

A man with short brown hair, smiling, stands in front of a large wooden barn. He is wearing a light blue button-down shirt with the sleeves rolled up, dark blue jeans, and a brown leather belt with a gold buckle. His hands are clasped in front of him. The barn has large wooden doors and a dark roof with exposed beams. In the background, a brick building and a red tractor are visible.

# SUPERIOR SERVICE

North Carolina Municipal Power Agency Number 1  
2016 Financial Report



**NORTH CAROLINA MUNICIPAL  
POWER AGENCY NUMBER 1**

Annual Financial Report  
(With Report of Independent Auditor Thereon)

December 31, 2016 and 2015

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## **Independent Auditor's Report**

To the Board of Directors  
North Carolina Municipal Power Agency 1  
Raleigh, North Carolina

**RSM US LLP**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of North Carolina Municipal Power Agency 1 (the Agency), which are comprised of the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Municipal Power Agency 1 as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the year ended December 31, 2016 and 2015, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the "Management's Discussion and Analysis" on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Carolina Municipal Power Agency 1's basic financial statements. The budgetary schedules and statements as listed in the table of contents as "Supplementary Information" are presented for purposes of additional analysis and are not a required part of the basic financial statements of North Carolina Municipal Power Agency 1.

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 12, 2017



## **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, 2016 and 2015. 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.

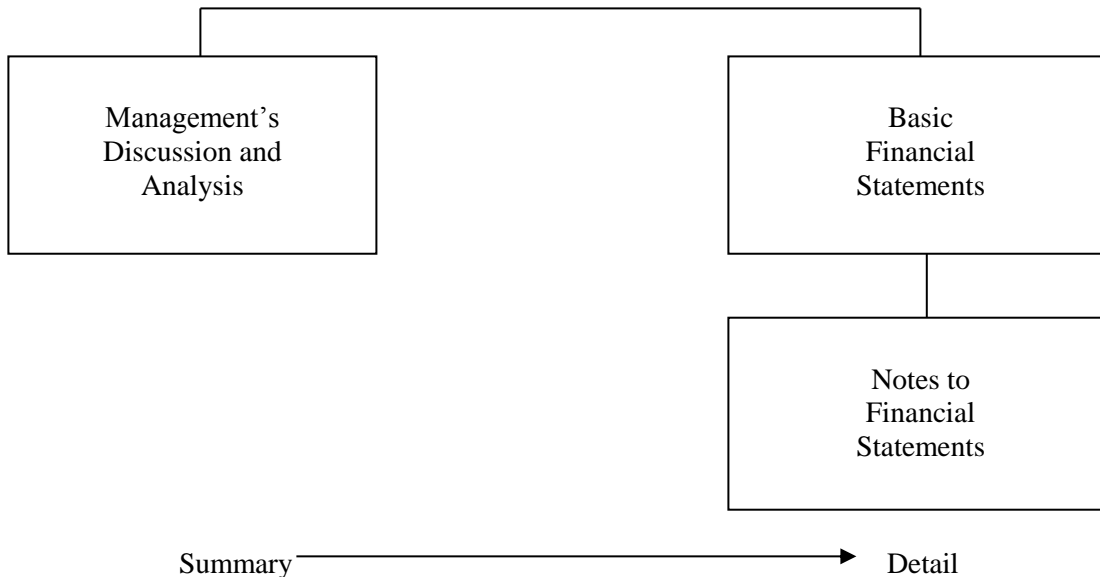
#### **Financial Highlights**

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2016 and 2015, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$162,799,000 and \$117,145,000 (net position).
- The Agency's net position increased by \$45,654,000 and \$38,621,000 for 2016 and 2015, respectively.
- Year-end 2016 and 2015 unrestricted net position deficit was \$557,547,000 and \$629,115,000, respectively, after decreasing \$71,568,000 and increasing \$20,314,000, respectively.
- The Agency's total debt decreased by \$37,845,000 and \$141,250,000 during 2016 and 2015, respectively, as follows:
  - Decreased \$30,270,000 and \$117,720,000 due to principal paid in 2016 and 2015, respectively, in accordance with the debt service schedules.
  - Decreased \$7,575,000 in 2016 due to the refunding of certain outstanding bonds.
- In February 2016, the Agency issued \$69,380,000 of Series 2016A bonds to refund \$79,955,000 of 2009A Series. The bonds pay interest of 4.0% to 5.0% and mature annually from 2022 to 2030. Net present value savings realized was \$8,637,599 with debt service savings ranging from \$292,000 to \$941,000.
- The bond ratings remained the same as follows:
  - Standard and Poor's – A (stable).
  - Moody's – A2 (stable).
  - Fitch – A (stable).
- There was no rate change in 2016 and the Agency decreased rates to Participants by 6% effective July 1, 2015, 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 36 of this report.

After the notes, supplemental information is provided to show how the Agency's rates recovered its expenses as defined by the Bond Resolution, to show the Agency's performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 38 to 43 of this report.

### Financial Analysis

The electric enterprise fund financial statements for the years ended December 31, 2016 and 2015 are presented in accordance with the Governmental Accounting Standards Board (GASB).

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

	December 31,		
	2016	2015	2014
<b>Assets and Deferred Outflows of Resources</b>			
Capital assets	\$ 1,170,253	\$ 1,187,230	\$ 1,162,774
Current and other assets	1,077,207	974,332	1,016,155
Deferred outflows of resources	74,834	78,461	66,573
Total assets and deferred outflows of resources	2,322,294	2,240,023	2,245,502
<b>Liabilities and Deferred Inflows</b>			
Non-current liabilities	1,533,017	1,599,448	1,604,577
Current liabilities	142,908	85,789	175,090
Deferred inflows of resources	483,570	437,641	387,311
Total liabilities and deferred inflows of resources	2,159,495	2,122,878	2,166,978
<b>Net Position</b>			
Net invested in capital assets	605,269	649,658	489,567
Restricted for debt service	115,077	96,602	197,758
Unrestricted	(557,547)	(629,115)	(608,801)
Total Net Position	\$ 162,799	\$ 117,145	\$ 78,524

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 \$162,799,000, \$117,145,000 and \$78,524,000 at December 31, 2016, 2015 and 2014, respectively, representing an increase of \$45,654,000 in 2016 and \$38,621,000 in 2015.

The first portion of net position of \$605,269,000, \$649,658,000 and \$489,567,000 at December 31, 2016, 2015 and 2014, 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, including related net premiums, discounts, refunding losses and debt issuance costs.

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 \$115,077,000, \$96,602,000 and \$197,758,000 as of December 31, 2016, 2015 and 2014, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(557,547,000), \$(629,115,000) and \$(608,801,000) as of December 31, 2016, 2015 and 2014, 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,		
	2016	2015	2014
<b>Revenues:</b>			
Sales of electricity and other operating revenue	\$ 529,108	\$ 531,108	\$ 535,454
Nonoperating revenues and changes in fair value	8,310	8,969	26,866
Total Revenues	537,418	540,077	562,320
<b>Expenses:</b>			
Operating expenses	394,743	396,894	370,777
Interest on long-term debt	54,656	55,905	65,136
Other nonoperating expenses	42,365	48,657	99,159
Total Expenses	491,764	501,456	535,072
Change in Net Position	45,654	38,621	27,248
Net Position, Beginning of the year	117,145	78,524	51,276
Net Position, End of the year	<u>\$ 162,799</u>	<u>\$ 117,145</u>	<u>\$ 78,524</u>

**Financial Highlights**

- There was no rate change in 2016 and the Agency implemented a 6% decrease effective July 1, 2015, 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, 2016, 2015 and 2014 totaled \$1,170,253,000, \$1,187,230,000 and \$1,162,774,000, respectively, (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2016 and 2015 include the following:

- Construction work in progress increased \$34,070,000 and \$43,204,000 in 2016 and 2015, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$24,190,000 and \$57,850,000 in 2016 and 2015, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$38,232,000 and \$35,944,000 for 2016 and 2015, respectively.
- Nuclear Fuel was amortized \$53,701,000 and \$46,795,000 for 2016 and 2015, respectively.
- In 2016 and 2015 there were retirements of Electric Utility Plant of \$12,705,000 and \$40,675,000, respectively. There were no write-offs of spent nuclear fuel in 2016 and 2015.

**Capital Assets**  
**Exhibit 4**  
**(\$000s)**

Electric Utility Plant, Net

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,873,905	\$ 1,658	\$ 23,991	\$ (12,705)	\$ 1,886,849
Nuclear fuel	208,159	39,228	-	-	247,387
Total Depreciable Utility Plant	2,082,064	40,886	23,991	(12,705)	2,134,236
Accumulated Depreciation and Amortization					
Electric plant in service	(860,300)	(38,163)	199	12,705	(885,559)
Nuclear fuel	(83,456)	(53,701)	-	-	(137,157)
Total Accumulated Depreciation and Amortization	(943,756)	(91,864)	199	12,705	(1,022,716)
Depreciable Utility Plant, Net	1,138,308	(50,978)	24,190	-	1,111,520
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	27,992	34,070	(24,190)	-	37,872
Total Electric Utility Plant, Net	\$ 1,186,068	\$ (16,908)	\$ -	\$ -	\$ 1,169,160

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,850,975	\$ 6,384	\$ 57,221	\$ (40,675)	\$ 1,873,905
Nuclear fuel	201,315	57,607	(50,763)	-	208,159
Depreciable Utility Plant	2,052,290	63,991	6,458	(40,675)	2,082,064
Accumulated Depreciation and Amortization					
Electric plant in service	(865,736)	(35,868)	629	40,675	(860,300)
Nuclear fuel	(87,424)	(46,795)	50,763	-	(83,456)
Total Accumulated Depreciation and Amortization	(953,160)	(82,663)	51,392	40,675	(943,756)
Depreciable Utility Plant, Net	1,099,130	(18,672)	57,850	-	1,138,308
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	42,638	43,204	(57,850)	-	27,992
Total Electric Utility Plant, Net	\$ 1,161,536	\$ 24,532	\$ -	\$ -	\$ 1,186,068

## Non-Utility Plant and Equipment, Net

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ -	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,588)	(69)	-	-	(4,657)
Total Depreciable Non-Utility Property and Equipment, Net	452	(69)	-	-	383
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,162</u>	<u>\$ (69)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,093</u>

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ -	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,512)	(76)	-	-	(4,588)
Total Depreciable Non-Utility Property and Equipment, Net	528	(76)	-	-	452
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,238</u>	<u>\$ (76)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,162</u>

Additional information on capital assets can be found in Note C beginning on page 23.

## **Outstanding Debt**

The Agency's total debt outstanding at December 31, 2016, 2015 and 2014 was \$1,135,360,000, \$1,173,205,000 and \$1,314,455,000, respectively, all of which are revenue bonds. Total debt decreased by \$37,845,000 (3.23%) and \$141,250,000 (10.75%) during 2016 and 2015, respectively. The decreases were due to principal payments made in accordance with debt service schedules and early redemption net of issuance of new debt.

The Agency's bond ratings remained the same over the two year period as follows:

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

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 31 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 2017**

- Forecasts no change in wholesale rates for the years 2017-2019; the actual rate change will be considered at the Spring 2017 Rate Committee Meeting.
- The load forecast estimates energy and demand growth of 0.6% and 0.6%, respectively, for the period.
- Collection through rates of \$81,845,000 for debt principal due January 1, 2018.
- Anticipates scheduled refueling outages for Catawba Unit 1, McGuire Unit 1 and McGuire Unit2.
- Projects that a total \$30,881,000 will be spent on capital additions at the Catawba plant funded from bonds.

### **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,	
	2016	2015
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,906,617	\$ 1,893,673
Construction work in progress	37,872	27,992
Nuclear fuel	247,387	208,159
Accumulated depreciation and amortization	(1,022,716)	(943,756)
Total Electric Utility Plant, Net	1,169,160	1,186,068
Non-Utility Property and Equipment, Net		
Property and Equipment	5,750	5,750
Accumulated depreciation	(4,657)	(4,588)
Total Non-Utility Property and Equipment, Net	1,093	1,162
Total Capital Assets	1,170,253	1,187,230
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	80,514	110,287
Bond fund	239,469	190,175
Reserve and contingency fund	13,257	13,342
Total Special Funds Invested	333,240	313,804
Trust for Decommissioning Costs (Notes D and F)	325,653	315,831
Total Restricted Assets	658,893	629,635
Total Non-Current Assets	1,829,146	1,816,865
<b>Current Assets</b>		
Funds Invested (Notes D):		
Revenue fund	\$ 58,197	\$ 65,803
Operating fund	85,737	73,409
Supplemental fund	166,154	114,338
Total Funds Invested	310,088	253,550
Participant accounts receivable	32,177	30,769
Operating accounts receivable	11,920	2,723
Plant materials and renewable certificate inventory	64,129	57,655
Total Current Assets	418,314	344,697
Total Assets	\$ 2,247,460	\$ 2,161,562

See accompanying Notes to Financial Statements.

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

	December 31,	
	2016	2015
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Costs of advance refundings of debt	\$ 70,118	\$ 72,292
Unamortized debt issuance costs	4,716	6,169
Total Deferred Outflows of Resources	<u>\$ 74,834</u>	<u>\$ 78,461</u>
<b>LIABILITIES</b>		
<b>Non-Current Liabilities</b>		
Long-Term Debt:		
Bonds (Note H)	\$ 1,055,970	\$ 1,142,935
Unamortized premium	101,624	101,637
Total Long-Term Debt, net	1,157,594	1,244,572
Asset Retirement Obligation (Note F)	375,423	354,876
Total Non-Current Liabilities	1,533,017	1,599,448
<b>Current Liabilities</b>		
Operating Liabilities:		
Accounts payable	36,052	28,722
Accrued taxes	184	132
Total Operating Liabilities	36,236	28,854
Special Funds Liabilities:		
Current maturities of bonds (Note H)	79,390	30,270
Accrued interest on bonds	27,282	26,665
Total Special Funds Liabilities	106,672	56,935
Total Current Liabilities	142,908	85,789
Total Liabilities	<u>\$ 1,675,925</u>	<u>\$ 1,685,237</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Collections to be expended (Note G)	483,570	437,641
Total Deferred Inflows of Resources	<u>\$ 483,570</u>	<u>\$ 437,641</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 605,269	\$ 649,658
Restricted for debt service	115,077	96,602
Unrestricted (deficit)	(557,547)	(629,115)
Total Net Position	<u>\$ 162,799</u>	<u>\$ 117,145</u>

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

	Years Ended December 31,	
	2016	2015
<b>Operating Revenues:</b>		
Sales to participants	\$ 427,284	\$ 434,049
Sales to utilities	100,353	95,420
Other revenues	1,471	1,639
Total Operating Revenues	529,108	531,108
<b>Operating Expenses:</b>		
Operation and maintenance	118,752	134,226
Fuel	54,221	47,930
Interconnection services:		
Purchased power	74,319	72,967
Transmission and distribution	17,511	16,355
Other	814	892
Total interconnection services	92,644	90,214
Administrative and general	47,306	47,406
Gross receipts and excise taxes	2,108	2,043
Property tax	20,933	19,708
Depreciation	38,232	35,944
Amortization of asset retirement obligation	20,547	19,423
Total Operating Expenses	394,743	396,894
Operating Income	134,365	134,214
<b>Nonoperating (Revenues) Expenses</b>		
Investment income	(16,177)	(16,642)
Net (increase) decrease in fair value of investments	7,867	7,673
Interest expense	54,656	55,905
Amortization of debt refunding costs	11,273	13,928
Amortization of debt discount, premium costs and issuance costs	(14,837)	(15,601)
Net decrease in costs to be recovered (Note G)	33,421	32,380
Net increase in collections to be expended (Note G)	12,508	17,950
Total Nonoperating (Revenues) Expenses	88,711	95,593
Change in Net Position	45,654	38,621
Net Position, Beginning of Year	117,145	78,524
Net Position, End of Year	\$ 162,799	\$ 117,145

See accompanying Notes to Financial Statements.

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

	Years Ended December 31,	
	2016	2015
<b>Cash Flows from Operating Activities:</b>		
Receipts from sales of electricity	\$ 517,032	\$ 538,778
Receipts from other revenues	1,471	1,639
Payments of operating expenses	(281,223)	(295,317)
Net cash provided by operating activities	237,280	245,100
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Refunding Bonds issued	69,380	480,065
Interest paid	(84,309)	(61,283)
Additions to electric utility plant and non-utility property and equipment	(75,088)	(108,157)
Deposited in escrow for refunding	(76,955)	(503,595)
Principal paid	-	(117,720)
Debt (discount) premium net of issuance costs	7,179	19,033
Investment earnings receipts from construction fund	875	262
Net cash used for capital and related financing activities	(158,918)	(291,395)
<b>Cash Flows from Investing Activities:</b>		
Sales and maturities of investment securities	1,097,016	1,314,334
Purchases of investment securities	(1,183,506)	(1,275,181)
Investment earnings receipts	8,108	7,182
Net cash provided by (used in) investing activities	(78,382)	46,335
Net Increase (Decrease) in Operating Cash	(20)	40
Operating Cash, Beginning of year	72	32
Operating Cash, End of year	<u>\$ 52</u>	<u>\$ 72</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 134,365	\$ 134,214
Adjustments:		
Depreciation	38,232	35,944
Amortization of nuclear fuel	53,833	47,757
Amortization of asset retirement obligation	20,547	19,423
Changes in assets and liabilities:		
(Increase)/ Decrease in participant accounts receivable	(1,408)	3,293
(Increase)/ Decrease in operating accounts receivable	(9,197)	6,052
Increase in plant materials and renewable certificate inventory	(6,474)	(5,110)
Increase in accounts payable	7,330	3,980
Increase/(Decrease) in accrued taxes	52	(453)
Total Adjustments	102,915	110,886
Net Cash Provided by Operating Activities	<u>\$ 237,280</u>	<u>\$ 245,100</u>

See accompanying Notes to Financial Statements.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**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 \$231,223,000 and \$271,118,000 in 2016 and 2015, respectively.



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**A. General Matters (continued)**

The Agency entered 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 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 150 MW of capacity and the associated energy as scheduled by the Agency for the period 2016 through 2030.
- Agreement with Duke for the purchase of 50 MWh of energy as scheduled by the Agency, and for the sale by the Agency of up to 100 MWh per hour of energy through 2016, and a separate similar agreement for 2017.
- Agreement with Southern Power Company for the purchase of approximately 183 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 2017 until terminated (Evergreen).
- Agreement with Southern Power Company for a put option related to Catawba Project surplus energy, involving the sale of up to 200 MWh 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 18 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 38 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, 2016 and 2015**

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**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, 2016, 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. Neither party has given notice as of December 31, 2016.

For the years ended December 31, 2016 and 2015, the Agency paid ElectriCities \$13,940,000 and \$13,788,000, 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**  
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**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, 2016, the remaining life for Catawba Units 1 and 2 was 27 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 2016 and 2015, 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

All expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until 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 does not include a provision for estimated spent nuclear fuel disposal.

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 2016 and 2015 was \$369,000 and \$1,100,000 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 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2015, 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, 2016 and 2015**

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**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 \$12,069,000 and \$3,161,000, at December 31, 2016 and 2015, 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. 72 "Fair Value Management and Application" which requires investments to be reported at fair value 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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**B. Significant Accounting Policies (continued)**

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 procures 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 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 2015, in lieu of a franchise or privilege tax, the Agency paid 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, 2015 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 \$29,000 and \$52,000 at December 31, 2016 and 2015 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$23,000 and \$20,000 at December 31, 2016 and 2015, 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 \$10,639,000 and \$1,830,000 at December 31, 2016 and 2015, respectively. The cash flows associated with the increase in accounts payable of \$7,330,000 and \$3,980,000 in 2016 and 2015, 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, 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.

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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**B. Significant Accounting Policies (continued)**

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 G beginning on page 30 for more detailed information.

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 balances or results of operations for 2016 or 2015.

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

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

In August 2015, GASB issued Statement No. 77, "Tax Abatement Disclosures." This Statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users.



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
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**B. Significant Accounting Policies (continued)**

As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015, and did not have a material impact on the Agency's financial position, overall cash flow balances or results of operations for 2016 or 2015.

In December 2015, GASB issued Statement No. 78, "Pension Provided through Certain Multiple- Employer Defined Benefit Pension Plans." This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015, and did not have a material impact on the Agency's financial position, overall cash flow balances or results of operations for 2016 or 2015.

In December 2015, GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants." This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015, and did not have a material impact on the Agency's financial position, overall cash flow balances or results of operations for 2016 or 2015.

Future Accounting Standards

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

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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**B. Significant Accounting Policies (continued)**

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

In 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 March 2016, GASB issued Statement No. 81, “Irrevocable Split-Interest Agreements” This Statement will enhance accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.” This Statement will address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In November 2016, GASB issued Statement No. 83, “Certain Asset Retirement Obligations”. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for Asset Retirement Obligations. The requirements of this Statement are effective for reporting periods 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.

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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**C. Capital Assets**

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2016 and 2015 are as follows (in thousands of dollars):

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,873,905	\$ 1,658	\$ 23,991	\$ (12,705)	\$ 1,886,849
Nuclear fuel	208,159	39,228	-	-	247,387
Total Depreciable Utility Plant	2,082,064	40,886	23,991	(12,705)	2,134,236
Accumulated Depreciation and Amortization					
Electric plant in service	(860,300)	(38,163)	199	12,705	(885,559)
Nuclear fuel	(83,456)	(53,701)	-	-	(137,157)
Total Accumulated Depreciation and Amortization	(943,756)	(91,864)	199	12,705	(1,022,716)
Depreciable Utility Plant, Net	1,138,308	(50,978)	24,190	-	1,111,520
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	27,992	34,070	(24,190)	-	37,872
Total Electric Utility Plant, Net	<u>\$ 1,186,068</u>	<u>\$ (16,908)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,169,160</u>
	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,850,975	\$ 6,384	\$ 57,221	\$ (40,675)	\$ 1,873,905
Nuclear fuel	201,315	57,607	(50,763)	-	208,159
Depreciable Utility Plant	2,052,290	63,991	6,458	(40,675)	2,082,064
Accumulated Depreciation and Amortization					
Electric plant in service	(865,736)	(35,868)	629	40,675	(860,300)
Nuclear fuel	(87,424)	(46,795)	50,763	-	(83,456)
Total Accumulated Depreciation and Amortization	(953,160)	(82,663)	51,392	40,675	(943,756)
Depreciable Utility Plant, Net	1,099,130	(18,672)	57,850	-	1,138,308
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	42,638	43,204	(57,850)	-	27,992
Total Electric Utility Plant, Net	<u>\$ 1,161,536</u>	<u>\$ 24,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,186,068</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 2017 and 2018 will be approximately \$92,020,000.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**C. Capital Assets (continued)**

Non-Utility Property and Equipment

Changes in components of non-utility property and equipment, net during 2016 and 2015 are as follows (in thousands of dollars):

	December 31, 2015	Additions	Transfers	Retirements	December 31, 2016
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ -	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,588)	(69)	-	-	(4,657)
Total Depreciable Non-Utility Property and Equipment, Net	452	(69)	-	-	383
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,162</u>	<u>\$ (69)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,093</u>
	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ -	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,512)	(76)	-	-	(4,588)
Total Depreciable Non-Utility Property and Equipment, Net	528	(76)	-	-	452
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,238</u>	<u>\$ (76)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,162</u>

**D. Investments**

The Agency categorizes its fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The Agency invests in the North Carolina Cash Management Trust (NCCMT) Term and cash portfolios. The NCCMT cash 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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

**D. Investments (continued)**

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

		December 31,			
		2016		2015	
	Method of Valuation	Cost Basis	Fair Value	Cost Basis	Fair Value
Commercial Paper	Fair Value Level 1	\$ 3,832	\$ 3,840	\$ 2,394	\$ 2,397
U.S. Government Agencies	Fair Value Level 1	308,936	308,607	287,992	288,327
U.S. Treasury Securities	Fair Value Level 1	158,875	165,046	149,311	148,923
Money Market					
NCCMT* -Government Portfolio	Amortized Cost	76,615	76,615	45,952	45,952
NCCMT* -Term Portfolio	Fair Value Level 1	66,218	66,218	75,615	75,615
Collateralized mortgage obligations	Fair Value Level 2	21,691	21,542	4,422	4,886
Sub-total funds invested		636,167	641,868	565,686	566,100
Decommissioning Trust securities:					
U.S. government agencies	Fair Value Level 1	84,423	91,455	121,463	129,124
U.S. Treasury Securities	Fair Value Level 1	135,950	194,515	129,004	186,153
Collateralized mortgage obligations	Fair Value Level 2	39,551	38,908	-	-
Money Market					
NCCMT* -Government Portfolio	Amortized Cost	16	16	-	-
NCCMT* -Term Portfolio	Fair Value Level 1	42	42	35	35
Sub-total funds invested		259,982	324,936	250,502	315,312
Cash					
Operating cash		29	29	52	52
Restricted cash		23	23	20	20
Accrued interest		2,125	2,125	1,701	1,701
Total funds invested		\$ 898,326	\$ 968,981	\$ 817,961	\$ 883,185
Consisting of:					
Special funds invested			\$ 333,240		\$ 313,804
Decommissioning Trust			325,653		315,831
Operating assets			310,088		253,550
Total funds invested			\$ 968,981		\$ 883,185

\* NC Capital Management Trust

**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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
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**D. Investments (continued)**

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

December 31, 2016					
	Recorded	Investment Maturity (In Years)			
	Value	Less Than 1	1-5	6-10	More than 10
Commercial Paper	\$ 3,840	\$ 3,840			-
U.S. Government Agencies	308,607	136,893	171,714	-	-
U.S. Treasury Securities	165,046	57,657	107,389	-	-
Money Market	142,833	142,833	-	-	-
Collateralized mortgage obligations	21,542		2,273	5,979	13,290
Sub-total funds invested	641,868	341,223	281,376	5,979	13,290
Decommissioning Trust securities	324,936	58	137,694	116,315	70,869
Total	<u>\$ 966,804</u>	<u>\$ 341,281</u>	<u>\$ 419,070</u>	<u>\$ 122,294</u>	<u>\$ 84,159</u>

December 31, 2015					
	Recorded	Investment Maturity (In Years)			
	Value	Less Than 1	1-5	6-10	More than 10
Commercial Paper	\$ 2,397	\$ 2,397	\$ -	\$ -	-
U.S. Government Agencies	437,250	111,982	320,735	4,533	-
Money Market	-	121,567	-	-	-
Collateralized mortgage obligations	4,886	-	4,886	-	-
Sub-total	444,533	235,946	325,621	4,533	-
Decommissioning Trust securities	315,312	11,430	166,773	133,369	3,740
Total	<u>\$ 759,845</u>	<u>\$ 247,376</u>	<u>\$ 492,394</u>	<u>\$ 137,902</u>	<u>\$ 3,740</u>

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

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 agencies	\$ 185,930	\$ 2,126	\$ 79,159	\$ 547	\$ 265,089	\$ 2,673
Collateralized mortgage obligations	19,267	347	-	-	\$ 19,267	\$ 347
Sub-total	205,197	2,473	79,159	547	284,356	3,020
Decommissioning Trust securities	76,863	3,446	39,116	206	115,979	3,652
Total	<u>\$ 282,060</u>	<u>\$ 5,919</u>	<u>\$ 118,275</u>	<u>\$ 753</u>	<u>\$ 400,335</u>	<u>\$ 6,672</u>

December 31, 2015						
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 212,044	\$ 1,115	\$ 83,580	\$ 334	\$ 295,624	\$ 1,449
Collateralized mortgage obligations	-	-	-	-	-	-
Sub-total	212,044	1,115	83,580	334	295,624	1,449
Decommissioning Trust securities	15,579	95	55,826	694	71,405	789
Total	<u>\$ 227,623</u>	<u>\$ 1,210</u>	<u>\$ 139,406</u>	<u>\$ 1,028</u>	<u>\$ 367,029</u>	<u>\$ 2,238</u>



**North Carolina Municipal Power Agency Number 1**  
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**Years Ended December 31, 2016 and 2015**

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**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, 2016, and 2015 the Agency has no investments in repurchase agreements. The Agency's investments in US Government Agencies, US Treasury Strips, US Treasury Securities 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 commercial paper at December 31, 2016 were rated A-1+ by S&P and P-1 by Moody's. The Agency's investments in Money Market Instruments—namely, in the North Carolina Capital Management Trust- Cash 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 with any one issuer. The Agency's investments by issuer are detailed in the following schedule (in thousands of dollars):

Issuer	December 31, 2016		December 31, 2015	
	Recorded Value	Percentage	Recorded Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 83,003	8.6%	\$ 126,089	14.3%
Federal National Mortgage Association	188,698	19.5%	101,382	11.5%
Federal Home Loan Bank	151,816	15.7%	161,232	18.3%
Federal Farm Credit Bank	34,219	3.5%	30,921	3.5%
Resolution Funding Corporation	2,774	0.3%	2,712	0.3%
US Bank National Association	3,841	0.4%	2,397	0.3%
Money Market Fund - NC Capital Management Trust	142,891	14.8%	121,602	13.8%
US Treasury Department	359,562	37.2%	335,077	38.0%
Total	<u>\$ 966,804</u>	<u>100.0%</u>	<u>\$ 881,412</u>	<u>100.0%</u>

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**D. Investments (continued)**

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. At December 31, 2016 and 2015, the Agency had \$29,000 and \$52,000, 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. Renewable Energy Certificate Inventory**

The following show RECs activity during 2016 (in thousands of dollars):

Summary of Changes in RECs				
	Balance 12/31/2015	Additions	Retirements	Balance 12/13/2016
RECs	3,964	2,199	(390)	5,773

**F. 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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**F. Decommissioning Costs (continued)**

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.

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 2016 and 2015 are as follows (in thousands of dollars):

	<u>Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 354,876	\$ 335,453
Accretion expense	<u>20,547</u>	<u>19,423</u>
Balance, end of year	<u><u>\$ 375,423</u></u>	<u><u>\$ 354,876</u></u>

**G. Costs To Be Recovered and Collections To Be Expended**

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

The differences between debt principal maturities (adjusted for the effects of premiums, discounts and amortization of deferred gains and losses) and straight-line depreciation and 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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
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**G. Costs To Be Recovered and Collections To Be Expended (continued)**

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.

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

	Years Ended December 31,		Inception to December 31,	
	2016	2015	2016	2015
Costs to be recovered				
Net deferred interest	\$ -	\$ -	\$ 155,316	\$ 155,316
Amortization of debt discount, premium & issuance costs	(14,837)	(15,601)	34,554	49,391
Depreciation and amortization	58,779	55,367	1,380,102	1,321,323
Amortization of debt refunding costs	11,273	13,928	590,743	579,470
Deferred Fuel	(786)	(4,477)	(17,806)	(17,020)
Participant billing offsets	(87,850)	(81,597)	(2,278,717)	(2,190,867)
Other unrecovered costs	-	-	23,749	23,749
Total Costs To Be Recovered *	<u>\$ (33,421)</u>	<u>\$ (32,380)</u>	<u>\$ (112,059)</u>	<u>\$ (78,638)</u>
	Years Ended December 31,		Inception to December 31,	
	2016	2015	2016	2015
Collections to be expended				
Net special funds (withdrawals)/deposits	\$ 1,443	\$ 8,700	\$ 38,999	\$ 37,556
Restricted investment income	11,245	9,480	311,565	300,320
Rate stabilization funds used for other than operations	-	-	(53,393)	(53,393)
Special Funds Valuations	1,213	2,332	(14,479)	(15,692)
Net decrease (increase) in fair value of investments	(7,867)	(7,673)	10,765	18,632
Asset Retirement Obligation Provision	-	-	31,288	31,288
Other collections to be expended	6,474	5,111	46,766	40,292
Total Collections To Be Expended	<u>\$ 12,508</u>	<u>\$ 17,950</u>	<u>\$ 371,511</u>	<u>\$ 359,003</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, 2016 and 2015**

**H. 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 2016 and 2015 (in thousands of dollars):

**Summary of Changes in Long term Liability**

	December 31, 2015	Additions	Reductions	December 31, 2016	Amounts Due within One Year
Bonds payable	<u>\$ 1,173,205</u>	<u>\$ 69,380</u>	<u>\$ (107,225)</u>	<u>\$ 1,135,360</u>	<u>\$ 79,390</u>
	December 31, 2014	Additions	Reductions	December 31, 2015	Amounts Due within One Year
Bonds payable	<u>\$ 1,314,455</u>	<u>\$ 480,065</u>	<u>\$ (621,315)</u>	<u>\$ 1,173,205</u>	<u>\$ 30,270</u>

	2016	2015
Bonds Outstanding - Beginning of year	\$ 1,173,205	\$ 1,314,455
Principal payments January 1	(30,270)	(117,720)
Bonds Issued		
Series 2016 A	69,380	-
Series 2015 A	-	304,710
Series 2015 B	-	41,265
Series 2015 C	-	92,550
Series 2015 D	-	23,930
Series 2015 E	-	17,610
Bonds Early Redemption		
Series 2008 A	-	(146,430)
Series 2008 C	-	(36,005)
Series 2009 A	(76,955)	(64,665)
Series 2009 C	-	(1,335)
Series 2010 A	-	(12,405)
Series 2010 B	-	(31,980)
Series 2012 A	-	(204,350)
Series 2012 B	-	(6,425)
Bonds Outstanding - End of year	<u>\$ 1,135,360</u>	<u>\$ 1,173,205</u>

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**H. Bonds (continued)**

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

	December 31,	
	2016	2015
Series 2008A		
5.25% maturing annually from 2016 to 2020	72,900	92,220
Series 2008C		
4.0% to 5.25% maturing annually from 2016 to 2020	445	445
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026	30,280	104,285
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027	4,825	16,750
5% maturing in 2030 with annual sinking fund requirements beginning in 2027	22,270	13,295
Total 2009A	57,375	134,330
Series 2009B (Federally Taxable)		
5.482% maturing in 2021	9,200	9,200
Series 2009C		
5% maturing in 2021	6,665	6,665
Series 2009D (Federally Taxable Build America Bonds)		
6.184% maturing in 2032 with annual sinking fund requirements beginning in 2030	65,525	65,525
Series 2010A		
3.00% to 5.00% maturing annually from 2014 to 2021	45,930	51,460
Series 2010B		
5.00% maturing annually from 2020 to 2021	36,905	36,905

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**H. Bonds (continued)**

	December 31,	
	2016	2015
Series 2012A		
2.00% to 5% maturing annually from 2014 to 2020	\$ 154,915	\$ 160,335
Series 2012B		
3.00% to 5% maturing annually from 2021 to 2032	94,870	94,870
Series 2012C (Federally Taxable)		
2.447% to 3.922% maturing annually from 2021 to 2032	41,185	41,185
Series 2015A		
5.0% to 5.25% maturing annually from 2023 to 2032	304,710	304,710
Series 2015B		
3.0% to 5.0% maturing annually from 2022 to 2024	41,265	41,265
Series 2015C		
3.5% to 5.0% maturing annually from 2029 to 2031	92,550	92,550
Series 2015D (Federally Taxable)		
3.34% maturing annually in 2022	23,930	23,930
Series 2015E (Forward Delivery Bonds)		
5.00% maturing annually in 2022 to 2023	17,610	17,610
Series 2016A		
4.0% maturing 2022	2,755	-
4.0% to 5.0% maturing 2024 and 2025	3,595	-
5.0% maturing annually 2027 to 2030	63,030	-
	69,380	-
 Total Bonds Outstanding	 1,135,360	 1,173,205
Current maturities of bonds	(79,390)	(30,270)
Total Long-Term Debt, Bonds	\$ 1,055,970	\$ 1,142,935

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**H. 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 \$79,390,000 at December 31, 2016 were collected monthly through rates during 2016 and were deposited into the Bond Fund to make the January 1, 2017 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2016 are as follows (in thousands of dollars):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 81,845	\$ 50,496	\$ 132,341
2018	71,505	46,987	118,492
2019	41,410	43,617	85,027
2020	55,970	41,619	97,589
2021 to 2025	315,815	168,786	484,601
2026 to 2030	397,525	86,032	483,557
2031 to 2033	91,900	4,752	96,652
Total	<u>\$ 1,055,970</u>	<u>\$ 442,289</u>	<u>\$ 1,498,259</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2016 and 2015 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 \$1,281,799,000 and \$1,353,331,000 at December 31, 2016 and 2015, respectively.

Certain proceeds of the Series 1998A, 2003A, 2003B (subsequently paid at maturity), 2008A, 2008B, 2009A, 2009B, 2010A, 2010B, 2012A, 2015A, 2015B, 2015C, 2015D, 2015E and 2016A bonds were used to establish trusts for the refunding of \$2,905,435,000 of previously issued bonds at December 31, 2016. At December 31, 2016 and 2015, \$2,552,790,000 and \$2,828,780,000 of these bonds has been redeemed leaving \$352,945,000 and \$351,350,000 of defeased bonds still outstanding respectively.

In February 2016, the Agency issued \$69,380,000 of Series 2016A Bonds to refund \$76,955,000 of 2009A Series. The bonds pay interest of 4.0% to 5.0% and mature annually from 2022 to 2030. This bond issuance resulted in net present value savings of \$8,637,599 with debt service savings ranging from \$292,000 to \$941,000.

In July and October 2015, the Agency issued \$480,065,000 of Series 2015A, 2015B, 2015C, 2015D and 2015E Bonds to refund \$503,595,000 of 2008A, 2008C, 2009A, 2009C, 2010A, 2010B, 2012A and 2012B Series. The bonds pay interest of 2.0% to 5.25% and mature annually from 2023 to 2032. This bond issuance extended debt payments from 2026 to 2032 and resulted in net present value losses of \$19,363,000 with debt service savings/(losses) ranging from \$111,061,000 to (\$50,575,000).

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.



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**H. Bonds (continued)**

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 2008A and C	January 1, 2018
Series 2009A and C	January 1, 2019
Series 2010A and B	January 1, 2020
Series 2012A	January 1, 2022
Series 2015A and C	January 1, 2026
Series 2015A Step Coupon	January 1, 2018
Series 2016A	July 1, 2026

The Series 2009 B and D and 2012C 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 and 2012C 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 \$131,920,000 and \$132,438,000 for 2016 and 2015, respectively. As of December 31, 2016, and 2015, the balances of the reserve were \$132,696,000 and \$133,195,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling \$13,192,000 and \$13,244,000 for 2016 and 2015, respectively. As of December 31, 2016, and 2015, the balances of the contingency fund were \$13,237,000 and \$13,342,000, respectively.

As of December 31, the Agency had \$80,720,000 and \$110,067,000 in unspent bond funds in restricted cash and investments for 2016 and 2015, respectively.

**I. 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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2016 and 2015**

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**I. Commitments and Contingencies (continued)**

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 \$13.4 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The remaining amount of approximately \$13.0 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$13.0 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.

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 \$34.4 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 \$7.314 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 \$4.5 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 71.1 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 \$14.5 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.

**J. Subsequent Events**

The Agency has evaluated subsequent events through April 12, 2017, 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 Municipal Power Agency Number 1**  
**Schedules of Revenues and Expenses Per Bond Resolution and Other Agreements**  
**(\$000s)**

	Year Ended December 31, 2016		
	Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 318,288	\$ 108,996	\$ 427,284
Sales to utilities	100,353	-	100,353
Investment income	3,313	1,619	4,932
Excess Funds valuation	9,555	-	9,555
Other revenue	1,394	77	1,471
Total Revenues	432,903	110,692	543,595
Expenses:			
Operation and maintenance	122,514	903	123,417
Nuclear fuel	54,619	388	55,007
Fossil fuel	-	-	-
Interconnection services:			
Purchased power	40,929	33,390	74,319
Transmission and distribution	-	17,511	17,511
Other	-	2,623	2,623
Total interconnection services	40,929	53,524	94,453
Administrative and general – Duke	33,732	-	33,732
Administrative and general – Agency	4,694	5,540	10,234
Miscellaneous Agency expenses	393	2,947	3,340
Gross receipts and excise taxes	2,108	-	2,108
Property tax	20,640	293	20,933
Debt service	134,046	-	134,046
Special funds deposits:			
Decommissioning fund	5,800	-	5,800
Reserve for future costs	-	1,443	1,443
Revenue	-	-	-
Reserve and contingency fund	13,428	-	13,428
Total special funds deposits	19,228	1,443	20,671
Total Expenses	432,903	65,038	497,941
Excess of (Expenses) Over Revenues	\$ -	\$ 45,654	\$ 45,654

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, 2016 and 2015.

See accompanying Report of Independent Auditor.

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Year Ended December 31, 2015		
Project	Supple- mental	Total
\$ 349,235	\$ 84,814	\$ 434,049
95,420	-	95,420
6,431	731	7,162
13,277	-	13,277
1,323	20,315	21,638
465,686	105,860	571,546
137,060	1,147	138,207
52,234	-	52,234
-	173	173
42,917	30,050	72,967
-	16,355	16,355
-	2,021	2,021
42,917	48,426	91,343
33,974	-	33,974
4,552	5,376	9,928
423	3,081	3,504
2,043	-	2,043
19,372	336	19,708
135,115	-	135,115
2,000	-	2,000
-	8,700	8,700
20,000	-	20,000
15,996	-	15,996
37,996	8,700	46,696
465,686	67,239	532,925
\$ -	\$ 38,621	\$ 38,621

**North Carolina Municipal Power Agency Number 1**  
**Budgetary Comparison Schedule**  
**Year Ended December 31, 2016**  
**(\$000's)**

	2016 Budget		Actuals	Positive
	Original	Final	(Budgetary	(Negative)
			Basis)	Variance With
				Final Budget
<b>Revenues:</b>				
Sales to participants	\$ 421,785	\$ 421,785	\$ 427,284	\$ 5,499
Sales to utilities	96,430	96,430	100,353	3,923
Investment income	4,403	4,403	4,932	529
Excess Funds valuation	6,900	6,900	9,555	2,655
Other revenues	1,390	1,390	1,471	81
Total Revenues	530,908	530,908	543,595	12,687
<b>Expenses:</b>				
Operations and maintenance	132,813	132,813	123,417	9,396
Nuclear fuel	52,666	52,666	55,007	(2,341)
Interconnection services:				
Purchased power	68,315	68,315	74,319	(6,004)
Transmission and distribution	17,069	17,069	17,511	(442)
Other interconnection expenses	2,747	2,747	2,623	124
Total interconnection services	88,131	88,131	94,453	(6,322)
Administrative and general – Duke	40,607	40,607	33,732	6,875
Power Agency services	14,550	14,550	13,574	976
Taxes	23,462	23,462	23,041	421
Debt service	134,506	134,506	134,046	460
Special funds deposits	26,361	26,361	20,671	5,690
Total Expenses	513,096	513,096	497,941	15,155
Excess of Revenues Over Expenses	\$ 17,812	\$ 17,812	\$ 45,654	\$ 27,842

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, 2016.

See accompanying Report of Independent Auditor.

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

	Funds Invested January 1, 2015	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers
Construction Fund	\$ 56,209	\$ -	\$ -	\$ 465	\$ 53,796	\$ 116
Bond Fund:						
Interest account	32,045	-	-	19	(61,083)	55,688
Reserve account	186,109	-	-	5,897	(55,841)	(4,178)
Principal account	117,804	-	-	65	(166,660)	79,099
Total Bond Fund	335,958	-	-	5,981	(283,584)	130,609
Reserve and Contingency Fund	18,907		-	311	(5,772)	(139)
Revenue Fund	21,711	-	335,733	292	37,062	(328,856)
Operating Fund:						
Working Capital account	47,137	-	-	160	(190,365)	186,259
Fuel account	37,376	-	-		(55,326)	48,223
Total Operating Fund	84,513	-	-	160	(245,691)	234,482
Supplemental Fund:						
Supplemental account	69,300	-	101,566	730	(42,013)	(24,912)
Reserve for future costs	21,223	-	-	85	-	(11,300)
Total Supplemental Fund	90,523	-	101,566	815	(42,013)	(36,212)
Total Funds Invested	<u>\$ 607,821</u>	<u>\$ -</u>	<u>\$ 437,299</u>	<u>\$ 8,024</u>	<u>\$ (486,202)</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, 2016 and 2015.

See accompanying Report of Independent Auditor.



Funds Invested December 31, 2015	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2016
\$ 110,586	\$ -	\$ -	\$ 851	\$ (30,876)	\$ -	\$ 80,561
26,669	-	-	44	(53,915)	54,504	27,302
131,987	-	-	2,556	(325)	(1,521)	132,697
30,308	-	-	181	(30,268)	79,321	79,542
<u>188,964</u>	<u>-</u>	<u>-</u>	<u>2,781</u>	<u>(84,508)</u>	<u>132,304</u>	<u>239,541</u>
13,307	-	-	220	(2,717)	2,427	13,237
65,942	-	310,345	422	40,849	(359,309)	58,249
43,191	-	-	292	(186,360)	190,016	47,139
30,273	-	-	-	(38,691)	46,974	38,556
<u>73,464</u>	<u>-</u>	<u>-</u>	<u>292</u>	<u>(225,051)</u>	<u>236,990</u>	<u>85,695</u>
104,671	-	115,896	1,618	(52,652)	(13,856)	155,677
10,008	-	-	147	-	1,444	11,599
<u>114,679</u>	<u>-</u>	<u>115,896</u>	<u>1,765</u>	<u>(52,652)</u>	<u>(12,412)</u>	<u>167,276</u>
<u>\$ 566,942</u>	<u>\$ -</u>	<u>\$ 426,241</u>	<u>\$ 6,331</u>	<u>\$ (354,955)</u>	<u>\$ -</u>	<u>\$ 644,559</u>