102)
Excess Funds valuation	18,064	18,064	18,843	779
Other revenues	1,432	1,932	1,665	(267)
Total Revenues	<u>\$551,945</u>	<u>\$561,945</u>	<u>562,507</u>	<u>562</u>
Expenses:				
Operations and maintenance	116,504	121,504	125,598	(4,094)
Nuclear fuel	56,339	56,339	36,229	20,110
Fossil fuel	1,193	1,193	523	670
Interconnection services:				
Purchased power	63,929	63,929	69,371	(5,442)
Transmission and distribution	15,554	15,554	13,993	1,561
Other interconnection expenses	2,069	2,069	2,047	22
Total interconnection services	<u>81,552</u>	<u>81,552</u>	<u>85,411</u>	<u>(3,859)</u>
Administrative and general – Duke	38,538	38,538	33,193	5,345
Power Agency services	14,042	14,042	12,862	1,180
Taxes	30,996	30,996	28,721	2,275
Debt service	182,212	182,212	185,981	(3,769)
Special funds deposits	25,441	25,441	26,741	(1,300)
Total Expenses	<u>546,817</u>	<u>551,817</u>	<u>535,259</u>	<u>16,558</u>
Excess of Revenues Over Expenses	<u>\$5,128</u>	<u>\$ 10,128</u>	<u>\$ 27,248</u>	<u>\$ 17,120</u>

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014.

See accompanying Report of Independent Auditor.

This page intentionally left blank.

North Carolina Municipal Power Agency Number 1
Schedule of Changes in Assets of Funds Invested
(\$000's)

	Funds Invested January 1, 2013	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers
Construction Fund	\$ 146,618	\$ -	\$ 437	\$ (47,282)	\$ (4,318)
Bond Fund:					
Interest account	23,710	-	16	(59,259)	69,675
Reserve account	178,508	-	5,135	-	2,479
Principal account	<u>83,435</u>	<u>-</u>	<u>61</u>	<u>(83,425)</u>	<u>115,458</u>
Total Bond Fund	285,653	-	5,212	(142,684)	187,612
Revenue and Contingency Fund	18,581		269	3,063	(3,033)
Revenue Fund:					
Revenue account	26,274	385,970	7	29,751	(419,966)
Rate Stabilization account	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue Fund	26,274	385,970	7	29,751	(419,966)
Operating Fund:					
Working Capital account	39,755	-	123	(199,166)	208,080
Fuel account	<u>20,249</u>	<u>-</u>	<u>-</u>	<u>(55,396)</u>	<u>54,577</u>
Total Operating Fund	60,004	-	123	(254,562)	262,657
Supplemental Fund:					
Supplemental account	93,822	26,661	1,015	(27,692)	(29,191)
Reserve for future costs	9,276	-	136		6,239
Supplemental Reserve account	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Supplemental Fund	<u>103,098</u>	<u>26,661</u>	<u>1,151</u>	<u>(27,692)</u>	<u>(22,952)</u>
Total Funds Invested	<u>\$ 640,228</u>	<u>\$ 412,631</u>	<u>\$ 7,199</u>	<u>\$ (439,406)</u>	<u>\$ -</u>

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2014 and 2013.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2013	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2014
\$ 95,455	\$ -	\$ 319	\$ (39,565)	\$ -	\$ 56,209
34,142	-	17	(66,184)	64,070	32,045
186,122	-	4,794	-	(4,807)	186,109
<u>115,529</u>	<u>-</u>	<u>85</u>	<u>(115,510)</u>	<u>117,700</u>	<u>117,804</u>
335,793	-	4,896	(181,694)	176,963	335,958
18,880	-	339	939	(1,251)	18,907
22,036	362,144	43	42,232	(404,744)	21,711
-	-	-	-	-	-
<u>22,036</u>	<u>362,144</u>	<u>43</u>	<u>42,232</u>	<u>(404,744)</u>	<u>21,711</u>
48,792	-	140	(207,839)	206,044	47,137
19,430	-	-	(27,053)	44,999	37,376
<u>68,222</u>	<u>-</u>	<u>140</u>	<u>(234,892)</u>	<u>251,043</u>	<u>84,513</u>
64,615	73,932	876	(42,736)	(27,387)	69,300
15,651	-	196	-	5,376	21,223
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>80,266</u>	<u>73,932</u>	<u>1,072</u>	<u>(42,736)</u>	<u>(22,011)</u>	<u>90,523</u>
<u>\$ 620,652</u>	<u>\$ 436,076</u>	<u>\$ 6,809</u>	<u>\$ (455,716)</u>	<u>\$ -</u>	<u>\$ 607,821</u>