North Carolina Eastern Municipal Power Agency

2018 Financial Report

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2018 and 2017

Independent Auditor's Report

RSM US LLP

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Eastern Municipal Power Agency (the Agency), which are comprised of the statements of net position as of December 31, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 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 audit was conducted for the purpose of forming opinions 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 Eastern Municipal Power Agency (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the year ended December 31, 2018 and 2017. We encourage you to read this information in conjunction with the information furnished in the Agency’s financial statements and accompanying notes that follow this narrative.

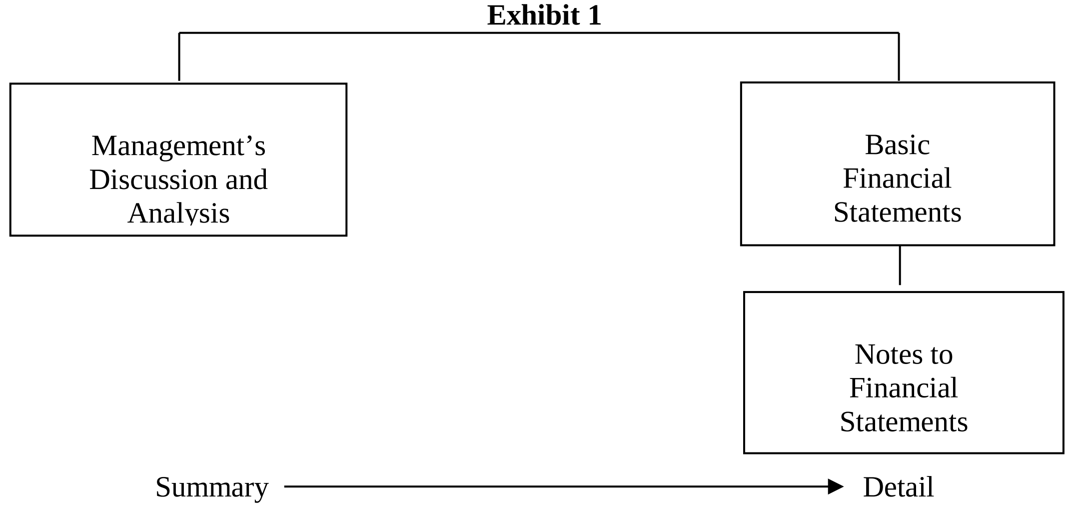
Financial Highlights

- The Agency’s basic financial statements consist of a single electric enterprise fund.
- At year-end 2018 and 2017, the Agency’s assets and deferred outflows exceeded its liabilities and deferred inflows by $129,278,000 and $145,524,000 (net position), respectively.
- The Agency’s net position decreased by $16,246,000 for 2018 and decreased by $13,617,000 for 2017.
- Principal payments were made in the amount of $39,280,000 and $38,675,000 during 2018 and 2017 respectively, in accordance with the debt payment schedule.
- The bond ratings remained the same as follows:
  - Standard and Poor’s – A- (stable).
  - Fitch –A (stable).
- There were no rate changes in 2018 and 4.5% rate decrease in April 2017.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report
Exhibit 1



Basic Financial Statements

The Agency is a special purpose municipal corporation that accounts for its activities as a business type entity. The first section of the basic financial statements is the Agency's single proprietary fund that focuses on the business activities of the electric enterprise. The statements are designed to provide a broad overview of the Agency's finances, similar in format to private sector business statements, and provide short and long-term information about the Agency's financial status, operations and cash flow. The statements report net position and how it has changed during the period. Net position is the difference between total assets and deferred outflows of resources and total liabilities 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 basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are on pages 15 to 29 of this report.

After the notes, supplemental information is provided to show how the Agency's rates recovered its expenses as defined by the Bond Resolution, to show the Agency's performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 31 to 36 of this report.

Financial Analysis

The electric enterprise fund financial statements for the year ended December 31, 2018 and 2017 are presented in accordance with Governmental Accounting Standards Board.

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

	December 31,			
	2018		2017	
Assets and Deferred Outflows of Resources				
Capital assets	$	27,211	$	13,777
Current and other assets		252,889		280,528
Deferred outflows of resources		272,043		311,647
Total assets and deferred outflows of resources		552,143		605,952
Liabilities and Deferred Inflows of Resources				
Long-term liabilities outstanding		268,195		308,260
Other liabilities		113,446		127,193
Deferred inflows of resources		41,224		24,975
Total liabilities and deferred inflows of resources		422,865		460,428
Net Position				
Net Investment in capital assets		27,211		13,777
Restricted for debt service		2,269		1,402
Unrestricted		99,798		130,345
Total net position	$	129,278	$	145,524

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows by $129,278,000 and $145,524,000 at December 31, 2018 and 2017, respectively, representing a decrease of $16,246,000 and a decrease of $13,617,000 for 2018 and 2017, respectively.

A portion of the Agency's net position in the amount of $27,211,000 and $13,777,000 at December 31, 2018 and 2017, respectively, is the net investment in capital assets (e.g. land, buildings, distributed generators, and equipment).

An additional portion of the Agency's net position of $2,269,000 and $1,402,000 at December 31, 2018 and 2017, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of $99,798,000 and $130,345,000 at December 31, 2018 and 2017, respectively, is unrestricted net position.

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenues:		
Operating revenues	$ 547,452	$ 531,180
Nonoperating revenues	3,555	2,297
Total Revenues	551,007	533,477
Expenses:		
Operating expenses	500,092	494,744
Interest on long-term debt	11,239	11,934
Other nonoperating (revenues)/expenses	55,922	40,416
Total Expenses	567,253	547,094
Decrease in net position	(16,246)	(13,617)
Net Position, Beginning of year	145,524	159,141
Net Position, End of year	$ 129,278	$ 145,524

Financial Highlights

There were no rate increases in 2018 and 2017.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2018 and 2017 totaled $27,211,000 and $13,777,000 (net of accumulated amortization and depreciation), respectively. These assets include land, buildings, distributed generators, and equipment.

Major capital asset transactions during 2018 include the following:

- Electric Utility Plant and Non-Utility Property and Equipment were depreciated $606,000 and $609,000 for 2018 and 2017, respectively.
- CWIP increased $14,040,000 and $104,000 in 2018 and 2017, respectively, due to capital additions projects to the distributed generators.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(2,014)	(566)			(2,580)
Total Accumulated Depreciation and Amortization	(2,014)	(566)	-	-	(2,580)
Depreciable Utility Plant/DG, Net	12,359	(566)	-	-	11,793
Land and Other Non-Depreciable Assets					
Land	291				291
Construction Work In Progress	104	14,040	-	-	14,144
Total Electric Utility Plant, Net	$ 12,754	$ 13,474	$ -	$ -	$ 26,228

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

Non-Utility Plant and Equipment, Net

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544			$ -	$ 1,544
Accumulated Depreciation	(1,231)	(40)		-	(1,271)
Total Depreciable Property and Equipment, Net	313				273
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,023	$ (40)	$ -	$ -	$ 983

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

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

Outstanding Debt

Total debt outstanding at December 31, 2018 and 2017 was $308,260,000 and $347,540,000, respectively, all of which consists of bonds issued during 2015. Total debt decreased by $39,280,000 and $38,675,000 during 2018 and 2017, respectively, due to principal payments made in accordance with the debt service schedule.

The bond ratings remained the same as follows:

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

Additional information regarding the Agency's long-term debt can be found in Note G beginning on page 27 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

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

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.2%/year. Load is expected to grow at a rate of 0.2% 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 or go 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 an overall 1.3% wholesale rate increase effective April 1, 2019 with an additional increase of 3.0% in 2020.
- Assumes NCEMPA's share of coal ash settlement costs.
- Collection of $40.1M for debt principal due July 1, 2019.
- Forecasts a 2.0% increase in Power Agency Services for 2019.
- Projects an annual load growth of 0.2% for energy and 0.2% for CP demand.

Requests for Information

This report is designed to provide an overview of the Agency's finances for those who are interested. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, North Carolina Eastern Municipal Power Agency, P. O. Box 29513, Raleigh, NC 27626-0513.

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

	December 31, 2018	December 31, 2017
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service/DG	$ 14,664	$ 14,664
Construction work in process	14,144	104
Accumulated depreciation and amortization	(2,580)	(2,014)
Total Electric Utility Plant, Net	26,228	12,754
Non-Utility Property and Equipment, Net		
Property and equipment	2,254	2,254
Accumulated depreciation	(1,271)	(1,231)
Total Non-Utility Property and Equipment, Net	983	1,023
Total Capital Assets	27,211	13,777
Restricted Assets		
Special Funds Invested (Note D):		
Revenue fund	2,186	1,308
Bond fund	37,609	37,630
Contingency fund	5,103	5,102
Total Special Funds Invested	44,898	44,040
Total Restricted Assets	44,898	44,040
Total Non-Current Assets	72,109	57,817
Current Assets		
Funds Invested (Note D):		
Supplemental fund	152,908	180,424
Total Funds Invested	152,908	180,424
Members accounts receivable	42,217	45,311
Operating Receivable	186	-
Renewable Energy Certificate Inventory (Note E)	9,986	7,928
Prepaid expenses	2,694	2,825
Total Current Assets	207,991	236,488
Total Assets	$ 280,100	$ 294,305

See accompanying Notes to Financial Statements.

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

	December 31, 2018	December 31, 2017
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized debt issuance costs	$ 916	$ 1,144
Costs To Be Recovered (Note F)	271,127	310,503
Total Deferred Outflows of Resources	272,043	311,647
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note G)		
Bonds payable	268,195	308,260
Total Non-Current Liabilities	268,195	308,260
Current Liabilities		
Operating Liabilities:		
Accounts payable	68,003	82,142
Total Operating Liabilities	68,003	82,142
Special Funds Liabilities:		
Current maturities of bonds (Note G)	40,065	39,280
Accrued interest on bonds	5,378	5,771
Total Special Funds Liabilities	45,443	45,051
Total Current Liabilities	113,446	127,193
Total Liabilities	381,641	435,453
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note F)	41,224	24,975
Total Deferred Inflows of Resources	41,224	24,975
NET POSITION		
Net investment in capital assets	27,211	13,777
Restricted for debt service	2,269	1,402
Unrestricted	99,798	130,345
Total Net Position	$ 129,278	$ 145,524

See accompanying Notes to Financial Statements.

North Carolina Eastern Municipal Power Agency
Statement of Revenue and Expenses and Changes in Net Position
($000s)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Operating Revenues:		
Sales to participants/members	$ 541,380	$ 531,175
Other revenues	6,072	5
Total Operating Revenues	547,452	531,180
Operating Expenses:		
Operation and maintenance	169	172
Fuel	735	566
Power coordination services/FRPP:		
Purchased power	443,983	415,754
Transmission and distribution	22,628	23,352
Other	20,698	42,996
Total power coordination services	487,309	482,102
Administrative and general	11,102	11,112
Amounts in lieu of taxes	171	183
Depreciation and amortization	606	609
Total Operating Expenses	500,092	494,744
Operating Income	47,360	36,436
Nonoperating (Revenues) Expenses		
Investment income	(3,555)	(2,297)
Net decrease in fair value of investments	69	498
Interest expense	11,239	11,934
Amortization of debt issuance costs	228	247
Net decrease in costs to be recovered (Note F)	39,376	38,233
Net increase in collections to be expended (Note F)	16,249	1,438
Total nonoperating expenses	63,606	50,053
Decrease in Net Position	(16,246)	(13,617)
Net Position, Beginning of the year	145,524	159,141
Net Position, End of the year	$ 129,278	$ 145,524

See accompanying Notes to Financial Statements.

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

	Year Ended December 31, 2018	2017
Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 550,546	$ 531,845
Payments of operating expenses	(515,738)	(452,527)
Net cash provided by operating activities	34,808	79,318
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(11,632)	(12,236)
Additions to electric utility plant and non-utility property and equipment	(14,040)	(104)
Bonds Principal Payment	(39,280)	(38,675)
Net cash used for capital and related financing activities	(64,952)	(51,015)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,824,785	1,349,037
Purchases of investment securities	(1,796,872)	(1,378,789)
Investment earnings receipts	2,164	1,477
Net cash provided by (used in) investing activities	30,077	(28,275)
Net Change in Operating Cash	(67)	28
Operating Cash, Beginning of year	91	63
Operating Cash, End of year	$ 24	$ 91
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 47,360	$ 36,436
Adjustments:		
Depreciation and amortization	606	609
Changes in assets and liabilities:		
Decrease in participant accounts receivable	3,094	665
(Increase) in operating receivable	(186)	-
Decrease/(increase) in prepaid expenses	131	(659)
(Increase) in renewable energy certificate inventory	(2,058)	(1,617)
(Decrease)/Increase in accounts payable	(14,139)	43,884
Total Adjustments	(12,552)	42,882
Net Cash Provided by Operating Activities	$ 34,808	$ 79,318

See accompanying Notes to Financial Statements.

A. General Matters

North Carolina Eastern Municipal Power Agency (Agency) is a joint agency organized and existing pursuant to Chapter 159B of the General Statutes of North Carolina to enable municipal electric systems, through the organization of the Agency, to finance, build, own and operate generation and transmission projects. The Agency is comprised of 32 municipal electric systems (Members) with interests ranging from 0.0783% to 16.1343%, which receive power from the Agency.

<u>Full Requirements Project</u>

In order to provide the power and energy that Power Agency has agreed to provide to the Members under the Full Requirements Power Sales Agreements, Power Agency has entered into the Full Requirements Power Purchase Agreement with Duke Energy Progress (DEP) effective July 1, 2015.

Under the Full Requirements Power Purchase Agreement DEP agrees to provide firm capacity and energy in the amounts required by Power Agency to reliably serve the electrical loads of its Members. Member loads (i) not located in the geographic area DEP serves, and (ii) of a type and size that would not have been included by DEP in planning its system and that would require an enlargement of DEP's generating facilities or would impair DEP's ability to serve other wholesale and retail customers are excluded from DEP's commitment. In providing the services required by the Full Requirements Power Purchase Agreement, DEP is required to exercise reasonable care (consistent with industry practices) to provide an uninterrupted supply of electricity and may not adversely distinguish between the provision of service to Power Agency and the provision of service to other wholesale and retail DEP customers.

Under the Full Requirements Power Purchase Agreement, DEP charges Power Agency a monthly capacity charge and monthly energy charge. The monthly capacity charge for each month is determined by applying the measured demand of Power Agency in the hour that is coincident with the hour of the DEP system peak demand (less SEPA capacity and certain alternative base load capacity sources) to a capacity rate that is determined pursuant to the Full Requirements Power Purchase Agreement. The monthly energy charge is based on the amount of energy actually used by Power Agency in a given month. Under the Full Requirements Power Purchase Agreement, DEP also charges Power Agency a monthly charge for reserve capacity maintained by DEP for certain noticed distributed generation that have capacity ratings in excess of 2,500 kW. The rates charged to Power Agency are based on DEP's system wide average cost of producing power and energy.

The term of the Full Requirements Power Purchase Agreement continues through December 31, 2043. Power Agency has certain options to terminate the Full Requirements Power Purchase Agreement on an earlier date, the earliest such date being after the final maturity date of the 2017 Bonds.

In conjunction with the FRPPA the Agency entered into two agreements with each of the Agency's Members effective July 1, 2015:

- The Power Sales Agreement governs the purchase of each Member's full requirements bulk power supply from the Agency. This agreement effectively terminates the prior Initial Project Power Sales Agreement and the Supplemental Power Sales Agreement.
- The Debt Service Support Contract governs the Member's obligation to pay its share of debt service under Bond Resolution BDR-5-15.

A. General Matters (continued)

ElectriCities of North Carolina, Inc.

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

The Agency entered into a management agreement with ElectriCities. Under the current management agreement with the Agency, ElectriCities is required to provide all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continues through December 31, 2018, and is automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term. The Agency paid ElectriCities $12,410,000 and $11,790,000 for the years ended December 31, 2018 and 2017, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

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

The financial statements are prepared using the economic resources measurement focus. Operating revenues are defined as revenues received from the sale of electricity and associated services. Revenues from capital and related financing activities and investment activities are defined as non-operating revenues. Restricted net position represents constraints on resources that are imposed by Resolution and may be utilized only for the purposes established by the Resolution. Unrestricted net position may be utilized for any purpose approved by the Board through the budget process. When both restricted and unrestricted net position might be used to meet an obligation, the Agency first uses the restricted net position.

B. Significant Accounting Policies (continued)

Electric Plant in Service

The Agency installed 20MW of diesel generation under the term of the Merger Agreement with Progress Energy. This diesel generation was installed at a substation in Greenville, NC at one of the Agency member's substations. The purpose of this generation is to be operated during the monthly coincident billing peak, thus reducing costs paid to DEP (capacity, energy, and transmission). Each month the members are provided a DG Credit under Rider No. 6A of the FR-3 Wholesale rate in the equivalent amount that is saved from DEP. The diesel generation is being depreciated over 25 years on a straight-line basis.

The Agency installed an additional 18 MW of diesel generation as a provision of the Third Amendment to the Full Requirements Power Purchase Agreement (FRPPA) with Duke Energy Progress (DEP). This diesel generation was installed adjacent to a substation in Greenville, NC, at one of the Agency member's substations. The purpose of this generation is to be operated during the monthly coincident billing peak, thus reducing costs paid to DEP (capacity, energy, and transmission). This generation was placed in operation in January 2019. Each month the members are provided a DG Credit under Rider No. 6B of the FR-3 Wholesale Rate in the equivalent amount that is saved from DEP. The diesel generation is being depreciated over 25 years on a straight-line basis.

Non-Utility Property and Equipment

This includes the land and administrative office building jointly owned with NCMPA1 and used by both Agencies and ElectriCities. The administrative office building is being depreciated over 37 ½ years on a straight-line basis.

Investments

The Agency reports according to the provisions of GASB Statement No. 72 "Fair Value Management and Application" which requires investments to be reported at fair value, GASB Statement No. 79 "Certain External Investment Pools and Pool Participants", which allows certain whole investment pools to be reported at amortized cost, and GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which allows certain investments to be reported at amortized cost. In addition, the Agency reports according to the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures" which addresses common investment risks related to credit risk, concentration of credit risk and interest rate risk.

Accounts Receivable

Accounts receivable consist of trade accounts receivable associated with the sale of electricity and are stated at cost. The Agency primarily sells to the Participants/Members in the project, and based on past collection history, management does not believe an allowance for doubtful accounts is required.

B. Significant Accounting Policies (continued)

Renewable Energy Certificate Inventory

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

Taxes

Income of the Agency is excludable from income subject to federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the Agency from property and franchise or other privilege taxes. In lieu of property taxes, the Agency pays an amount that would otherwise be assessed on the real and personal property of the Agency.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of $12,441 and $63,311 at December 31, 2018 and 2017, respectively, and is included on the statement of net position in the line item “Current Assets: Funds Invested”. Restricted cash of $11,121 and $28,131 at December 31, 2018 and 2017, respectively, is included on the statement of net position in the line item “Restricted Assets: Special Funds Invested”. “Restricted Assets: Special Funds Invested” is also included on the statement of cash flows.

Use of Estimates

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

Deferred Outflows/Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent 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 represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. See Note F beginning on page 26 for more detailed information.

B. Significant Accounting Policies (continued)

Debt Issuance Costs

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

Recently Adopted GASB Standards

In 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.

B. Significant Accounting Policies (continued)

Future Accounting Standards

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

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.

C. Capital Assets

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

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 14,373				$ 14,373
Total Depreciable Utility Plant	14,373	-	-	-	14,373
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(2,014)	(566)			(2,580)
Total Accumulated Depreciation and Amortization	(2,014)	(566)	-	-	(2,580)
Depreciable Utility Plant/DG, Net	12,359	(566)	-	-	11,793
Land and Other Non-Depreciable Assets					
Land	291				291
Construction Work In Progress	104	14,040	-	-	14,144
Total Electric Utility Plant, Net	$ 12,754	$ 13,474	$ -	$ -	$ 26,228

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

C. Capital Assets (Continued)

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

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544			$ -	$ 1,544
Accumulated Depreciation	(1,231)	(40)		-	(1,271)
Total Depreciable Property and Equipment, Net	313				273
Land	710				710
Total Non-Utility Property and Equipment, Net	$ 1,023	$ (40)	$ -	$ -	$ 983

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

D. Investments

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

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

D. Investments

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

		December 31, 2018		December 31, 2017	
	Method of Valuation	Cost Basis	Reported Value	Cost Basis	Reported Value
U.S. Government Agencies	Fair Value Level 1	95,130	93,950	107,052	106,174
Treasury Coupons	Fair Value Level 1	31,712	31,727	41,722	41,546
Commercial Paper	Fair Value Level 2	58,352	58,433	58,949	59,035
Collateralized Certificates of Deposit					
NC Capital Management Trust -Government	Amortized Cost	1,314	1,314	2,086	2,086
NC Capital Management Trust -Term Portfolio	Fair Value Level 1	11,935	11,935	15,058	15,058
Sub-total funds invested		198,443	197,359	224,867	223,899
Cash					
Unrestricted cash		13	13	63	63
Restricted cash		11	11	28	28
Accrued interest		423	423	474	474
Total funds invested		$ 198,890	$ 197,806	$ 225,432	$ 224,464
Consisting of:					
Unrestricted Assets			$ 152,908		$ 180,424
Restricted Assets			44,898		44,040
Total funds invested			$ 197,806		$ 224,464

Interest Rate Risk

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

D. Investments (Continued)

As of December 31, 2018 and 2017, the maturities of the Agency's investments are as follows (in thousands of dollars):

	December 31, 2018				
	Reported	Investment Maturity (In Years)			
	Value	Under 1	1-5	6-10	Over 10
U.S. government agencies	93,949	29,800	64,149	-	-
Treasury State and Local Government Securities					
Treasury Coupons	31,728	26,387	5,341	-	-
Commercial Paper	58,433	58,433	-		
Money Market (NCCMT)	13,249	13,249	-	-	-
Total	$ 197,359	$ 127,869	$ 69,490	$ -	$ -

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

As of December 31, 2018 and 2017, the Agency's impaired investments 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 securities	14,271	35	84,730	1,202	99,001	1,237
Total	$ 14,271	$ 35	$ 84,730	$ 1,202	$ 99,001	$ 1,237

	December 31, 2017					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government securities	39,118	241	58,945	938	98,063	1,179
Total	$ 39,118	$ 241	$ 58,945	$ 938	$ 98,063	$ 1,179

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

The 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 places no limit on the amount the Agency may invest in direct obligations of the United States Treasury. Limits have been established for all remaining issuers. As of December 31, 2018 and 2017 the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2018		December 31, 2017	
	Reported Value	Percentage of Portfolio Portfolio	Reported Value	Percentage of Portfolio Portfolio
Federal Home Loan Mortgage Corporation	$ 21,291	11%	$ 31,812	14%
Federal National Mortgage Association	26,658	13%	34,988	16%
Federal Home Loan Bank	28,749	14%	26,133	12%
Federal Farm Credit Bank	17,252	9%	13,241	6%
Commercial Paper:				
Bank of Nova Scotia	-	-	5,182	2%
Coca-Cola Corp	4,043	2%	-	-
ING (US) Funding LLC	5,033	3%	-	
Mitsubishi UFJ T&B NY	-	-	35,977	16%
MUFG Bank Ltd/NY	40,160	20%	-	-
Nestle Capital Corp	3,497	2%	-	-
Nordea Bank AB	-	-	3,996	2%
Private Export Fuding Corporation	5,700	3%	-	
Toronto Dominion Holding	-	-	13,880	6%
Money Market Fund:				
NC Capital Management Trust	13,249	7%	17,144	8%
U.S. Treasury Department	31,727	16%	41,546	18%
Total	$ 197,359	100%	$ 223,899	100%

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 $24,000 and $91,000, respectively, covered by federal depository insurance.

E. Renewable Energy Certificate Inventory

The following show RECs activity during 2018 (in thousands of dollars):

	Summary of Changes in RECs			
	Balance 12/31/2017	Additions and other adjustments	Retirements	Balance 12/31/2018
RECs	7,928	2,919	(861)	9,986
	Balance 12/31/2016	Additions and other adjustments	Retirements	Balance 12/31/2017
RECs	6,311	2,503	(886)	7,928

F. Costs To Be Recovered and Collections to be Expended

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

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

F. 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, collections to be expended decrease.

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

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

Costs to be recovered include the following (in thousands of dollars):

	Year Ended December 31,		Inception to December 31,	
	2018	2017	2018	2017
Costs To Be Recovered				
Net decrease in fair value of investments	$ 69	$ 498	$ 1,215	$ 1,146
Participant billing offsets	(39,445)	(38,731)	(132,465)	(93,020)
Defeased Bonds	-	-	402,377	402,377
Costs To Be Recovered	$ (39,376)	$ (38,233)	$ 271,127	$ 310,503

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

	Year Ended December 31,		Inception to December 31,	
	2018	2017	2018	2017
Collections To Be Expended				
Net special funds withdrawals	$ -	$ -	$ 19,326	$ 19,326
Restricted investment income	653	430	1,465	812
Special funds valuations	-	-	154	154
Depreciation and amortization	(606)	(609)	(3,851)	(3,245)
Other collections to be expended	16,202	1,617	24,130	7,928
Net Collections To Be Expended	$ 16,249	$ 1,438	$ 41,224	$ 24,975

G. Bonds

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

Resolution (BDR-5-15) was adopted May 22, 2015 authorizing the Agency to issue new revenue bonds in order to finance the remaining cost of defeasance of prior outstanding bonds in excess of proceeds from the sale of assets to Duke in 2015.

G. Bonds (continued)

The following shows bond activity during 2018 and 2017 (in thousands of dollars):

Summary of Changes in Long Term Liabilities

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Amount Due within one year
Bonds Payable	347,540	-	(39,280)	308,260	40,065

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

	2018	2017
Bonds Outstanding - Beginning of year	$ 347,540	$ 386,215
Principal payments July 1	(39,280)	(38,675)
Net Bonds Outstanding after Principal Payment	$ 308,260	$ 347,540

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

Series 2015A	December 31, 2018	December 31, 2017
2.003% maturing in 2018	$ -	$ 39,280
2.578% maturing in 2019	40,065	40,065
2.928% maturing in 2020	41,100	41,100
3.308% maturing in 2021	42,300	42,300
3.558% maturing in 2022	43,705	43,705
3.808% maturing in 2023	45,260	45,260
3.958% maturing in 2024	46,985	46,985
4.058% maturing in 2025	48,845	48,845
	308,260	347,540
Total Bonds Outstanding	308,260	347,540
Current maturities of bonds	(40,065)	(39,280)
Long-Term Debt, Bonds Payable	$ 268,195	$ 308,260

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 $314,553,598 and $356,909,228 at December 31, 2018 and 2017, respectively.

G. Bonds (continued)

Certain proceeds of the Series 1991 A, 1993 B, 2003 E, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C, 2010 A, 2012 B, 2012 C, 2012 D and 2015 bonds, were used to establish trusts for refunding $5,232,495,000 of previously issued bonds at December 31, 2015. $3,781,100,000 and $3,556,480,000 of these bonds has been redeemed at December 31, 2018 and 2017, respectively, leaving $1,451,395,000 and $1,676,015,000 still outstanding, respectively. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2018 at various dates prior to or on their original maturities. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates during the 12 months prior to the July 1st maturity and deposited into the Bond Fund as collected for payment when due. Under the Debt Service Agreement between the Agency and the Members, Principal Debt service costs in the amount of $39,672,500 were collected during 2018. These amounts were deposited monthly into the Bond Fund to provide for the principal payments due July 1, 2018 in the amount of $39,280,000 and a portion of $40,065,000 principal payment due July 1, 2019. 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):

	Principal	Interest	Total
2019	40,065	10,756	50,821
2020	41,100	9,723	50,823
2021	42,300	8,520	50,820
2022	43,705	7,120	50,825
2023	45,260	5,565	50,825
2024	46,985	3,842	50,827
2025	48,845	1,982	50,827
Total	$ 308,260	$ 47,508	$ 355,768

The bonds are special obligations of the Agency, payable solely from and secured solely by (1) revenues (as defined by the Resolution) after payment of operating expenses (as defined by the Resolution) and (2) other monies and securities pledged for payment thereof by the Resolution.

The Resolution requires the Agency to deposit into special funds all proceeds of bonds issued and all revenues (as defined by the Resolution) generated as a result of the Project Power Sales Agreement and the Debt Service Support Agreement. The purpose of the individual funds is specifically defined in the Resolution.

Interest on the bonds is payable semi-annually. The bonds are subject to redemption at any time prior to maturity at the option of the Agency, in whole or in part at the "Make-Whole Redemption Price" defined as the greater of (i) 100% of the principal amount of the 2015 Bonds to be redeemed and (ii) the sum of the Bonds to be redeemed to the maturity date thereof, not including any portion of those payments of interest accrued and unpaid as of the respective dates on which the 2015 Bonds are to be redeemed, discounted to the respective dates on which the 2015 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year

G. Bonds (continued)

consisting of 12 30-day months, at the Treasury rate (as defined in the bond issuance documents) plus thirty basis points, plus in each case, accrued and unpaid interest on the 2015 Bonds to be redeemed on the redemption date.

The Resolution (BDR-6-15) establishes that the agency maintains a reserve fund balance from the proceeds of the 2015 Series. As of December 31, 2018, and 2017, the balance of the bond fund reserve was $12,297,000 and $12,305,00, respectively.

The Resolution also establishes a contingency account to be funded with the proceeds of the 2015 bond issuance. As of December 31, 2018 and 2017, the balance of the contingency account was $5,103,000 and $5,102,000, respectively.

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

The Agency sold its ownership interests in three nuclear fueled and two coal fired generating units on July 31, 2015. Prior to the sale of assets, the Agency was subject to the Operating and Fuel agreement (OFA), and Power Coordination agreement (PCA) which provided for certain costs to be deferred under a payment equalization provision whereby applicable costs would be accrued during the year and billed or reimbursed plus interest to the Agency during the first quarter of the year following the deferral year. As a result of the sale of the assets the OFA and PCA agreements were effectively terminated as of July 31, 2017. Certain items remained outstanding relating to those agreements including the balance of deferred costs and other items that were identified as billing errors or final true-up amounts (including interest) per the provisions of the agreements. The Agency paid DEP $8,082,562 in 2017 as a result of the final settlement of all amounts owed to either Party under any of the of the Plant Agreements, including the OFA and PCA. The Agency also received $376,289 of NEIL nuclear "good experience" premium credits from Duke related to Harris and Brunswick nuclear plants for the 7 months of 2015.

In 2018 the Agency and Duke Energy Progress (DEP) reached an agreement to amend the Full Requirements Power Purchase Agreement (FRPPA) to allow for the recovery of cost associated with the cleanup of DEP's coal ash ponds. The Agency's contract between DEP and the Agency did not include a provision for recovering its compliance costs related to coal ash remediation, so the contract was amended to allow DEP to recover NCEMPA's pro-rata share of "CCR Costs" beginning August 1, 2015. For 2018 the total amount was $44,583,000, which included $42,300,000 for the prior period 2015 through 2017.

I. 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.

On April 1, 2019, the North Carolina Department of Environmental Quality ordered Duke Energy to excavate all remaining coal ash ponds in North Carolina and move the ash into lined landfills. For Duke Energy this means that sites, previously rated as low risk by the state with other methods of closure that did not require full excavation, would now require full removal of all coal ash and placement into lined landfills. For Duke Energy this full excavation involves six sites, two of which are in the Duke Energy Progress (DEP) footprint, the Roxboro and Mayo Plants. On April, 11, 2019, Duke Energy announced will file an administrative appeal to this order by May 1st. The full impact in terms of timing and cost to DEP and NCEMPA are currently being determined.

SUPPLEMENTARY INFORMATION

North Carolina Eastern Municipal Power Agency
Schedule of Revenues and Expenses
Per Bond Resolution and Other Agreements
($000's)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenues:		
Sales to members/participants	$ 541,380	$ 531,175
Investment income	2,902	1,867
Other revenues	6,072	5
Total Revenues	550,354	533,047
Expenses:		
Operation and maintenance	169	172
Fuel	735	566
Power coordination services/FRPP:		
Purchased power	443,983	415,754
Transmission and distribution	22,628	23,352
Other	36,901	44,614
Total power coordination services/FRPP:	503,512	483,720
Administrative and general	11,102	11,112
Taxes		
Amounts in lieu of taxes	171	183
Total taxes	171	183
Debt service:		
Debt administrative costs	89	89
Debt service	50,822	50,822
Total debt service	50,911	50,911
Total Expenses	566,600	546,664
Revenues Under Expenses	$ (16,246)	$ (13,617)

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.

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

	2018 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
Sales to participants	$ 545,216	$ 532,655	$ 541,380	$ 8,725
Investment income	1,638	1,633	2,902	1,269
Other revenues	-	-	6,072	6,072
Total Revenues	546,854	534,288	550,354	16,066
Expenses:				
Operation and maintenance	503	503	169	334
Fuel	906	906	735	171
Power coordination expenses:				
Purchased power	445,942	435,986	443,983	(7,997)
Transmission and distribution	26,503	26,503	22,628	3,875
Other	49,690	49,690	36,901	12,789
Total power coordination expenses	522,135	512,179	503,512	8,667
Administrative and general – DEP	11,819	11,819	11,102	717
Taxes	150	150	171	(21)
Debt service	51,057	51,057	50,911	146
Total Expenses	586,570	576,614	566,600	10,014
Revenues Under Expenses	$ (39,716)	$ (42,326)	$ (16,246)	$ 26,080

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

See Accompanying Report of Independent Auditor.

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

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

	Funds Invested January 1, 2016	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers
Bond Fund:					
Interest account	$ 6,073	$ -	$ 29	$ (12,146)	$ 11,865
Reserve account	12,237	-	172	-	(102)
Principal account	19,337	-	155	(38,675)	38,811
Total Bond Fund	37,647	-	356	(50,821)	50,574
Contingency Fund	5,122	-	69	-	(42)
Revenue Fund	834	-	8	(85)	552
Supplemental Fund	151,407	532,469	1,877	(453,274)	(51,084)
	$ 195,010	$ 532,469	$ 2,310	$ (504,180)	$ -

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 Invested December 31, 2017	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers	Funds Invested December 31, 2018
$ 5,821	$ -	$ 52	$ (5,771)	$ 11,095	$ 11,198
12,307	-	186	-	(193)	12,300
19,628	-	328	(45,052)	39,314	14,218
37,756	-	566	(50,823)	50,216	37,716
5,149	-	77	-	(84)	5,142
1,309	-	15	(85)	952	2,191
181,395	545,112	2,915	(524,365)	(51,084)	153,972
$ 225,609	$ 545,112	$ 3,573	$ (575,273)	$ -	$ 199,021