NCMPA1

North Carolina Municipal Power Agency 1

2017 Financial Report

NORTH CAROLINA MUNICIPAL POWER AGENCY NUMBER 1

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2017 and 2016

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Independent Auditor's Report

RSM US LLP

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

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, 2017 and 2016, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017 and 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our 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 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 13, 2018

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, 2017 and 2016. 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.

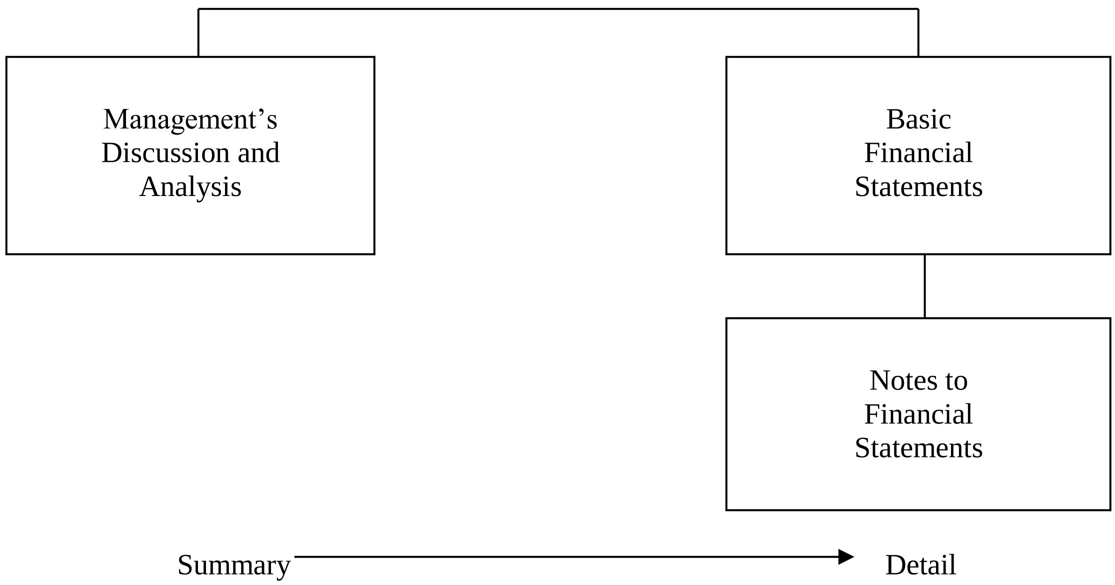
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2017 and 2016, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by $221,315,000 and $162,799,000 (net position).
- The Agency's net position increased by $58,516,000 and $45,654,000 for 2017 and 2016, respectively.
- Year-end 2017 and 2016 unrestricted net position deficit was $518,500,000 and $557,547,000, respectively, after decreasing $39,047,000 and $71,568,000, respectively.
- The Agency's total debt decreased by $79,390,000 and $37,845,000 during 2017 and 2016, respectively, as follows:
    - Decreased $79,390,000 and $30,270,000 due to principal paid in 2017 and 2016, 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. There was no debt issuance in 2017.
- The bond ratings remained the same as follows:
    - Standard and Poor's – A (stable).
    - Fitch – A (stable).
- The Agency decreased rates to Participants by 2.0% effective July 1, 2017, in accordance with the Agency's Rate Plan. There was no rate change in 2016.

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 35 of this report.

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

Financial Analysis

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

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

	December 31, 2017	December 31, 2016	December 31, 2015
Assets and Deferred Outflows of Resources			
Capital assets	$ 1,147,075	$ 1,170,253	$ 1,187,230
Current and other assets	1,136,527	1,077,207	974,332
Deferred outflows of resources	64,810	74,834	78,461
Total assets and deferred outflows of resources	2,348,412	2,322,294	2,240,023
Liabilities and Deferred Inflows			
Non-current liabilities	1,458,238	1,533,017	1,599,448
Current liabilities	137,292	142,908	85,789
Deferred inflows of resources	531,567	483,570	437,641
Total liabilities and deferred inflows of resources	2,127,097	2,159,495	2,122,878
Net Position			
Net investment in capital assets	648,947	605,269	649,658
Restricted for debt service	90,868	115,077	96,602
Unrestricted	(518,500)	(557,547)	(629,115)
Total Net Position	$ 221,315	$ 162,799	$ 117,145

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 $221,315,000, $162,799,000 and $117,145,000 at December 31, 2017, 2016 and 2015, respectively, representing an increase of $58,516,000 in 2017 and $45,654,000 in 2016.

The first portion of net position of $648,947,000, $605,269,000 and $649,658,000 at December 31, 2017, 2016 and 2015, 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 $90,868,000, $115,077,000 and $96,602,000 as of December 31, 2017, 2016 and 2015, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of $(518,500,000), $(557,547,000) and $(629,115,000) as of December 31, 2017, 2016 and 2015, 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, 2017	2016	2015
Revenues:			
Sales of electricity and other operating revenue	$ 521,619	$ 529,108	$ 531,108
Nonoperating revenues and changes in fair value	14,193	8,310	8,969
Total Revenues	535,812	537,418	540,077
Expenses:			
Operating expenses	383,226	394,743	396,894
Interest on long-term debt	50,721	54,656	55,905
Other nonoperating expenses	43,349	42,365	48,657
Total Expenses	477,296	491,764	501,456
Change in Net Position	58,516	45,654	38,621
Net Position, Beginning of the year	162,799	117,145	78,524
Net Position, End of the year	$ 221,315	$ 162,799	$ 117,145

Financial Highlights

- The Agency implemented a 2.0% decrease effective July 1, 2017, in accordance with the Agency's Rate Plan. There was no rate change in 2016.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2017, 2016 and 2015 totaled $1,147,075,000, $1,170,253,000 and $1,187,230,000, respectively, (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2017 and 2016 include the following:

- Construction work in progress increased $32,093,000 and $34,070,000 in 2017 and 2016, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by $31,806,000 and $24,190,000 in 2017 and 2016, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated $39,197,000 and $38,232,000 for 2017 and 2016, respectively.
- Nuclear Fuel was amortized $45,857,000 and $53,701,000 for 2017 and 2016, respectively. In 2017 and 2016 there were retirements of Electric Utility Plant of $28,781,000 and $12,705,000, respectively. There were no write-offs of spent nuclear fuel in 2017 and 2016.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	$ 1,886,849	$ 479	$ 33,163	$ (28,781)	$ 1,891,710
Nuclear fuel	247,387	29,304	(56,948)	-	219,743
Total Depreciable Utility Plant	2,134,236	29,783	(23,785)	(28,781)	2,111,453
Accumulated Depreciation and Amortization					
Electric plant in service	(885,559)	(39,128)	(1,357)	28,781	(897,263)
Nuclear fuel	(137,157)	(45,857)	56,948	-	(126,066)
Total Accumulated Depreciation and Amortization	(1,022,716)	(84,985)	55,591	28,781	(1,023,329)
Depreciable Utility Plant, Net	1,111,520	(55,202)	31,806	-	1,088,124
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	37,872	32,093	(31,806)	-	38,159
Total Electric Utility Plant, Net	$ 1,169,160	$ (23,109)	$ -	$ -	$ 1,146,051

	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
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

Non-Utility Plant and Equipment, Net

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Non-Utility Property and Equipment					
Property and equipment	$ 5,040	$ -	$ -	$ -	$ 5,040
Accumulated depreciation	(4,657)	(69)	-	-	(4,726)
Total Depreciable Non-Utility Property and Equipment, Net	383	(69)	-	-	314
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 1,093	$ (69)	$ -	$ -	$ 1,024

	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	$ 1,162	$ (69)	$ -	$ -	$ 1,093

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

Outstanding Debt

The Agency's total debt outstanding at December 31, 2017, 2016 and 2015 was $1,055,970,000, $1,135,360,000 and $1,173,205,000, respectively, all of which are revenue bonds. Total debt decreased by $79,930,000 (6.99%) and $37,845,000 (3.23%) during 2017 and 2016, 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 – A (stable).
- Fitch – A (stable).

Additional information regarding the Agency's long-term debt can be found in Note H beginning on page 30 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2018 budget.

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.1%/year. Load is expected to grow at a rate of 0.6% 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 rebounded from very low levels but are expected to increase modestly during the forecasted period.
- Natural Gas prices are expected to remain flat or rise slightly in the near and mid-term. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2018

- Forecasts no change in wholesale rates for the years 2018-2021; the actual rate change will be considered at the Spring 2018 Rate Committee Meeting.
- Collection through rates of $71,505,000 for debt principal due January 1, 2019.
- Anticipates scheduled refueling outages for Catawba Unit 1 and Unit 2, McGuire Unit 2.
- Projects that a total $28,125,000 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,	
	2017	2016
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	$ 1,911,478	$ 1,906,617
Construction work in progress	38,159	37,872
Nuclear fuel	219,743	247,387
Accumulated depreciation and amortization	(1,023,329)	(1,022,716)
Total Electric Utility Plant, Net	1,146,051	1,169,160
Non-Utility Property and Equipment, Net		
Property and Equipment	5,750	5,750
Accumulated depreciation	(4,726)	(4,657)
Total Non-Utility Property and Equipment, Net	1,024	1,093
Total Capital Assets	1,147,075	1,170,253
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	55,215	80,514
Bond fund	238,533	239,469
Reserve and contingency fund	13,131	13,257
Total Special Funds Invested	306,879	333,240
Trust for Decommissioning Costs (Notes D and F)	340,285	325,653
Total Restricted Assets	647,164	658,893
Total Non-Current Assets	1,794,239	1,829,146
Current Assets		
Funds Invested (Notes D):		
Revenue fund	$ 65,926	$ 58,197
Operating fund	100,652	85,737
Supplemental fund	206,666	166,154
Total Funds Invested	373,244	310,088
Participant accounts receivable	31,984	32,177
Operating accounts receivable	17,776	11,920
Plant materials and renewable certificate inventory	66,359	64,129
Total Current Assets	489,363	418,314
Total Assets	$ 2,283,602	$ 2,247,460

See accompanying Notes to Financial Statements.

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

	December 31,	
	2017	2016
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	$ 60,670	$ 70,118
Unamortized debt issuance costs	4,140	4,716
Total Deferred Outlflows of Resources	$ 64,810	$ 74,834
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt:		
Bonds (Note H)	$ 974,125	$ 1,055,970
Unamortized premium	86,953	101,624
Total Long-Term Debt, net	1,061,078	1,157,594
Asset Retirement Obligation (Note F)	397,160	375,423
Total Non-Current Liabilities	1,458,238	1,533,017
Current Liabilities		
Operating Liabilities:		
Accounts payable	29,997	36,052
Accrued taxes	202	184
Total Operating Liabilities	30,199	36,236
Special Funds Liabilities:		
Current maturities of bonds (Note H)	81,845	79,390
Accrued interest on bonds	25,248	27,282
Total Special Funds Liabilities	107,093	106,672
Total Current Liabilities	137,292	142,908
Total Liabilities	$ 1,595,530	$ 1,675,925
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note G)	531,567	483,570
Total Deferred Inflows of Resources	$ 531,567	$ 483,570
NET POSITION		
Net investment in capital assets	$ 648,947	$ 605,269
Restricted for debt service	90,868	115,077
Unrestricted (deficit)	(518,500)	(557,547)
Total Net Position	$ 221,315	$ 162,799

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

	Years Ended December 31, 2017	2016
Operating Revenues:		
Sales to participants	$ 415,842	$ 427,284
Sales to utilities	103,940	100,353
Other revenues	1,837	1,471
Total Operating Revenues	521,619	529,108
Operating Expenses:		
Operation and maintenance	111,860	118,752
Fuel	46,365	54,221
Interconnection services:		
Purchased power	75,867	74,319
Transmission and distribution	16,240	17,511
Other	903	814
Total interconnection services	93,010	92,644
Administrative and general	47,182	47,306
Gross receipts and excise taxes	2,177	2,108
Property tax	21,698	20,933
Depreciation	39,197	38,232
Amortization of asset retirement obligation	21,737	20,547
Total Operating Expenses	383,226	394,743
Operating Income	138,393	134,365
Nonoperating (Revenues) Expenses		
Investment income	(18,074)	(16,177)
Net decrease in fair value of investments	3,881	7,867
Interest expense	50,721	54,656
Amortization of debt refunding costs	9,447	11,273
Amortization of debt discount, premium costs and issuance costs	(14,095)	(14,837)
Net decrease in costs to be recovered (Note G)	38,705	33,421
Net increase in collections to be expended (Note G)	9,292	12,508
Total Nonoperating (Revenues) Expenses	79,877	88,711
Change in Net Position	58,516	45,654
Net Position, Beginning of Year	162,799	117,145
Net Position, End of Year	$ 221,315	$ 162,799

See accompanying Notes to Financial Statements.

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

	Years Ended December 31, 2017	Years Ended December 31, 2016
Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 514,119	$ 517,032
Receipts from other revenues	1,837	1,471
Payments of operating expenses	(284,568)	(281,223)
Net cash provided by operating activities	231,388	237,280
Cash Flows from Capital and Related Financing Activities:		
Refunding Bonds issued		69,380
Bond Principal Payments	(79,390)	(30,270)
Interest paid	(52,755)	(54,039)
Additions to electric utility plant and non-utility property and equipment	(62,010)	(75,088)
Deposited in escrow for refunding		(76,955)
Debt (discount) premium net of issuance costs	4	7,179
Investment earnings receipts from construction fund	869	875
Net cash used for capital and related financing activities	(193,282)	(158,918)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,259,458	1,097,016
Purchases of investment securities	(1,308,048)	(1,183,506)
Investment earnings receipts	10,510	8,108
Net cash used in investing activities	(38,080)	(78,382)
Net Increase (Decrease) in Operating Cash	26	(20)
Operating Cash, Beginning of year	52	72
Operating Cash, End of year (Note B)	$ 78	$ 52

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

	2017	2016
Operating Income	$ 138,393	$ 134,365
Adjustments:		
Depreciation	39,197	38,232
Amortization of nuclear fuel	45,991	53,833
Amortization of asset retirement obligation	21,737	20,547
Changes in assets and liabilities:		
Decrease/(Increase) in participant accounts receivable	193	(1,408)
Increase in operating accounts receivable	(5,856)	(9,197)
Increase in plant materials and renewable certificate inventory	(2,230)	(6,474)
(Decrease)/Increase in accounts payable	(6,055)	7,330
Increase in accrued taxes	18	52
Total Adjustments	92,995	102,915
Net Cash Provided by Operating Activities	$ 231,388	$ 237,280

See accompanying Notes to Financial Statements.

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 Emergency Supplemental Power Source (ESPS) Additions Agreement provides for enhancement of Duke operational flexibility at the Catawba Nuclear Station and installation of ESPS.
- The Low Pressure Turbine (LPT) Replacement Additions Agreement provides for Duke Catawba Unit 1 and Unit 2 to function reliably and economically through the ends of their lives.
- 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 $214,680,000 and $231,223,000 in 2017 and 2016, respectively.

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 2017 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 2017, and a separate similar agreement for 2018.
- 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 has 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.

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, 2017, 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, 2017.

For the years ended December 31, 2017 and 2016, the Agency paid ElectriCities $14,171,000 and $13,940,000, 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.

B. Significant Accounting Policies (continued)

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 unrestricted net position.

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, 2017, the remaining life for Catawba Units 1 and 2 was 26 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 2017 and 2016, 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 2017 and 2016 was $640,000 and $369,000 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 of 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2016, in response to a November 2013 ruling

B. Significant Accounting Policies (continued)

by the US Court of Appeals. This action resulted from a lawsuit filed on behalf of utilities and regulators by the National Association of Regulatory Utility Commissioners (NARUC) and the Nuclear Energy Institute (NEI). The court instructed the US energy secretary to "change the fee to zero" pending either compliance with the existing US nuclear waste act or the enactment by Congress of an alternative waste management plan.

Non-Utility Property and Equipment

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 $26,741,000 and $12,069,000, at December 31, 2017 and 2016, 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, GASB Statement No. 79 “Certain External

B. Significant Accounting Policies (continued)

Investment Pools and Pool Participants", which allows certain whole investment pools to be reported at amortized cost, and GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which allows certain investments to be reported at amortized cost. In addition, the Agency reports according to the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures" which addresses common investment risks related to credit risk, concentration of credit risk and interest rate risk.

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 2016, 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, 2016 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 $59,000 and $29,000 at December 31, 2017 and 2016 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of $19,000 and $23,000 at December 31, 2017 and 2016, 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 $9,202,000 and $10,639,000 at December 31, 2017 and 2016, respectively. The cash flows associated with the decrease in accounts payable of $6,055,000 in 2017 and the increase of $7,330,000 in 2016, 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

B. Significant Accounting Policies (continued)

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.

<u>Deferred Outflows/ Inflows of resources</u>

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 28 for more detailed information.

<u>Recently Adopted GASB Standards</u>

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 2017 or 2016.

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 2017 or 2016.

In December 2015, GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants." This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015, and did not have a material impact on the Agency's financial position, overall cash flow balances or results of operations for 2017 or 2016.

B. Significant Accounting Policies (continued)

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

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

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

Future Accounting Standards

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

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

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

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

C. Capital Assets

Electric Utility Plant, Net

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

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	$ 1,886,849	$ 479	$ 33,163	$ (28,781)	$ 1,891,710
Nuclear fuel	247,387	29,304	(56,948)	-	219,743
Total Depreciable Utility Plant	2,134,236	29,783	(23,785)	(28,781)	2,111,453
Accumulated Depreciation and Amortization					
Electric plant in service	(885,559)	(39,128)	(1,357)	28,781	(897,263)
Nuclear fuel	(137,157)	(45,857)	56,948	-	(126,066)
Total Accumulated Depreciation and Amortization	(1,022,716)	(84,985)	55,591	28,781	(1,023,329)
Depreciable Utility Plant, Net	1,111,520	(55,202)	31,806	-	1,088,124
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	37,872	32,093	(31,806)	-	38,159
Total Electric Utility Plant, Net	$ 1,169,160	$ (23,109)	$ -	$ -	$ 1,146,051

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
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

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 2018 and 2019 will be approximately $82,000,000.

C. Capital Assets (continued)

Non-Utility Property and Equipment

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

	December 31, 2016	Additions	Transfers	Retirements	December 31, 2017
Non-Utility Property and Equipment					
Property and equipment	$ 5,040	$ -	$ -	$ -	$ 5,040
Accumulated depreciation	(4,657)	(69)	-	-	(4,726)
Total Depreciable Non-Utility Property and Equipment, Net	383	(69)	-	-	314
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 1,093	$ (69)	$ -	$ -	$ 1,024

Non-Utility Property and Equipment

	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	$ 1,162	$ (69)	$ -	$ -	$ 1,093

D. Investments

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

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

D. Investments (continued)

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

		December 31,			
		2017		2016	
	Method of Valuation	Cost Basis	Reported Value	Cost Basis	Reported Value
Commercial Paper	Fair Value Level 1	$ 143,240	$ 143,489	$ 3,832	$ 3,840
U.S. Government Agencies	Fair Value Level 1	175,624	174,194	308,936	308,607
U.S.Treasury Securities	Fair Value Level 1	194,349	191,853	158,875	165,046
Money Market					
NCCMT* -Government Portfolio	Amortized Cost	31,142	31,142	76,615	76,615
NCCMT*-Term Portfolio	Fair Value Level 1	110,237	110,237	66,218	66,218
Collateralized mortgage obligations	Fair Value Level 2	28,038	27,578	21,691	21,542
Sub-total funds invested		682,630	678,493	636,167	641,868
Decommissioning Trust securities:					
U.S. government agencies	Fair Value Level 1	77,861	84,867	84,423	91,455
U.S. Treasury Securities	Fair Value Level 1	150,219	214,043	135,950	194,515
Collateralized mortgage obligations	Fair Value Level 2	39,991	39,279	39,551	38,908
Money Market					
NCCMT* -Government Portfolio	Amortized Cost	892	892	16	16
NCCMT*-Term Portfolio	Fair Value Level 1	442	442	42	42
Sub-total funds invested		269,405	339,523	259,982	324,936
Cash					
Operating cash		59	59	29	29
Restricted cash		19	19	23	23
Accrued interest		2,314	2,314	2,125	2,125
Total funds invested		$ 954,427	$ 1,020,408	$ 898,326	$ 968,981
Consisting of:					
Special funds invested			$ 306,879		$ 333,240
Decommissioning Trust			340,285		325,653
Operating assets			373,244		310,088
Total funds invested			$ 1,020,408		$ 968,981

** 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.

D. Investments (continued)

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

	December 31, 2017				
	Recorded	Investment Maturity (In Years)			
	Value	Less Than 1	1-5	6-10	More than 10
Commercial Paper	$ 143,489	$ 143,489	$ -	$ -	-
U.S. Government Agencies	174,194	76,180	98,014	-	-
U.S. Treasury Securities	191,853	42,538	149,315	-	-
Money Market	141,379	141,379	-	-	-
Collateralized mortgage obligations	27,578	323	280	19,178	7,797
Sub-total funds invested	678,493	403,909	247,609	19,178	7,797
Decommissioning Trust securities	339,523	3,928	158,648	93,527	83,420
Total	$ 1,018,016	$ 407,837	$ 406,257	$ 112,705	$ 91,217

	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	641,868	341,223	281,376	5,979	13,290
Decommissioning Trust securities	324,936	58	137,694	116,315	70,869
Total	$ 966,804	$ 341,281	$ 419,070	$ 122,294	$ 84,159

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

	December 31, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 163,304	$ 1,148	$ 152,907	$ 3,197	$ 316,211	$ 4,345
Commercial Paper	14,863	4	-	-	14,863	4
Collateralized mortgage obligations	11,354	71	15,620	437	26,974	508
Sub-total	189,521	1,223	168,527	3,634	358,048	4,857
Decommissioning Trust securities	9,609	58	97,785	2,089	107,394	2,147
Total	$ 199,130	$ 1,281	$ 266,312	$ 5,723	$ 465,442	$ 7,004

	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	$ 282,060	$ 5,919	$ 118,275	$ 753	$ 400,335	$ 6,672

D. Investments (continued)

Credit Risk

The Resolution authorizes the Agency to invest in 1) direct obligations of, or obligations of which the principal and interest are unconditionally guaranteed by the United States (U.S.), 2) obligations of any Agency of the U.S. or corporation wholly owned by the U.S., 3) direct and general obligations of the State of North Carolina or any political subdivision thereof whose securities are rated "A" or better, 4) repurchase agreements with a member of the Federal Reserve System which are collateralized by previously described obligations and 5) bank time deposits evidenced by certificates of deposit and bankers' acceptances. The Agency has no formal investment policy that would further limit its investment choices.

As of December 31, 2017, and 2016 the Agency 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, 2017 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- Government Portfolio, are rated AAAm by Standard and Poor's Corporation. The investments in the North Carolina Capital Management Trust – Term Portfolio are not rated by any rating agency.

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

	December 31, 2017		December 31, 2016	
Issuer	Recorded Value	Percentage	Recorded Value	Percentage
Federal Home Loan Mortgage Corporation	$ 74,142	7.3%	$ 83,003	8.6%
Federal National Mortgage Association	153,492	15.1%	188,698	19.5%
Federal Home Loan Bank	67,581	6.6%	151,816	15.7%
Federal Farm Credit Bank	24,439	2.4%	34,219	3.5%
Government National Mortgage Association	3,454	0.3%	-	0.0%
Resolution Funding Corporation	2,808	0.3%	2,774	0.3%
Commercial Paper				
Bank of Nova Scotia	16,617	1.6%	-	0.0%
Bank of Tokyo-Mitsubishi UFJ T&B	67,302	6.6%	-	0.0%
BNP Paribas Securities Corp	6,625	0.7%	-	0.0%
DNB Bank ASA	14,792	1.5%	-	0.0%
GE Capital Treasury	3,105	0.3%	-	0.0%
Mitsubishi UFJ T&B NY	10,088	1.0%	-	0.0%
Private Export Fund Corp	1,717	0.2%	-	0.0%
Toronto Dominion Bank	14,863	1.5%	-	0.0%
Toyota Motor Credit	8,381	0.8%	-	0.0%
US Bank National Association	-	0.0%	3,841	0.4%
Money Market Fund - NC Capital Management Trust	142,713	14.0%	142,891	14.8%
US Treasury Department	405,897	39.8%	359,562	37.2%
Total	$ 1,018,016	100.0%	$ 966,804	100.0%

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, 2017 and 2016, the Agency had $59,000 and $29,000 in operating funds, respectively, and $19,000 and $23,000 in restricted funds, 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 shows RECs activity during 2017 (in thousands of dollars):

	Summary of Changes in RECs			
	Balance 12/31/2016	Additions	Retirements	Balance 12/13/2017
RECs	5,773	1,675	(462)	6,986

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.

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 2017 and 2016 are as follows (in thousands of dollars):

	Years Ended December 31,	
	2017	2016
Balance, beginning of year	$ 375,423	$ 354,876
Accretion expense	21,737	20,547
Balance, end of year	$ 397,160	$ 375,423

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.

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,	
	2017	2016	2017	2016
Costs to be recovered				
Net deferred interest	$ -	$ -	$ 155,316	$ 155,316
Amortization of debt discount, premium & issuance costs	(14,095)	(14,837)	20,459	34,554
Depreciation and amortization	60,934	58,779	1,441,036	1,380,102
Amortization of debt refunding costs	9,447	11,273	600,190	590,743
Deferred Fuel	-	(786)	(17,806)	(17,806)
Participant billing offsets	(94,991)	(87,850)	(2,373,708)	(2,278,717)
Other unrecovered costs	-	-	23,749	23,749
Total Costs To Be Recovered *	$ (38,705)	$ (33,421)	$ (150,764)	$ (112,059)

	Years Ended December 31,		Inception to December 31,	
	2017	2016	2017	2016
Collections to be expended				
Net special funds (withdrawals)/deposits	$ -	$ 1,443	$ 38,999	$ 38,999
Restricted investment income	11,010	11,245	322,575	311,565
Rate stabilization funds used for other than operations	-	-	(53,393)	(53,393)
Special Funds Valuations	(67)	1,213	(14,546)	(14,479)
Net decrease (increase) in fair value of investments	(3,881)	(7,867)	6,884	10,765
Asset Retirement Obligation Provision	-	-	31,288	31,288
Other collections to be expended	2,230	6,474	48,996	46,766
Total Collections To Be Expended	$ 9,292	$ 12,508	$ 380,803	$ 371,511

*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.

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 2017 and 2016 (in thousands of dollars):

Summary of Changes in Long term Liability

	December 31, 2016	Additions	Reductions	December 31, 2017	Amounts Due within One Year
Bonds payable	$ 1,135,360	$ -	$ (79,390)	$ 1,055,970	$ 81,845,000

	December 31, 2015	Additions	Reductions	December 31, 2016	Amounts Due within One Year
Bonds payable	$ 1,173,205	$ 69,380	$ (107,225)	$ 1,135,360	$ 79,390

	2017	2016
Bonds Outstanding - Beginning of year	$ 1,135,360	$ 1,173,205
Principal payments January 1	(79,390)	(30,270)
Bonds Issued		
Series 2016 A		69,380
Series 2015 A		
Series 2015 B		
Series 2015 C		
Series 2015 D		
Series 2015 E		
Bonds Early Redemption		
Series 2008 A		
Series 2008 C		
Series 2009 A		(76,955)
Series 2009 C		
Series 2010 A		
Series 2010 B		
Series 2012 A		
Series 2012 B		
Bonds Outstanding - End of year	$ 1,055,970	$ 1,135,360

H. Bonds (continued)

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

	December 31, 2017	December 31, 2016
Series 2008A		
5.25% maturing annually from 2016 to 2020	6,880	72,900
Series 2008C		
4.0% to 5.25% maturing annually from 2016 to 2020	-	445
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026	30,280	30,280
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027	4,825	4,825
5% maturing in 2030 with annual sinking fund requirements beginning in 2027	22,270	22,270
Total 2009A	57,375	57,375
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	40,105	45,930
Series 2010B		
5.00% maturing annually from 2020 to 2021	36,905	36,905

H. Bonds (continued)

	December 31, 2017	December 31, 2016
Series 2012A		
2.00% to 5% maturing annually from 2014 to 2020	$ 147,815	$ 154,915
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	2,755
4.0% to 5.0% maturing 2024 and 2025	3,595	3,595
5.0% maturing annually 2027 to 2030	63,030	63,030
	69,380	69,380
Total Bonds Outstanding	1,055,970	1,135,360
Current maturities of bonds	(81,845)	(79,390)
Total Long-Term Debt, Bonds	$ 974,125	$ 1,055,970

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 $81,845,000 at December 31, 2017 were collected monthly through rates during 2017 and were deposited into the Bond Fund to make the January 1, 2018 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2017 are as follows (in thousands of dollars):

Year	Principal	Interest	Total
2018	$ 71,505	$ 46,987	$ 118,492
2019	41,410	43,617	85,027
2020	55,970	41,619	97,589
2021	57,955	38,897	96,852
2022 to 2026	330,000	154,588	484,588
2027 to 2031	417,285	66,086	483,371
Total	$ 974,125	$ 391,794	$ 1,365,919

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2017 and 2016 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 $1,178,877,000 and $1,281,799,000 at December 31, 2017 and 2016, 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, 2017 and 2016, $2,598,660,000 and $2,552,790,000 of these bonds has been redeemed leaving $307,075,000 and $352,945,000 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.

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.

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 investment balance in an amount to sufficiently cover the highest annual debt service payment over the life of the bonds, which was $130,586,000 and $131,920,000 for 2017 and 2016, respectively. As of December 31, 2017, and 2016, the balances of the reserve were $132,453,000 and $132,696,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling $13,059,000 and $13,192,000 for 2017 and 2016, respectively. As of December 31, 2017, and 2016, the balances of the contingency fund were $13,197,000 and $13,237,000, 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 2017 and 2016, 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.

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 in 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 $32.8 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 $3.5 million per week, after a 12-week deductible period, with declining amounts per unit where more than one unit is involved in the accidental outage. The coverage continues at 100% for 52 weeks and 80% for the next 110 weeks. The accident outage policy limit is $490 million per unit. If the insurer's losses exceed its reserves for this program, Catawba will be liable, on a pro rata basis, for additional assessments of up to $11.2 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 13, 2018, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	Year Ended December 31, 2017		
	Project	Supple-mental	Total
Revenues:			
Sales to participants	$ 292,268	$ 123,575	$ 415,843
Sales to utilities	103,940	-	103,940
Investment income	4,820	2,243	7,063
Excess Funds valuation	5,956	-	5,956
Other revenue	1,317	520	1,837
Total Revenues	408,301	126,338	534,639
Expenses:			
Operation and maintenance	110,569	2,309	112,878
Nuclear fuel	45,991	374	46,365
Interconnection services:			
Purchased power	37,573	38,294	75,867
Transmission and distribution	-	16,240	16,240
Other	-	2,116	2,116
Total interconnection services	37,573	56,650	94,223
Administrative and general – Duke	32,899	-	32,899
Administrative and general – Agency	4,800	5,725	10,525
Miscellaneous Agency expenses	1,256	2,502	3,758
Gross receipts and excise taxes	2,177	-	2,177
Property tax	21,436	262	21,698
Debt service	132,566	-	132,566
Special funds deposits:			
Decommissioning fund	5,800	-	5,800
Reserve for future costs	-	-	-
Reserve and contingency fund	13,234	-	13,234
Total special funds deposits	19,034	-	19,034
Total Expenses	408,301	67,822	476,123
Revenues Over Expenses	$ -	$ 58,516	$ 58,516

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2017 and 2016.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2016		
Project	Supple-mental	Total
$ 318,288	$ 108,996	$ 427,284
100,353	-	100,353
3,313	1,619	4,932
9,555	-	9,555
1,394	77	1,471
432,903	110,692	543,595
122,514	903	123,417
54,619	388	55,007
40,929	33,390	74,319
-	17,511	17,511
-	2,623	2,623
40,929	53,524	94,453
33,732	-	33,732
4,694	5,540	10,234
393	2,947	3,340
2,108	-	2,108
20,640	293	20,933
134,046	-	134,046
5,800	-	5,800
-	1,443	1,443
13,428	-	13,428
19,228	1,443	20,671
432,903	65,038	497,941
$ -	$ 45,654	$ 45,654

North Carolina Municipal Power Agency Number 1
Budgetary Comparison Schedule
Years Ended December 31, 2017 and 2016
($000's)

	2017 Budget		Actuals	Positive (Negative)
	Original	Final	(Budgetary Basis)	Variance With Final Budget
Revenues:				
Sales to participants	$ 422,936	$ 422,936	$ 415,843	$ (7,093)
Sales to utilities	92,465	92,465	103,940	11,475
Investment income	4,906	4,906	7,063	2,157
Excess Funds valuation	4,273	4,273	5,956	1,683
Other revenues	1,397	1,397	1,837	440
Total Revenues	525,977	525,977	534,639	8,662
Expenses:				
Operations and maintenance	138,563	138,563	112,878	25,685
Nuclear fuel	47,224	47,224	46,365	859
Interconnection services:				
Purchased power	66,301	66,301	75,867	(9,566)
Transmission and distribution	16,605	16,605	16,240	365
Other interconnection expenses	4,863	4,863	2,116	2,747
Total interconnection services	87,769	87,769	94,223	(6,454)
Administrative and general – Duke	39,851	39,851	32,899	6,952
Power Agency services	14,591	14,591	14,283	308
Taxes	23,829	23,829	23,875	(46)
Debt service	132,585	132,585	132,566	19
Special funds deposits	19,034	19,034	19,034	-
Total Expenses	503,446	503,446	476,123	27,323
Excess of Revenues Over Expenses	$ 22,531	$ 22,531	$ 58,516	$ 35,985

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2017 and 2016.

See accompanying Report of Independent Auditor.

	2016 Budget Original	2016 Budget Final	Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
Revenues:				
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
Expenses:				
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

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

	Funds Invested January 1, 2016	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse-ments)	Transfers
Construction Fund	$ 110,586	$ -	$ -	$ 851	$ (30,876)	$ -
Bond Fund:						
Interest account	26,669	-	-	44	(53,915)	54,504
Reserve account	131,987	-	-	2,556	(325)	(1,521)
Principal account	30,308	-	-	181	(30,268)	79,321
Total Bond Fund	188,964	-	-	2,781	(84,508)	132,304
Reserve and Contingency Fund	13,307		-	220	(2,717)	2,427
Revenue Fund	65,942	-	310,345	422	40,849	(359,309)
Operating Fund:						
Working Capital account	43,191	-	-	292	(186,360)	190,016
Fuel account	30,273	-	-	-	(38,691)	46,974
Total Operating Fund	73,464	-	-	292	(225,051)	236,990
Supplemental Fund:						
Supplemental account	104,671	-	115,896	1,618	(52,652)	(13,856)
Reserve for future costs	10,008	-	-	147	-	1,444
Total Supplemental Fund	114,679	-	115,896	1,765	(52,652)	(12,412)
Total Funds Invested	$ 566,942	$ -	$ 426,241	$ 6,331	$ (354,955)	$ -

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2017 and 2016.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2016	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse-ments)	Transfers	Funds Invested December 31, 2017
$ 80,561	$ -	$ -	$ 652	$ (25,850)	$ -	$ 55,363
27,302	-	-	124	(52,530)	50,376	25,272
132,697	-	-	2,209	-	(2,451)	132,455
79,542	-	-	445	(79,386)	81,330	81,931
239,541	-	-	2,778	(131,916)	129,255	239,658
13,237	-	-	237	(7,383)	7,106	13,197
58,249	-	307,573	679	37,396	(337,742)	66,155
47,139	-	-	761	(173,649)	172,300	46,551
38,556	-	-	-	(37,771)	53,500	54,285
85,695	-	-	761	(211,420)	225,800	100,836
155,677	-	109,206	2,244	(45,776)	(24,419)	196,932
11,599	-	-	141	-	-	11,740
167,276	-	109,206	2,385	(45,776)	(24,419)	208,672
$ 644,559	$ -	$ 416,779	$ 7,492	$ (384,949)	$ -	$ 683,881