



**North Carolina Municipal  
Power Agency 1**  
2018 Financial Report





**NORTH CAROLINA MUNICIPAL  
POWER AGENCY NUMBER 1**

Annual Financial Report  
(With Report of Independent Auditor Thereon)

December 31, 2018 and 2017

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## **Independent Auditor's Report**

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

**RSM US LLP**

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

We have audited the accompanying financial statements of North Carolina Municipal Power Agency 1 (the Agency), which are comprised of the statements of net position as of December 31, 2018 and 2017, 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 the Agency as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the year ended December 31, 2018 and 2017, 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 the Agency's basic financial statements. The budgetary schedules and statements listed in the table of contents as Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency.

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

*RSM US LLP*

Morehead City, North Carolina  
April 15, 2019

## **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, 2018 and 2017. 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.

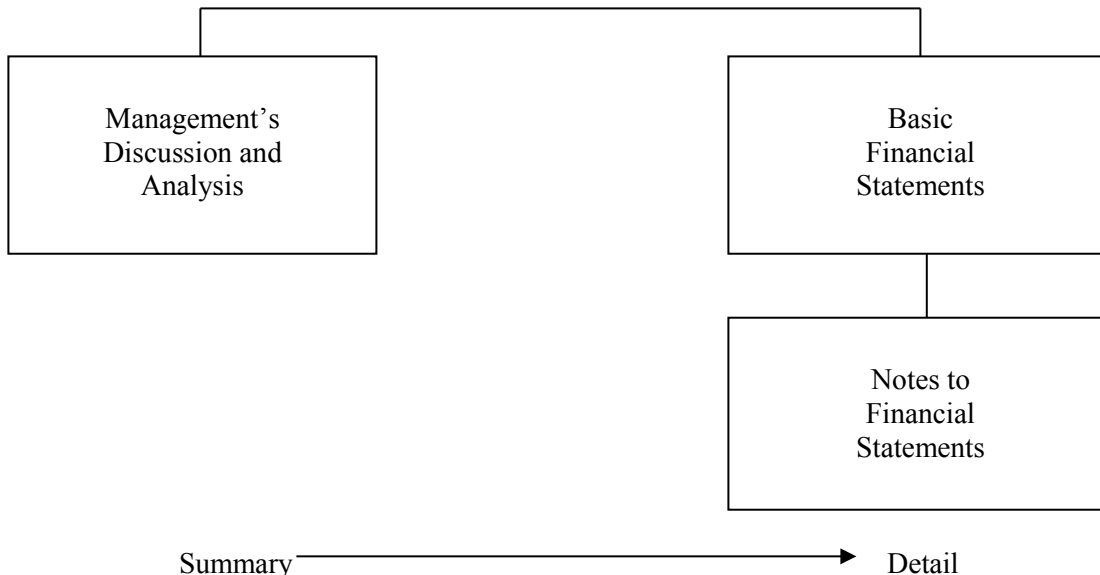
#### **Financial Highlights**

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2018 and 2017, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$298,238,000 and \$221,315,000 (net position).
- The Agency's net position increased by \$76,923,000 and \$58,516,000 for 2018 and 2017, respectively.
- Year-end 2018 and 2017 unrestricted net position deficit was \$464,056,000 and \$518,500,000, respectively, after decreasing \$54,444,000 and \$39,047,000, respectively.
- The Agency's total debt decreased by \$81,845,000 and \$79,390,000 during 2018 and 2017, respectively, as follows:
  - Decreased \$81,845,000 and \$79,390,000 due to principal paid in 2018 and 2017, respectively, in accordance with the debt service schedules.
- There was no debt issuance in 2018 or 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 7.0% and 2.0% effective July 1, 2018 and July 1, 2017, respectively, in accordance with the Agency's Rate Plan.

## Overview of the Financial Statements

This MD&A serves as an introduction to the Agency's basic financial statements and notes to the financial statements (see Exhibit 1). In addition to the basic financial statements, this report contains other supplemental information designed to enhance your understanding of the financial condition of the Agency.

### Required Components of the Annual Financial Report Exhibit 1



### Basic Financial Statements

The Agency is a special purpose municipal corporation that accounts for its activities as a business type entity. The first section of the basic financial statements is the Agency's single proprietary fund that focuses on the business activities of the electric enterprise. The statements are designed to provide a broad overview of the Agency's finances, similar in format to private sector business statements, and provide short and long-term information about the Agency's financial status, operations and cash flow. The statements report net position and how it has changed during the period. Net position is the difference between total assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Analyzing the various components of net position is one way to gauge the Agency's financial condition.

The second section of the basic financial statements is the notes that explain in more detail some of the data contained in the fund financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes are on pages 14 to 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, 2018 and 2017 are presented in accordance with the Governmental Accounting Standards Board (GASB).



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

|  | December 31, |              |              |
|--|--------------|--------------|--------------|
|  | 2018         | 2017         | 2016         |
| <b>Assets and Deferred Outflows of Resources</b>     |              |              |              |
| Capital assets                                       | \$ 1,157,655 | \$ 1,147,075 | \$ 1,170,253 |
| Current and other assets                             | 1,160,578    | 1,136,527    | 1,077,207    |
| Deferred outflows of resources                       | 55,894       | 64,810       | 74,834       |
| Total assets and deferred outflows of resources      | 2,374,127    | 2,348,412    | 2,322,294    |
| <b>Liabilities and Deferred Inflows of Resources</b> |              |              |              |
| Non-current liabilities                              | 1,412,317    | 1,458,238    | 1,533,017    |
| Current liabilities                                  | 132,248      | 137,292      | 142,908      |
| Deferred inflows of resources                        | 531,324      | 531,567      | 483,570      |
| Total liabilities and deferred inflows of resources  | 2,075,889    | 2,127,097    | 2,159,495    |
| <b>Net Position</b>                                  |              |              |              |
| Net investment in capital assets                     | 722,934      | 648,947      | 605,269      |
| Restricted for debt service                          | 39,360       | 90,868       | 115,077      |
| Unrestricted   | (464,056)    | (518,500)    | (557,547)    |
| Total Net Position                                   | \$ 298,238   | \$ 221,315   | \$ 162,799   |

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 \$298,238,000, \$221,315,000 and \$162,799,000 at December 31, 2018, 2017 and 2016, respectively, representing an increase of \$76,923,000 in 2018 and \$58,516,000 in 2017.

The first portion of net position of \$722,934,000, \$648,947,000 and \$605,269,000 at December 31, 2018, 2017 and 2016, 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 \$39,360,000, \$90,868,000 and \$115,077,000 as of December 31, 2018, 2017 and 2016, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(464,056,000), \$(518,500,000) and \$(557,547,000) as of December 31, 2018, 2017 and 2016, 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, |                   |                   |
|--|--------------------------|-------------------|-------------------|
|  | 2018                     | 2017              | 2016              |
| <b>Revenues:</b>                                 |                          |                   |                   |
| Sales of electricity and other operating revenue | \$ 522,214               | \$ 521,619        | \$ 529,108        |
| Nonoperating revenues and changes in fair value  | 14,613                   | 14,193            | 8,310             |
| Total Revenues                                   | 536,827                  | 535,812           | 537,418           |
| <b>Expenses:</b>                                 |                          |                   |                   |
| Operating expenses                               | 416,409                  | 383,226           | 394,743           |
| Interest on long-term debt                       | 47,151                   | 50,721            | 54,656            |
| Other nonoperating expenses                      | (3,656)                  | 43,349            | 42,365            |
| Total Expenses                                   | 459,904                  | 477,296           | 491,764           |
| Change in Net Position                           | 76,923                   | 58,516            | 45,654            |
| Net Position, Beginning of the year              | 221,315                  | 162,799           | 117,145           |
| Net Position, End of the year                    | <u>\$ 298,238</u>        | <u>\$ 221,315</u> | <u>\$ 162,799</u> |

**Financial Highlights**

- The Agency implemented a 7.0% and 2.0% decrease effective July 1, 2018 and July 1, 2017, respectively, in accordance with the Agency's Rate Plan.

**Capital Assets and Debt Administration**

**Capital Assets**

The Agency's investments in capital assets at December 31, 2018, 2017 and 2016 totaled \$1,157,655,000, \$1,147,075,000 and \$1,170,253,000, respectively, (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2018 and 2017 include the following:

- Construction work in progress increased \$37,761,000 and \$32,093,000 in 2018 and 2017, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$41,761,000 and \$31,806,000 in 2018 and 2017, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$40,078,000 and \$39,197,000 for 2018 and 2017, respectively.
- Nuclear Fuel was amortized \$40,434,000 and \$45,857,000 for 2018 and 2017, respectively. In 2018 and 2017 there were retirements of Electric Utility Plant of \$44,223,000 and \$28,781,000, respectively. There were no write-offs of spent nuclear fuel in 2018 and 2017.

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

Electric Utility Plant, Net

|   | December 31,<br>2017 | Additions        | Transfers   | Retirements | December 31,<br>2018 |
|---|----------------------|------------------|-------------|-------------|----------------------|
| Depreciable Utility Plant                       |                      |                  |             |             |                      |
| Electric Utility Plant                          |                      |                  |             |             |                      |
| Electric plant in service                       | \$ 1,891,710         | \$ 440           | \$ 44,356   | \$ (44,223) | \$ 1,892,283         |
| Nuclear fuel                                    | 219,743              | 52,877           | (31,918)    | -           | 240,702              |
| Total Depreciable Utility Plant                 | 2,111,453            | 53,317           | 12,438      | (44,223)    | 2,132,985            |
| Accumulated Depreciation and Amortization       |                      |                  |             |             |                      |
| Electric plant in service                       | (897,263)            | (40,038)         | (2,595)     | 44,223      | (895,673)            |
| Nuclear fuel                                    | (126,066)            | (40,434)         | 31,918      | -           | (134,582)            |
| Total Accumulated Depreciation and Amortization | (1,023,329)          | (80,472)         | 29,323      | 44,223      | (1,030,255)          |
| Depreciable Utility Plant, Net                  | 1,088,124            | (27,155)         | 41,761      | -           | 1,102,730            |
| Land and Other Non-Depreciable Assets           |                      |                  |             |             |                      |
| Land  | 19,768               | -                | -           | -           | 19,768               |
| Construction work in progress                   | 38,159               | 37,761           | (41,761)    | -           | 34,159               |
| Total Electric Utility Plant, Net               | <u>\$ 1,146,051</u>  | <u>\$ 10,606</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,156,657</u>  |

|   | December 31,<br>2016 | Additions          | Transfers   | Retirements | December 31,<br>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              |
| 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               | <u>\$ 1,169,160</u>  | <u>\$ (23,109)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,146,051</u>  |

## Non-Utility Plant and Equipment, Net

|   | December 31,<br>2017 | Additions      | Transfers   | Retirements | December 31,<br>2018 |
|---|----------------------|----------------|-------------|-------------|----------------------|
| Non-Utility Property and Equipment                        |                      |                |             |             |                      |
| Property and equipment                                    | \$ 5,040             | \$ 14          | \$ -        | \$ (1,416)  | \$ 3,638             |
| Accumulated depreciation                                  | (4,726)              | (40)           | -           | 1,416       | (3,350)              |
| Total Depreciable Non-Utility Property and Equipment, Net | 314                  | (26)           | -           | -           | 288                  |
| Land  | 710                  | -              | -           | -           | 710                  |
| Total Non-Utility Property and Equipment, Net             | <u>\$ 1,024</u>      | <u>\$ (26)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 998</u>        |

|   | December 31,<br>2016 | Additions      | Transfers   | Retirements | December 31,<br>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             | <u>\$ 1,093</u>      | <u>\$ (69)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,024</u>      |

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, 2018, 2017 and 2016 was \$974,125,000, \$1,055,970,000 and \$1,135,360,000, respectively, all of which are revenue bonds. Total debt decreased by \$81,845,000 (7.75%) and \$79,930,000 (6.99%) during 2018 and 2017, 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 31 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

### **Economic Factors**

The following key economic factors played a role in the 2019 budget.

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.2%/year. Load is expected to grow at a rate of 0.4% annually for the next 10 years for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for steam coal are expected to stay flat to lower due to weaker demand and low gas prices.
- Natural Gas prices are expected to remain flat with some seasonal volatility as supply and demand both expand. Long term prices are expected to increase comparable with inflation.

### **Budget Highlights for 2019**

- Forecasts no change in wholesale rates for the years 2019-2020; the actual rate change will be considered at the Spring 2019 Rate Committee Meeting.
- Collection through rates of \$41,410,000 for debt principal due January 1, 2020.
- Anticipates scheduled refueling outages for Catawba 2 and McGuire Unit 1.
- Projects that a total \$18,684,000 will be spent on capital additions at the Catawba plant funded from bonds.
- Projected average annual load growth over 10 years is 0.6% for both energy and OP demand.

### **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, |              |
|---|--------------|--------------|
|   | 2018         | 2017         |
| <b>ASSETS</b>                                       |              |              |
| <b>Non-Current Assets</b>                           |              |              |
| Capital Assets (Note C):                            |              |              |
| Electric Utility Plant, Net                         |              |              |
| Electric plant in service                           | \$ 1,912,051 | \$ 1,911,478 |
| Construction work in progress                       | 34,159       | 38,159       |
| Nuclear fuel  | 240,702      | 219,743      |
| Accumulated depreciation and amortization           | (1,030,255)  | (1,023,329)  |
| Total Electric Utility Plant, Net                   | 1,156,657    | 1,146,051    |
| Non-Utility Property and Equipment, Net             |              |              |
| Property and Equipment                              | 4,348        | 5,750        |
| Accumulated depreciation                            | (3,350)      | (4,726)      |
| Total Non-Utility Property and Equipment, Net       | 998          | 1,024        |
| Total Capital Assets                                | 1,157,655    | 1,147,075    |
| Restricted Assets                                   |              |              |
| Special Funds Invested (Note D):                    |              |              |
| Construction fund                                   | 28,606       | 55,215       |
| Bond fund   | 213,035      | 238,533      |
| Reserve and contingency fund                        | 11,752       | 13,131       |
| Total Special Funds Invested                        | 253,393      | 306,879      |
| Trust for Decommissioning Costs (Notes D and F)     | 346,228      | 340,285      |
| Total Restricted Assets                             | 599,621      | 647,164      |
| Total Non-Current Assets                            | 1,757,276    | 1,794,239    |
| <b>Current Assets</b>                               |              |              |
| Funds Invested (Notes D):                           |              |              |
| Revenue fund  | \$ 82,656    | \$ 65,926    |
| Operating fund                                      | 90,162       | 100,652      |
| Supplemental fund                                   | 282,218      | 206,666      |
| Total Funds Invested                                | 455,036      | 373,244      |
| Participant accounts receivable                     | 29,977       | 31,984       |
| Operating accounts receivable                       | 9,163        | 17,776       |
| Plant materials and renewable certificate inventory | 66,781       | 66,359       |
| Total Current Assets                                | 560,957      | 489,363      |
| Total Assets  | \$ 2,318,233 | \$ 2,283,602 |

See accompanying Notes to Financial Statements.

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

|                                       | December 31,        |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 2018                | 2017                |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b> |                     |                     |
| Costs of advance refundings of debt   | \$ 52,278           | \$ 60,670           |
| Unamortized debt issuance costs       | 3,616               | 4,140               |
| Total Deferred Outflows of Resources  | <u>\$ 55,894</u>    | <u>\$ 64,810</u>    |
| <b>LIABILITIES</b>                    |                     |                     |
| <b>Non-Current Liabilities</b>        |                     |                     |
| Long-Term Debt:                       |                     |                     |
| Bonds (Note H)                        | \$ 902,620          | \$ 974,125          |
| Unamortized premium                   | 74,623              | 86,953              |
| Total Long-Term Debt, net             | 977,243             | 1,061,078           |
| Asset Retirement Obligation (Note F)  | 435,074             | 397,160             |
| Total Non-Current Liabilities         | <u>1,412,317</u>    | <u>1,458,238</u>    |
| <b>Current Liabilities</b>            |                     |                     |
| Operating Liabilities:                |                     |                     |
| Accounts payable                      | 37,249              | 29,997              |
| Accrued taxes                         | -                   | 202                 |
| Total Operating Liabilities           | <u>37,249</u>       | <u>30,199</u>       |
| Special Funds Liabilities:            |                     |                     |
| Current maturities of bonds (Note H)  | 71,505              | 81,845              |
| Accrued interest on bonds             | 23,494              | 25,248              |
| Total Special Funds Liabilities       | <u>94,999</u>       | <u>107,093</u>      |
| Total Current Liabilities             | <u>132,248</u>      | <u>137,292</u>      |
| Total Liabilities                     | <u>\$ 1,544,565</u> | <u>\$ 1,595,530</u> |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |                     |
| Collections to be expended (Note G)   | 531,324             | 531,567             |
| Total Deferred Inflows of Resources   | <u>\$ 531,324</u>   | <u>\$ 531,567</u>   |
| <b>NET POSITION</b>                   |                     |                     |
| Net investment in capital assets      | \$ 722,934          | \$ 648,947          |
| Restricted for debt service           | 39,360              | 90,868              |
| Unrestricted (deficit)                | (464,056)           | (518,500)           |
| Total Net Position                    | <u>\$ 298,238</u>   | <u>\$ 221,315</u>   |

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

|   | Years Ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2018                     | 2017              |
| <b>Operating Revenues:</b>                                      |                          |                   |
| Sales to participants   | \$ 405,809               | \$ 415,842        |
| Sales to utilities  | 114,989                  | 103,940           |
| Other revenues  | 1,416                    | 1,837             |
| Total Operating Revenues  | 522,214                  | 521,619           |
| <b>Operating Expenses:</b>                                      |                          |                   |
| Operation and maintenance                                       | 118,064                  | 111,860           |
| Fuel  | 41,925                   | 46,365            |
| Interconnection services:                                       |                          |                   |
| Purchased power   | 89,031                   | 75,867            |
| Transmission and distribution                                   | 16,868                   | 16,240            |
| Other   | 932                      | 903               |
| Total interconnection services                                  | 106,831                  | 93,010            |
| Administrative and general                                      | 47,362                   | 47,182            |
| Gross receipts and excise taxes                                 | 2,121                    | 2,177             |
| Property tax  | 22,114                   | 21,698            |
| Depreciation  | 40,078                   | 39,197            |
| Amortization of asset retirement obligation                     | 37,914                   | 21,737            |
| Total Operating Expenses  | 416,409                  | 383,226           |
| Operating Income  | 105,805                  | 138,393           |
| <b>Nonoperating (Revenues) Expenses</b>                         |                          |                   |
| Investment income   | (21,082)                 | (18,074)          |
| Net decrease in fair value of investments                       | 6,469                    | 3,881             |
| Interest expense  | 47,151                   | 50,721            |
| Amortization of debt refunding costs                            | 8,392                    | 9,447             |
| Amortization of debt discount, premium costs and issuance costs | (11,805)                 | (14,095)          |
| Net decrease in costs to be recovered (Note G)                  | 22,415                   | 38,705            |
| Net increase (decrease) in collections to be expended (Note G)  | (22,658)                 | 9,292             |
| Total Nonoperating (Revenues) Expenses                          | 28,882                   | 79,877            |
| Change in Net Position  | 76,923                   | 58,516            |
| Net Position, Beginning of Year                                 | 221,315                  | 162,799           |
| Net Position, End of Year                                       | <u>\$ 298,238</u>        | <u>\$ 221,315</u> |

See accompanying Notes to Financial Statements.

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

|   | Years Ended December 31, |                   |
|---|--------------------------|-------------------|
|   | 2018                     | 2017              |
| <b>Cash Flows from Operating Activities:</b>  |                          |                   |
| Receipts from sales of electricity  | \$ 533,056               | \$ 514,119        |
| Receipts from other revenues  | 1,416                    | 1,837             |
| Payments of operating expenses  | (290,403)                | (284,568)         |
| Net cash provided by operating activities   | 244,069                  | 231,388           |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                        |                          |                   |
| Bond Principal Payments   | (81,845)                 | (79,390)          |
| Interest paid   | (48,905)                 | (52,755)          |
| Additions to electric utility plant and non-utility property and equipment              | (92,044)                 | (62,010)          |
| Debt (discount) premium net of issuance costs   | 4                        | 4                 |
| Investment earnings receipts from construction fund                                     | 459                      | 869               |
| Net cash used for capital and related financing activities                              | (222,331)                | (193,282)         |
| <b>Cash Flows from Investing Activities:</b>  |                          |                   |
| Sales and maturities of investment securities   | 1,606,713                | 1,259,458         |
| Purchases of investment securities  | (1,639,895)              | (1,308,048)       |
| Investment earnings receipts  | 11,423                   | 10,510            |
| Net cash used in investing activities   | (21,759)                 | (38,080)          |
| Net Increase (Decrease) in Operating Cash   | (21)                     | 26                |
| Operating Cash, Beginning of year   | 78                       | 52                |
| Operating Cash, End of year (Note B)  | <u>\$ 57</u>             | <u>\$ 78</u>      |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b> |                          |                   |
| Operating Income  | \$ 105,805               | \$ 138,393        |
| Adjustments:  |                          |                   |
| Depreciation  | 40,078                   | 39,197            |
| Amortization of nuclear fuel  | 41,386                   | 45,991            |
| Amortization of asset retirement obligation   | 37,914                   | 21,737            |
| Changes in assets and liabilities:  |                          |                   |
| Decrease in participant accounts receivable   | 2,007                    | 193               |
| Decrease/(Increase) in operating accounts receivable                                    | 10,251                   | (5,856)           |
| Increase in plant materials and renewable certificate inventory                         | (422)                    | (2,230)           |
| Increase/(Decrease) in accounts payable   | 7,252                    | (6,055)           |
| Increase/(Decrease) in accrued taxes  | (202)                    | 18                |
| Total Adjustments   | 138,264                  | 92,995            |
| Net Cash Provided by Operating Activities   | <u>\$ 244,069</u>        | <u>\$ 231,388</u> |

See accompanying Notes to Financial Statements.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**A. General Matters**

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

The Project

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

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

- The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase its ownership share of the project. However, by virtue of various exchange provisions contained in the Interconnection Agreement and the Operation and Fuel Agreement, the Agency (1) bears the costs of acquisition, construction, operation and maintenance of 37.5% of both Unit 1 and Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units.
- The Operation and Fuel Agreement provides for Duke to operate, maintain and fuel the station; to make renewals, replacements and capital additions as approved by the Agency; and for the ultimate decommissioning of the station at the end of its useful life.
- The 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 \$217,546,000 and \$214,680,000 in 2018 and 2017, respectively.



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**A. General Matters (continued)**

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

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

- Agreement with Southern Power Company for the purchase of 150 MW of capacity and the associated energy as scheduled by the Agency for the period 2016 through 2030.
- Agreement with Duke for the purchase of 50 MWh of energy as scheduled by the Agency, and for the sale by the Agency of up to 100 MWh per hour of energy through 2018, and a separate similar agreement for 2019.
- 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 2018 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 96 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.

Agency administers a load management program by which customers may reduce load during peak billing time periods. The operation of this program results in a total peak reduction of approximately 38 MW each month.

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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**A. General Matters (continued)**

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

ElectriCities of North Carolina, Inc.

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

The Agency has entered into a management agreement with ElectriCities. Under the current management agreement, ElectriCities is required to provide, at cost, all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continued through December 31, 2018, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term. Neither party has given notice as of December 31, 2018.

For the years ended December 31, 2018 and 2017, the Agency paid ElectriCities \$14,389,000 and \$14,171,000, respectively.

**B. Significant Accounting Policies**

Basis of Accounting

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

The Agency reports in accordance with GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The statement requires certain information be included in the financial statements and specifies how that information should be presented.

The financial statements are prepared using the economic resources measurement focus. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing activities and investment activities are defined as non-operating revenues.

Restricted net position represents constraints on resources that are imposed by Resolution and may be utilized only for the purposes established by the Resolution. Unrestricted net position may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, the Agency first uses the unrestricted net position. Negative unrestricted net position will require future resources.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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

Electric Plant in Service

All expenses associated with the development and construction of the Agency's ownership interest in the Catawba station, including interest expense net of investment income on funds not yet expended and the asset retirement obligation adjustment arising from implementing U.S. GAAP (discussed under Decommissioning Costs on page 18) have been recorded at original cost and are being depreciated on a straight-line basis over the average composite life of each unit's assets. At December 31, 2018, the remaining life for Catawba Units 1 and 2 was 25 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 2018 and 2017, 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. 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. 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 2018 and 2017 was \$946,000 and \$640,000 respectively.

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

The DOE announced that it would cease the collection of the 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2017, in response to a November 2013 ruling by the US Court of Appeals. This action resulted from a lawsuit filed on behalf of utilities and regulators by the National Association of Regulatory Utility Commissioners (NARUC) and the Nuclear Energy Institute (NEI). The court instructed the US energy secretary to "change the fee to zero" pending either compliance with the existing US nuclear waste act or the enactment by Congress of an alternative waste management plan.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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

Non-Utility Property and Equipment

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

Pollution Remediation Obligations

The Agency reports in accordance with GASB Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations" (GASB No. 49) which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as nuclear power plant decommissioning.

Accounts Receivable

Accounts receivable consist of trade accounts receivable associated with the sale of electricity and are stated at cost. The Agency primarily sells to the Participants in the project and high quality utilities and accordingly, based on past collection history, 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 \$39,070,000 and \$26,741,000, at December 31, 2018 and 2017, 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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**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. 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.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$30,000 and \$59,000 at December 31, 2018 and 2017 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$27,000 and \$19,000 at December 31, 2018 and 2017, 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 \$7,831,000 and \$9,202,000 at December 31, 2018 and 2017, respectively. The cash flows associated with the increase in accounts payable of \$7,252,000 in 2018 and the decrease of \$6,055,000 in 2017, 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



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**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.

Deferred Outflows/ Inflows of resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. Deferred Outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred Inflows of Resources represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. See Note G beginning on page 28 for more detailed information.

Recently Adopted GASB Standards

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This Statement is effective for fiscal years beginning after June 15, 2017 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

In March 2016, GASB issued Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. The objectives of this Statement are to address issues that have been raised regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This Statement did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

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. This Statement is effective for reporting periods beginning after June 15, 2017 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

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 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**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 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.

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 April 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This statements also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In August 2018, GASB issued Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for fiscal years beginning after December 15, 2018.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**C. Capital Assets**

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2018 and 2017 are as follows (in thousands of dollars):

|   | December 31,<br>2017 | Additions        | Transfers   | Retirements | December 31,<br>2018 |
|---|----------------------|------------------|-------------|-------------|----------------------|
| Depreciable Utility Plant                       |                      |                  |             |             |                      |
| Electric Utility Plant                          |                      |                  |             |             |                      |
| Electric plant in service                       | \$ 1,891,710         | \$ 440           | \$ 44,356   | \$ (44,223) | \$ 1,892,283         |
| Nuclear fuel                                    | 219,743              | 52,877           | (31,918)    | -           | 240,702              |
| Total Depreciable Utility Plant                 | 2,111,453            | 53,317           | 12,438      | (44,223)    | 2,132,985            |
| Accumulated Depreciation and Amortization       |                      |                  |             |             |                      |
| Electric plant in service                       | (897,263)            | (40,038)         | (2,595)     | 44,223      | (895,673)            |
| Nuclear fuel                                    | (126,066)            | (40,434)         | 31,918      | -           | (134,582)            |
| Total Accumulated Depreciation and Amortization | (1,023,329)          | (80,472)         | 29,323      | 44,223      | (1,030,255)          |
| Depreciable Utility Plant, Net                  | 1,088,124            | (27,155)         | 41,761      | -           | 1,102,730            |
| Land and Other Non-Depreciable Assets           |                      |                  |             |             |                      |
| Land  | 19,768               | -                | -           | -           | 19,768               |
| Construction work in progress                   | 38,159               | 37,761           | (41,761)    | -           | 34,159               |
| Total Electric Utility Plant, Net               | <u>\$ 1,146,051</u>  | <u>\$ 10,606</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,156,657</u>  |

Electric Utility Plant, Net

|   | December 31,<br>2016 | Additions          | Transfers   | Retirements | December 31,<br>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              |
| 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               | <u>\$ 1,169,160</u>  | <u>\$ (23,109)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,146,051</u>  |

The Agency has commitments to Duke in connection with capital additions for the station. Current estimates indicate the Agency's portion of these costs for 2019 and 2020 will be approximately \$96,000,000.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**C. Capital Assets (continued)**

Non-Utility Property and Equipment

Changes in components of non-utility property and equipment, net during 2018 and 2017 are as follows (in thousands of dollars):

|   | December 31,<br>2017 | Additions      | Transfers   | Retirements | December 31,<br>2018 |
|---|----------------------|----------------|-------------|-------------|----------------------|
| Non-Utility Property and Equipment                        |                      |                |             |             |                      |
| Property and equipment                                    | \$ 5,040             | \$ 14          | \$ -        | \$ (1,416)  | \$ 3,638             |
| Accumulated depreciation                                  | (4,726)              | (40)           | -           | 1,416       | (3,350)              |
| Total Depreciable Non-Utility Property and Equipment, Net | 314                  | (26)           | -           | -           | 288                  |
| Land  | 710                  | -              | -           | -           | 710                  |
| Total Non-Utility Property and Equipment, Net             | <u>\$ 1,024</u>      | <u>\$ (26)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 998</u>        |

Non-Utility Property and Equipment

|   | December 31,<br>2016 | Additions      | Transfers   | Retirements | December 31,<br>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             | <u>\$ 1,093</u>      | <u>\$ (69)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,024</u>      |

**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.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**D. Investments (continued)**

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

|                                     |                     | December 31,      |                     |                   |                     |
|-------------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|                                     |                     | 2018              |                     | 2017              |                     |
|                                     | Method of Valuation | Cost Basis        | Reported Value      | Cost Basis        | Reported Value      |
| Commercial Paper                    | Fair Value Level 1  | \$ 97,710         | \$ 98,154           | \$ 143,240        | \$ 143,489          |
| U.S. Government Agencies            | Fair Value Level 1  | 127,974           | 127,135             | 175,624           | 174,194             |
| U.S. Treasury Securities            | Fair Value Level 1  | 295,527           | 293,628             | 194,349           | 191,853             |
| Money Market                        |                     |                   |                     |                   |                     |
| NCCMT* -Government Portfolio        | Amortized Cost      | 19,463            | 19,463              | 31,142            | 31,142              |
| NCCMT* -Term Portfolio              | Fair Value Level 1  | 133,950           | 133,950             | 110,237           | 110,237             |
| Collateralized mortgage obligations | Fair Value Level 2  | 35,089            | 34,192              | 28,038            | 27,578              |
| Sub-total funds invested            |                     | 709,713           | 706,522             | 682,630           | 678,493             |
| Decommissioning Trust securities:   |                     |                   |                     |                   |                     |
| U.S. government agencies            | Fair Value Level 1  | 87,196            | 92,534              | 77,861            | 84,867              |
| U.S. Treasury Securities            | Fair Value Level 1  | 152,785           | 216,595             | 150,219           | 214,043             |
| Collateralized mortgage obligations | Fair Value Level 2  | 36,719            | 35,379              | 39,991            | 39,279              |
| Money Market                        |                     |                   |                     |                   |                     |
| NCCMT* -Government Portfolio        | Amortized Cost      | -                 | -                   | 892               | 892                 |
| NCCMT* -Term Portfolio              | Fair Value Level 1  | 894               | 894                 | 442               | 442                 |
| Sub-total funds invested            |                     | 277,594           | 345,402             | 269,405           | 339,523             |
| Cash                                |                     |                   |                     |                   |                     |
| Operating cash                      |                     | 30                | 30                  | 59                | 59                  |
| Restricted cash                     |                     | 27                | 27                  | 19                | 19                  |
| Accrued interest                    |                     | 2,676             | 2,676               | 2,314             | 2,314               |
| Total funds invested                |                     | <u>\$ 990,040</u> | <u>\$ 1,054,657</u> | <u>\$ 954,427</u> | <u>\$ 1,020,408</u> |
| Consisting of:                      |                     |                   |                     |                   |                     |
| Special funds invested              |                     |                   | \$ 253,393          |                   | \$ 306,879          |
| Decommissioning Trust               |                     |                   | 346,228             |                   | 340,285             |
| Operating assets                    |                     |                   | 455,036             |                   | 373,244             |
| Total funds invested                |                     |                   | <u>\$ 1,054,657</u> |                   | <u>\$ 1,020,408</u> |

\* NC Capital Management Trust

**Interest Rate Risk**

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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**D. Investments (continued)**

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

| December 31, 2018                   |                                |            |           |              |  |
|-------------------------------------|--------------------------------|------------|-----------|--------------|--|
| Recorded Value                      | Investment Maturity (In Years) |            |           |              |  |
|                                     | Less Than 1                    | 1-5        | 6-10      | More than 10 |  |
| Commercial Paper                    | \$ 98,154                      | \$ -       | \$ -      | \$ -         |  |
| U.S. Government Agencies            | 127,135                        | 68,453     | -         | -            |  |
| U.S. Treasury Securities            | 293,628                        | 246,433    | -         | -            |  |
| Money Market                        | 153,413                        | -          | -         | -            |  |
| Collateralized mortgage obligations | 34,192                         | 7,979      | 13,372    | 12,841       |  |
| Sub-total funds invested            | 706,522                        | 322,865    | 13,372    | 12,841       |  |
| Decommissioning Trust securities    | 345,402                        | 157,899    | 27,640    | 81,822       |  |
| Total                               | \$ 1,051,924                   | \$ 480,764 | \$ 41,012 | \$ 94,663    |  |

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

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

| December 31, 2018                   |                     |                   |                     |                   |            |                   |
|-------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                     | 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            | \$ 32,511           | \$ 142            | \$ 209,570          | \$ 4,230          | \$ 242,081 | \$ 4,372          |
| Collateralized mortgage obligations | 12,025              | 92                | 22,167              | 805               | \$ 34,192  | \$ 897            |
| Sub-total                           | 44,536              | 234               | 231,737             | 5,035             | 276,273    | 5,269             |
| Decommissioning Trust securities    | \$ 34,736           | \$ 1,007          | \$ 92,413           | \$ 3,271          | \$ 127,149 | \$ 4,278          |
| Total                               | \$ 79,272           | \$ 1,241          | \$ 324,150          | \$ 8,306          | \$ 403,422 | \$ 9,547          |

| 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          |
| Collateralized mortgage obligations | 14,863              | 4                 | -                   | -                 | 14,863     | 4                 |
| Sub-total                           | 11,354              | 71                | 15,620              | 437               | 26,974     | 508               |
| Decommissioning Trust securities    | 189,521             | 1,223             | 168,527             | 3,634             | 358,048    | 4,857             |
| Total                               | 9,609               | 58                | 97,785              | 2,089             | 107,394    | 2,147             |
|                                     | \$ 199,130          | \$ 1,281          | \$ 266,312          | \$ 5,723          | \$ 465,442 | \$ 7,004          |

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**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, 2018 and 2017 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, 2018 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 Board of Directors of the Agency approved an Investment Risk Management Policy in 2012. The policy set the overall investment objectives and established sector and issuer guidelines. It is reviewed annually to ensure its compliant with the current law and the Local Government Commission. The Agency's investments by issuer are detailed in the following schedule (in thousands of dollars):

| Issuer  | December 31, 2018   |               | December 31, 2017   |               |
|---|---------------------|---------------|---------------------|---------------|
|   | Recorded Value      | Percentage    | Recorded Value      | Percentage    |
| Federal Home Loan Mortgage Corporation            | \$ 56,752           | 5.4%          | \$ 74,142           | 7.3%          |
| Federal National Mortgage Association             | 131,788             | 12.5%         | 153,492             | 15.1%         |
| Federal Home Loan Bank                            | 75,393              | 7.2%          | 67,581              | 6.6%          |
| Federal Farm Credit Bank                          | 20,672              | 2.0%          | 24,439              | 2.4%          |
| Government National Mortgage Association          | 3,182               | 0.3%          | 3,454               | 0.3%          |
| Resolution Funding Corporation                    | 1,453               | 0.1%          | 2,808               | 0.3%          |
| Commercial Paper                                  |                     |               |                     |               |
| Bank of Nova Scotia                               | -                   | 0.0%          | 16,617              | 1.6%          |
| MUFG Bank (formerly Bank of Tokyo-Mitsubishi UFJ) | 31,755              | 3.0%          | 67,302              | 6.6%          |
| BNP Paribas Securities Corp                       | -                   | 0.0%          | 6,625               | 0.7%          |
| DNB Bank ASA                                      | -                   | 0.0%          | 14,792              | 1.5%          |
| GE Capital Treasury                               | -                   | 0.0%          | 3,105               | 0.3%          |
| JPMorgan Securities                               | 7,944               | 0.8%          | -                   | 0.0%          |
| Mitsubishi UFJ T&B NY                             | 10,981              | 1.0%          | 10,088              | 1.0%          |
| Mizuho Securities (USA)                           | 11,068              | 1.1%          | -                   | 0.0%          |
| Private Export Fund Corp                          | -                   | 0.0%          | 1,717               | 0.2%          |
| Toronto Dominion Bank                             | 28,251              | 2.7%          | 14,863              | 1.5%          |
| Toyota Motor Credit                               | 8,155               | 0.8%          | 8,381               | 0.8%          |
| Money Market Fund - NC Capital Management Trust   | 154,307             | 14.7%         | 142,713             | 14.0%         |
| US Treasury Department                            | 510,223             | 48.4%         | 405,897             | 39.8%         |
| Total   | <u>\$ 1,051,924</u> | <u>100.0%</u> | <u>\$ 1,018,016</u> | <u>100.0%</u> |

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**D. Investments (continued)**

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. At December 31, 2018 and 2017, the Agency had \$30,000 and \$59,000 in operating funds, respectively, and \$27,000 and \$19,000 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 2018 and 2017 (in thousands of dollars):

| Summary of Changes in RECs |                       |           |             |                       |
|----------------------------|-----------------------|-----------|-------------|-----------------------|
|                            | Balance<br>12/31/2017 | Additions | Retirements | Balance<br>12/31/2018 |
| RECs                       | 6,986                 | 2,078     | (523)       | 8,541                 |
|                            | Balance<br>12/31/2016 | Additions | Retirements | Balance<br>12/31/2017 |
| RECs                       | 5,773                 | 1,675     | (462)       | 6,986                 |



**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**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.

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 2018 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 \$666,570,000, stated in 2018 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 2018 and 2017 are as follows (in thousands of dollars):

|                                   | Years Ended December 31, |                   |
|-----------------------------------|--------------------------|-------------------|
|                                   | 2018                     | 2017              |
| Balance, beginning of year        | \$ 397,160               | \$ 375,423        |
| Accretion expense                 | 22,995                   | 21,737            |
| Revisions in estimated cash flows | 14,919                   | -                 |
| Balance, end of year              | <u>\$ 435,074</u>        | <u>\$ 397,160</u> |

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

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

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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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

Funds collected through rates for reserve accounts and restricted investment income are recognized as collections to be expended, thus increasing total collections to be expended. When these funds are used to meet current expenses, total collections to be expended decrease.

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

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

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

|   | Years Ended<br>December 31, |                    | Inception to<br>December 31, |                     |
|---|-----------------------------|--------------------|------------------------------|---------------------|
|   | 2018                        | 2017               | 2018                         | 2017                |
| Costs to be recovered                                   |                             |                    |                              |                     |
| Net deferred interest                                   | \$ -                        | \$ -               | \$ 155,316                   | \$ 155,316          |
| Amortization of debt discount, premium & issuance costs | (11,805)                    | (14,095)           | 8,654                        | 20,459              |
| Depreciation and amortization                           | 63,073                      | 60,934             | 1,504,109                    | 1,441,036           |
| Amortization of debt refunding costs                    | 8,392                       | 9,447              | 608,582                      | 600,190             |
| Deferred Fuel   | -                           | -                  | (17,806)                     | (17,806)            |
| Participant billing offsets                             | (82,075)                    | (94,991)           | (2,455,783)                  | (2,373,708)         |
| Other unrecovered costs                                 | -                           | -                  | 23,749                       | 23,749              |
| Total Costs To Be Recovered *                           | <u>\$ (22,415)</u>          | <u>\$ (38,705)</u> | <u>\$ (173,179)</u>          | <u>\$ (150,764)</u> |
|   |                             |                    |                              |                     |
|   | Years Ended<br>December 31, |                    | Inception to<br>December 31, |                     |
|   | 2018                        | 2017               | 2018                         | 2017                |
| Collections to be expended                              |                             |                    |                              |                     |
| Net special funds (withdrawals)/deposits                | \$ -                        | \$ -               | \$ 38,999                    | \$ 38,999           |
| Restricted investment income                            | 11,452                      | 11,010             | 334,027                      | 322,575             |
| Rate stabilization funds used for other than operations | -                           | -                  | (53,393)                     | (53,393)            |
| Special Funds Valuations                                | (13,144)                    | (67)               | (27,690)                     | (14,546)            |
| Net decrease (increase) in fair value of investments    | (6,469)                     | (3,881)            | 415                          | 6,884               |
| Asset Retirement Obligation Provision                   | (14,919)                    | -                  | 16,369                       | 31,288              |
| Other collections to be expended                        | 422                         | 2,230              | 49,418                       | 48,996              |
| Total Collections To Be Expended                        | <u>\$ (22,658)</u>          | <u>\$ 9,292</u>    | <u>\$ 358,145</u>            | <u>\$ 380,803</u>   |

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

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**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 2018 and 2017 (in thousands of dollars):

**Summary of Changes in Long term Liability**

|               | December 31,<br>2017 | Additions   | Reductions         | December<br>31, 2018 | Amounts Due<br>within One Year |
|---------------|----------------------|-------------|--------------------|----------------------|--------------------------------|
| Bonds payable | <u>\$ 1,055,970</u>  | <u>\$ -</u> | <u>\$ (81,845)</u> | <u>\$ 974,125</u>    | <u>\$ 71,505</u>               |
|               | December 31,<br>2016 | Additions   | Reductions         | December<br>31, 2017 | Amounts Due<br>within One Year |
| Bonds payable | <u>\$ 1,135,360</u>  | <u>\$ -</u> | <u>\$ (79,390)</u> | <u>\$ 1,055,970</u>  | <u>\$ 81,845</u>               |

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**H. Bonds (continued)**

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

|   | December 31, |        |
|---|--------------|--------|
|   | 2018         | 2017   |
| Series 2008A  |              |        |
| 5.25% maturing annually from 2016 to 2020                                       | 2,695        | 6,880  |
| 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 2017 to 2021                              | 33,775       | 40,105 |
| Series 2010B  |              |        |
| 5.00% maturing annually from 2020 to 2021                                       | 36,905       | 36,905 |

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**H. Bonds (continued)**

|  | December 31, |               |
|--|--------------|---------------|
|  | 2018         | 2017          |
| Series 2012A   |              |               |
| 2.00% to 5% maturing annually from 2017 to 2020      | \$ 76,485    | \$ 147,815    |
| 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        |
| <br>Total Bonds Outstanding                          | <br>974,125  | <br>1,055,970 |
| Current maturities of bonds                          | (71,505)     | (81,845)      |
| Total Long-Term Debt, Bonds                          | \$ 902,620   | \$ 974,125    |

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**H. Bonds (continued)**

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates the year prior to the January 1 maturity and deposited into the Bond Fund for payment when due. Current maturities of \$71,505,000 at December 31, 2018 were collected monthly through rates during 2018 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, 2018 are as follows (in thousands of dollars):

| <u>Year</u>  | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>        |
|--------------|-------------------|-------------------|---------------------|
| 2019         | 41,410            | 43,617            | 85,027              |
| 2020         | 55,970            | 41,619            | 97,589              |
| 2021         | 57,955            | 38,897            | 96,852              |
| 2022         | 60,340            | 36,871            | 97,211              |
| 2023         | 62,845            | 34,004            | 96,849              |
| 2024 to 2028 | 361,940           | 122,271           | 484,211             |
| 2029 to 2031 | 262,160           | 27,528            | 289,688             |
| Total        | <u>\$ 902,620</u> | <u>\$ 344,807</u> | <u>\$ 1,247,427</u> |

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2018 and 2017 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 \$1,068,628,000 and \$1,178,877,000 at December 31, 2018 and 2017, 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, 2016A, bonds were used to establish trusts for the refunding of \$2,905,735,000 of previously issued bonds at December 31, 2016. At December 31, 2018 and 2017, \$2,677,345,000 and \$2,598,660,000 of these bonds has been redeemed leaving \$228,390,000 and \$307,075,000 of defeased bonds still outstanding respectively.

Under these Refunding Trust Agreements, obligations of, or guaranteed by, the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the respective Refunding Trust Funds along with the interest earnings on such obligations, will be sufficient to pay all interest on the refunded bonds when due and to redeem all refunded bonds at various dates prior to their original maturities at par. The monies on deposit in each Refunding Trust Fund, including the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

Interest on the bonds is payable semi-annually.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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**H. Bonds (continued)**

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

|                          |                 |
|--------------------------|-----------------|
| Series 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 \$116,807,000 and \$130,586,000 for 2018 and 2017, respectively. As of December 31, 2018, and 2017, the balances of the reserve were \$119,352,000 and \$132,455,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling \$11,681,000 and \$13,059,000 for 2018 and 2017, respectively. As of December 31, 2018, and 2017, the balances of the contingency fund were \$11,798,000 and \$13,197,000, respectively.

As of December 31, the Agency had \$28,606,000 and \$55,117,000 in unspent bond funds in restricted cash and investments for 2018 and 2017, respectively.

**I. Commitments and Contingencies**

Duke maintains, on behalf of all co-owners of the Catawba station, nuclear insurance coverage in the following areas: liability coverage, property, decontamination and decommissioning coverage, and extended accidental outage coverage to cover increased generating costs and/or replacement power purchases.

**North Carolina Municipal Power Agency Number 1**  
**Notes to Financial Statements**  
**Years Ended December 31, 2018 and 2017**

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

Liability Coverage

In accordance with the Price-Anderson Act, Duke, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$14.1 billion, \$450 million of which is by private insurance with a like amount to cover certain worker tort claims. The remaining amount of approximately \$13.6 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$13.6 billion amount will increase by \$138 million as each new nuclear reactor is licensed and decrease by \$138 million for each insured nuclear reactor that is no longer operational and has been exempted from the program. The Agency is liable for 37.5% of these premiums.

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$138 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 \$20.5 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 \$33.9 million. This amount represents ten times of Catawba's annual premium. Excess property damage, decontamination and decommissioning liability insurance of \$1.25 billion has 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 \$8.185 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 \$11.1 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 15, 2019, 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<br>December 31, 2018 |                   |            |
|-------------------------------------|---------------------------------|-------------------|------------|
|                                     | Project                         | Supple-<br>mental | Total      |
| Revenues:                           |                                 |                   |            |
| Sales to participants               | \$ 257,391                      | \$ 148,418        | \$ 405,809 |
| Sales to utilities                  | 114,989                         | -                 | 114,989    |
| Investment income                   | 5,298                           | 4,332             | 9,630      |
| Excess Funds valuation              | 18,596                          | -                 | 18,596     |
| Other revenue                       | 1,332                           | 84                | 1,416      |
| Total Revenues                      | 397,606                         | 152,834           | 550,440    |
| Expenses:                           |                                 |                   |            |
| Operation and maintenance           | 115,676                         | 1,254             | 116,930    |
| Nuclear fuel                        | 41,386                          | 539               | 41,925     |
| Interconnection services:           |                                 |                   |            |
| Purchased power                     | 42,806                          | 46,226            | 89,032     |
| Transmission and distribution       | -                               | 16,868            | 16,868     |
| Other                               | -                               | 2,487             | 2,487      |
| Total interconnection services      | 42,806                          | 65,581            | 108,387    |
| Administrative and general – Duke   | 33,467                          | -                 | 33,467     |
| Administrative and general – Agency | 4,799                           | 5,820             | 10,619     |
| Miscellaneous Agency expenses       | 799                             | 2,491             | 3,290      |
| Gross receipts and excise taxes     | 2,121                           | -                 | 2,121      |
| Property tax                        | 21,888                          | 226               | 22,114     |
| Debt service                        | 118,656                         | -                 | 118,656    |
| Special funds deposits:             |                                 |                   |            |
| Decommissioning fund                | 3,600                           | -                 | 3,600      |
| Reserve and contingency fund        | 12,408                          | -                 | 12,408     |
| Total special funds deposits        | 16,008                          | -                 | 16,008     |
| Total Expenses                      | 397,606                         | 75,911            | 473,517    |
| Revenues Over Expenses              | \$ -                            | \$ 76,923         | \$ 76,923  |

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, 2018 and 2017.

See accompanying Report of Independent Auditor.

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| Year Ended<br>December 31, 2017 |                   |            |
|---------------------------------|-------------------|------------|
| Project                         | Supple-<br>mental | Total      |
| \$ 292,268                      | \$ 123,575        | \$ 415,843 |
| 103,940                         | -                 | 103,940    |
| 4,820                           | 2,243             | 7,063      |
| 5,956                           | -                 | 5,956      |
| 1,317                           | 520               | 1,837      |
| 408,301                         | 126,338           | 534,639    |
| 110,569                         | 2,309             | 112,878    |
| 45,991                          | 374               | 46,365     |
| 37,573                          | 38,294            | 75,867     |
| -                               | 16,240            | 16,240     |
| -                               | 2,116             | 2,116      |
| 37,573                          | 56,650            | 94,223     |
| 32,899                          | -                 | 32,899     |
| 4,800                           | 5,725             | 10,525     |
| 1,256                           | 2,502             | 3,758      |
| 2,177                           | -                 | 2,177      |
| 21,436                          | 262               | 21,698     |
| 132,566                         | -                 | 132,566    |
| 5,800                           | -                 | 5,800      |
| 13,234                          | -                 | 13,234     |
| 19,034                          | -                 | 19,034     |
| 408,301                         | 67,822            | 476,123    |
| \$ -                            | \$ 58,516         | \$ 58,516  |

**North Carolina Municipal Power Agency Number 1**  
**Budgetary Comparison Schedule**  
**Years Ended December 31, 2018 and 2017**  
**(\$000's)**

|                                   | 2018 Budget |            | Actuals    | Positive      |
|-----------------------------------|-------------|------------|------------|---------------|
|                                   | Original    | Final      | (Budgetary | (Negative)    |
|                                   |             |            | Basis)     | Variance With |
|                                   |             |            |            | Final Budget  |
| <b>Revenues:</b>                  |             |            |            |               |
| Sales to participants             | \$ 422,497  | \$ 397,884 | \$ 405,809 | \$ 7,925      |
| Sales to utilities                | 99,573      | 99,613     | 114,989    | 15,376        |
| Investment income                 | 6,601       | 6,953      | 9,630      | 2,677         |
| Excess Funds valuation            | 17,631      | 17,989     | 18,596     | 607           |
| Other revenues                    | 1,395       | 1,395      | 1,416      | 21            |
| Total Revenues                    | 547,697     | 523,834    | 550,440    | 26,606        |
| <b>Expenses:</b>                  |             |            |            |               |
| Operations and maintenance        | 149,070     | 132,896    | 116,930    | 15,966        |
| Nuclear fuel                      | 44,807      | 45,961     | 41,925     | 4,036         |
| Interconnection services:         |             |            |            |               |
| Purchased power                   | 82,632      | 78,897     | 89,032     | (10,135)      |
| Transmission and distribution     | 20,314      | 20,393     | 16,868     | 3,525         |
| Other interconnection expenses    | 3,536       | 3,536      | 2,487      | 1,049         |
| Total interconnection services    | 106,482     | 102,826    | 108,387    | (5,561)       |
| Administrative and general – Duke | 36,841      | 37,454     | 33,467     | 3,987         |
| Power Agency services             | 14,990      | 14,990     | 13,909     | 1,081         |
| Taxes                             | 24,368      | 24,410     | 24,235     | 175           |
| Debt service                      | 118,693     | 118,693    | 118,656    | 37            |
| Special funds deposits            | 30,606      | 31,863     | 16,008     | 15,855        |
| Total Expenses                    | 525,857     | 509,093    | 473,517    | 35,576        |
| Excess of Revenues Over Expenses  | \$ 21,840   | \$ 14,741  | \$ 76,923  | \$ 62,182     |

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, 2018 and 2017.

See accompanying Report of Independent Auditor.

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|                                   | 2017 Budget |            | Actuals    | Positive      |
|-----------------------------------|-------------|------------|------------|---------------|
|                                   | Original    | Final      | (Budgetary | (Negative)    |
|                                   |             |            | Basis)     | Variance With |
|                                   |             |            |            | Final Budget  |
| <b>Revenues:</b>                  |             |            |            |               |
| 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         |
| <b>Expenses:</b>                  |             |            |            |               |
| 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     |

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

|                              | Funds<br>Invested<br>January 1,<br>2017 | Debt<br>Proceeds | Power<br>Billing<br>Receipts | Investment<br>Income | Receipts<br>(Disburse-<br>ments) | Transfers   |
|------------------------------|---|------------------|------------------------------|----------------------|----------------------------------|-------------|
| Construction Fund            | \$ 80,561                               | \$ -             | \$ -                         | \$ 652               | \$ (25,850)                      | \$ -        |
| Bond Fund:                   |   |                  |                              |                      |                                  |             |
| Interest account             | 27,302                                  | -                | -                            | 124                  | (52,530)                         | 50,376      |
| Reserve account              | 132,697                                 | -                | -                            | 2,209                | -                                | (2,451)     |
| Principal account            | 79,542                                  | -                | -                            | 445                  | (79,386)                         | 81,330      |
| Total Bond Fund              | 239,541                                 | -                | -                            | 2,778                | (131,916)                        | 129,255     |
| Reserve and Contingency Fund | 13,237                                  |                  | -                            | 237                  | (7,383)                          | 7,106       |
| Revenue Fund                 | 58,249                                  | -                | 307,573                      | 679                  | 37,396                           | (337,742)   |
| Operating Fund:              |   |                  |                              |                      |                                  |             |
| Working Capital account      | 47,139                                  | -                | -                            | 761                  | (173,649)                        | 172,300     |
| Fuel account                 | 38,556                                  | -                | -                            | -                    | (37,771)                         | 53,500      |
| Total Operating Fund         | 85,695                                  | -                | -                            | 761                  | (211,420)                        | 225,800     |
| Supplemental Fund:           |   |                  |                              |                      |                                  |             |
| Supplemental account         | 155,677                                 | -                | 109,206                      | 2,244                | (45,776)                         | (24,419)    |
| Reserve for future costs     | 11,599                                  | -                | -                            | 141                  | -                                | -           |
| Total Supplemental Fund      | 167,276                                 | -                | 109,206                      | 2,385                | (45,776)                         | (24,419)    |
| Total Funds Invested         | <u>\$ 644,559</u>                       | <u>\$ -</u>      | <u>\$ 416,779</u>            | <u>\$ 7,492</u>      | <u>\$ (384,949)</u>              | <u>\$ -</u> |

Note: The schedule above has been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2018 and 2017.

See accompanying Report of Independent Auditor.

| Funds<br>Invested<br>December 31,<br>2017 | Debt<br>Proceeds | Power<br>Billing<br>Receipts | Investment<br>Income | Receipts<br>(Disburse-<br>ments) | Transfers       | Funds<br>Invested<br>December 31,<br>2018 |
|---|------------------|------------------------------|----------------------|----------------------------------|-----------------|---|
| \$ 55,363                                 | \$ -             | \$ -                         | \$ 588               | \$ (27,326)                      | \$ -            | \$ 28,625                                 |
| 25,272                                    | -                | -                            | 216                  | (48,742)                         | 46,790          | 23,536                                    |
| 132,455                                   | -                | -                            | 2,484                | -                                | (15,587)        | 119,352                                   |
| 81,931                                    | -                | -                            | 717                  | (81,845)                         | 71,017          | 71,820                                    |
| <u>239,658</u>                            | <u>-</u>         | <u>-</u>                     | <u>3,417</u>         | <u>(130,587)</u>                 | <u>102,220</u>  | <u>214,708</u>                            |
| 13,197                                    | -                | -                            | 251                  | (8,294)                          | 6,644           | 11,798                                    |
| 66,155                                    | -                | 263,576                      | 1,000                | 34,545                           | (282,529)       | 82,747                                    |
| 46,551                                    | -                | -                            | 1,272                | (167,297)                        | 164,382         | 44,908                                    |
| 54,285                                    | -                | -                            | -                    | (54,483)                         | 45,630          | 45,432                                    |
| <u>100,836</u>                            | <u>-</u>         | <u>-</u>                     | <u>1,272</u>         | <u>(221,780)</u>                 | <u>210,012</u>  | <u>90,340</u>                             |
| 196,932                                   | -                | 144,649                      | 4,334                | (37,751)                         | (36,347)        | 271,817                                   |
| 11,740                                    | -                | -                            | 185                  | -                                | -               | 11,925                                    |
| <u>208,672</u>                            | <u>-</u>         | <u>144,649</u>               | <u>4,519</u>         | <u>(37,751)</u>                  | <u>(36,347)</u> | <u>283,742</u>                            |
| <u>\$ 683,881</u>                         | <u>\$ -</u>      | <u>\$ 408,225</u>            | <u>\$ 11,047</u>     | <u>\$ (391,193)</u>              | <u>\$ -</u>     | <u>\$ 711,960</u>                         |