



**North Carolina Municipal
Power Agency 1**
2019 Financial Report



**NORTH CAROLINA MUNICIPAL
POWER AGENCY NUMBER 1**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2019 and 2018

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RSM US LLP

Independent Auditors Report

Board of Directors
North Carolina Municipal Power Agency 1

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, 2019 and 2018, 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, 2019 and 2018, and the results of its operations and its cash flows for the year ended December 31, 2019 and 2018, 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 29, 2020

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, 2019 and 2018. 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.

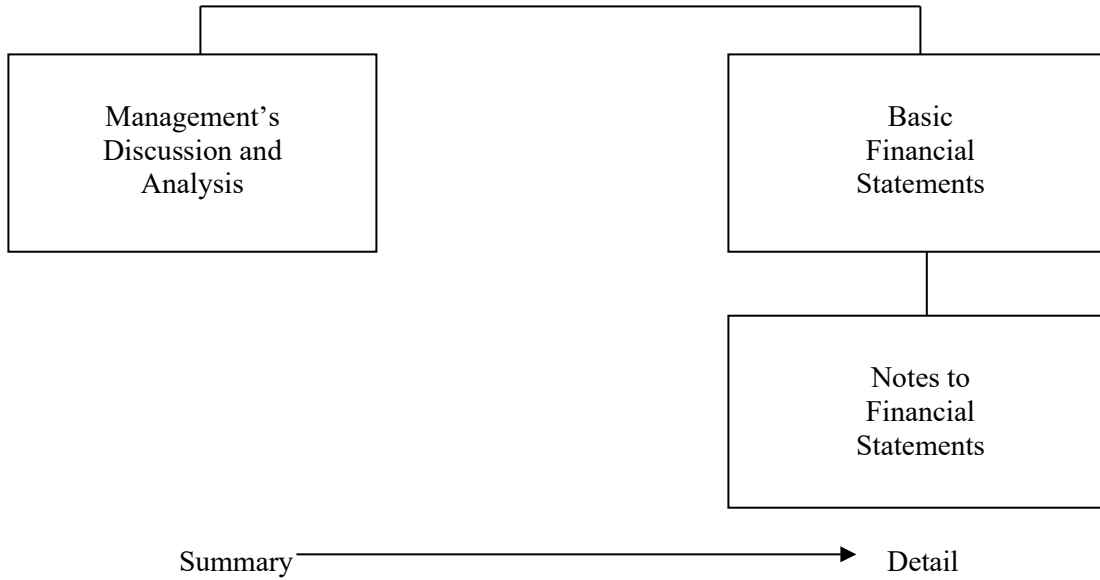
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2019 and 2018, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$272,053,000 and \$298,238,000 (net position).
- The Agency's net position decreased by \$26,185,000 and increased \$76,923,000 for 2019 and 2018, respectively.
- Year-end 2019 and 2018 unrestricted net position deficit was \$568,325,000 and \$464,056,000, respectively, after decreasing \$164,351,000 and increasing \$54,444,000, respectively.
- The significant working capital levels built up over the past 3 years due to Duke's cost saving strategies, combined with lower projected costs resulted in the Rate Committee recommending and the Board of Commissioners and Board of Directors approving the following actions:
 - A 2% wholesale rate decrease
 - A \$75,000,000 credit to members and
 - Defeasance of \$75,000,000 of debt
- The Agency's total debt decreased by \$169,355,000 and \$81,845,000 during 2019 and 2018, respectively, as follows:
 - Decreased \$71,505,000 and \$81,845,000 due to principal paid in 2019 and 2018, respectively, in accordance with the debt service schedules.
 - Decreased \$28,950,000 due to issuance of new debt and refunding of existing debt in 2019.
 - Decreased \$68,900,000 due to defeasance of old debt in 2019.
- There was no debt issuance in 2018.
- In September 2019, the Agency defeased \$68,900,000 of 2012B, 2012C and 2015C series. Net present value savings realized were \$33,815,000 with debt service savings of \$1,413,000 in 2020 and ranging from \$10,832,000 to \$10,838,000 per year through 2032. In addition to the debt service savings the defeasance resulted in net gain of \$5,565,000.
- The Agency disbursed \$75,000,000 of Working Capital to Participants based on their share of 2018 Allocated Demand through a credit on each Participants' July 2019 bill.
- The bond ratings remained the same as follows:
 - Standard and Poor's – A (stable).
 - Fitch – A (stable).
 - Moody's – A2 (stable).
- The Agency decreased rates to Participants by 2.0% and 7.0% effective July 1, 2019 and July 1, 2018, 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 36 of this report.

After the notes, supplemental information is provided to show how the Agency’s rates recovered its expenses as defined by the Bond Resolution, to show the Agency’s performance against budget and to show activities in the special funds established by the Bond Resolution or the Board of Commissioners. Supplemental information can be found on pages 39 to 44 of this report.

Financial Analysis

The electric enterprise fund financial statements for the years ended December 31, 2019 and 2018 are presented in accordance with the Governmental Accounting Standards Board (GASB).

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

	December 31,		
	2019	2018	2017
Assets and Deferred Outflows of Resources			
Capital assets	\$ 1,161,418	\$ 1,157,655	\$ 1,147,075
Current and other assets	1,063,671	1,160,578	1,136,527
Deferred outflows of resources	45,065	55,894	64,810
Total assets and deferred outflows of resources	<u>2,270,154</u>	<u>2,374,127</u>	<u>2,348,412</u>
Liabilities and Deferred Inflows of Resources			
Non-current liabilities	1,309,404	1,412,317	1,458,238
Current liabilities	97,442	132,248	137,292
Deferred inflows of resources	591,255	531,324	531,567
Total liabilities and deferred inflows of resources	<u>1,998,101</u>	<u>2,075,889</u>	<u>2,127,097</u>
Net Position			
Investment in capital assets net of related debt	840,378	722,934	648,947
Restricted for debt service	-	39,360	90,868
Unrestricted deficit	(568,325)	(464,056)	(518,500)
Total Net Position	<u>\$ 272,053</u>	<u>\$ 298,238</u>	<u>\$ 221,315</u>

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows of resources by \$272,053,000, \$298,238,000 and \$221,315,000 at December 31, 2019, 2018 and 2017, respectively, representing a decrease of \$26,185,000 in 2019 and an increase of \$76,923,000 in 2018, respectively.

The first portion of net position of \$840,378,000, \$722,934,000 and \$648,947,000 at December 31, 2019, 2018 and 2017, 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 \$0, \$39,360,000 and \$90,868,000 as of December 31, 2019, 2018 and 2017, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(568,325,000), \$(464,056,000) and \$(518,500,000) as of December 31, 2019, 2018 and 2017, 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,		
	2019	2018	2017
Revenues:			
Sales of electricity and other operating revenue	\$ 491,880	\$ 522,214	\$ 521,619
Nonoperating revenues and changes in fair value	40,823	14,613	14,193
Total Revenues	<u>532,703</u>	<u>536,827</u>	<u>535,812</u>
Expenses:			
Operating expenses	378,259	416,409	383,226
Interest on long-term debt	48,454	47,151	50,721
Other nonoperating expenses	57,175	(3,656)	43,349
Working capital refund	75,000	-	-
Total Expenses	<u>558,888</u>	<u>459,904</u>	<u>477,296</u>
Change in Net Position	(26,185)	76,923	58,516
Net Position, Beginning of the year	<u>298,238</u>	<u>221,315</u>	<u>162,799</u>
Net Position, End of the year	<u>\$ 272,053</u>	<u>\$ 298,238</u>	<u>\$ 221,315</u>

Financial Highlights

- The significant working capital levels built up over the past 3 years due to Duke's cost saving strategies, combined with lower projected costs resulted in the Rate Committee recommending and the Board of Commissioners and Board of Directors approving the following actions:
 - A 2% wholesale rate decrease
 - A \$75,000,000 credit to members and
 - Defeasance of \$75,000,000 of debt
- The Agency implemented a 2.0% and 7.0% decrease effective July 1, 2019 and July 1, 2018, 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, 2019, 2018 and 2017 totaled \$1,161,418, \$1,157,655,000 and \$1,147,075,000, respectively, (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2019 and 2018 include the following:

- Construction work in progress increased \$44,292,000 and \$37,761,000 in 2019 and 2018, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$18,436,000 and \$41,761,000 in 2019 and 2018, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$41,757,000 and \$40,078,000 for 2019 and 2018, respectively.
- Nuclear Fuel was amortized \$40,376,000 and \$40,434,000 for 2019 and 2018, respectively. In 2019 and 2018 there were retirements of Electric Utility Plant of \$90,272,000 and \$44,223,000, respectively. There were no write-offs of spent nuclear fuel in 2019 and 2018.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,892,283	\$ 15	\$ 16,845	\$ 90,272	\$ 1,999,415
Nuclear fuel	240,702	41,589	(32,453)		249,838
Total Depreciable Utility Plant	2,132,985	41,604	(15,608)	90,272	2,249,253
Accumulated Depreciation and Amortization					
Electric plant in service	(895,673)	(41,714)	1,591	(90,272)	(1,026,068)
Nuclear fuel	(134,582)	(40,376)	32,453		(142,505)
Total Accumulated Depreciation and Amortization	(1,030,255)	(82,090)	34,044	(90,272)	(1,168,573)
Depreciable Utility Plant, Net	1,102,730	(40,486)	18,436	-	1,080,680
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	34,159	44,292	(18,436)	-	60,015
Total Electric Utility Plant, Net	<u>\$ 1,156,657</u>	<u>\$ 3,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,160,463</u>

	December 31, 2017	Additions	Transfers	Retirements	December 31, 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
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>

Non-Utility Plant and Equipment, Net

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Non-Utility Property and Equipment					
Property and equipment	\$ 3,638	\$ -	\$ -	\$ -	\$ 3,638
Accumulated depreciation	<u>(3,350)</u>	<u>(43)</u>	<u>-</u>	<u>-</u>	<u>(3,393)</u>
Total Depreciable Non-Utility Property and Equipment, Net	288	(43)	-	-	245
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 998</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 955</u>

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ 14	\$ -	\$ (1,416)	\$ 3,638
Accumulated depreciation	<u>(4,726)</u>	<u>(40)</u>	<u>-</u>	<u>1,416</u>	<u>(3,350)</u>
Total Depreciable Non-Utility Property and Equipment, Net	314	(26)	-	-	288
Land	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710</u>
Total Non-Utility Property and Equipment, Net	<u>\$ 1,024</u>	<u>\$ (26)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 998</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, 2019, 2018 and 2017 was \$804,770,000, \$974,125,000 and \$1,055,970,000, respectively, all of which are revenue bonds. Total debt decreased by \$169,355,000 (17.39%) and \$81,845,000 (7.75%) during 2019 and 2018, 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).
- Moody's – A2 stable).

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

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2020 budget.

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.5%/year. Load is expected to grow at a rate of 0.5% annually for the next 10 years for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Natural gas prices are expected to go down slightly in the near term then increase comparable with inflation.
- Market prices for coal are expected to stay flat due to weaker demand. U.S. coal production will stabilize in 2021 as export demand rises and U.S. power sector demand for coal increases slightly.

Budget Highlights for 2020

- Forecasts no change in wholesale rates for the years 2020-2021; the actual rate change will be considered at the Spring 2020 Rate Committee Meeting.
- Collection through rates of \$49,265,000 for debt principal due January 1, 2021.
- Anticipates scheduled refueling outages for Catawba 2, McGuire Unit 1 and McGuire Unit 2.
- Projects totaling \$48,375,000 will be spent on capital additions at the Catawba plant funded from rates.
- Projected average annual load growth over 10 years is 0.4% 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,	
	2019	2018
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 2,019,183	\$ 1,912,051
Construction work in progress	60,015	34,159
Nuclear fuel	249,838	240,702
Accumulated depreciation and amortization	(1,168,573)	(1,030,255)
Total Electric Utility Plant, Net	1,160,463	1,156,657
Non-Utility Property and Equipment, Net		
Property and Equipment	4,348	4,348
Accumulated depreciation	(3,393)	(3,350)
Total Non-Utility Property and Equipment, Net	955	998
Total Capital Assets	1,161,418	1,157,655
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	3,414	28,606
Bond fund	146,235	213,035
Reserve and contingency fund	8,608	11,752
Total Special Funds Invested	158,257	253,393
Trust for Decommissioning Costs (Notes D and F)	372,225	346,228
Total Restricted Assets	530,482	599,621
Total Non-Current Assets	1,691,900	1,757,276
Current Assets		
Funds Invested (Notes D):		
Revenue fund	89,010	82,656
Operating fund	108,798	90,162
Supplemental fund	232,166	282,218
Total Funds Invested	429,974	455,036
Participant accounts receivable	29,143	29,977
Operating accounts receivable	6,141	9,163
Plant materials and renewable certificate inventory	67,931	66,781
Total Current Assets	533,189	560,957
Total Assets	\$ 2,225,089	\$ 2,318,233

See accompanying Notes to Financial Statements.

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

	December 31,	
	2019	2018
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	\$ 41,796	\$ 52,278
Unamortized debt issuance costs	3,269	3,616
Total Deferred Outflows of Resources	45,065	55,894
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt:		
Bonds (Note H)	763,360	902,620
Unamortized premium	79,297	74,623
Total Long-Term Debt, net	842,657	977,243
Asset Retirement Obligation (Note F)	466,747	435,074
Total Non-Current Liabilities	1,309,404	1,412,317
Current Liabilities		
Operating Liabilities:		
Accounts payable	37,665	37,249
Total Operating Liabilities	37,665	37,249
Special Funds Liabilities:		
Current maturities of bonds (Note H)	41,410	71,505
Accrued interest on bonds	18,367	23,494
Total Special Funds Liabilities	59,777	94,999
Total Current Liabilities	97,442	132,248
Total Liabilities	1,406,846	1,544,565
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note G)	591,255	531,324
Total Deferred Inflows of Resources	\$ 591,255	\$ 531,324
NET POSITION		
Investment in capital assets net of related debt	840,378	722,934
Restricted for debt service	-	39,360
Unrestricted (deficit)	(568,325)	(464,056)
Total Net Position	\$ 272,053	\$ 298,238

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

	Years Ended December 31,	
	2019	2018
Operating Revenues:		
Sales to participants	\$ 386,080	\$ 405,809
Sales to utilities	104,399	114,989
Other revenues	1,401	1,416
Total Operating Revenues	<u>491,880</u>	<u>522,214</u>
Operating Expenses:		
Operation and maintenance	103,626	118,064
Fuel	40,896	41,925
Interconnection services:		
Purchased power	77,002	89,031
Transmission and distribution	16,923	16,868
Other	1,114	932
Total interconnection services	<u>95,039</u>	<u>106,831</u>
Administrative and general	40,423	47,362
Gross receipts and excise taxes	2,141	2,121
Property tax	22,704	22,114
Depreciation	41,757	40,078
Amortization of asset retirement obligation	31,673	37,914
Total Operating Expenses	<u>378,259</u>	<u>416,409</u>
Operating Income	113,621	105,805
Nonoperating (Revenues) Expenses		
Investment income	(24,435)	(21,082)
Working capital refund	75,000	-
Net decrease (increase) in fair value of investments	(16,388)	6,469
Interest expense	48,454	47,151
Amortization of debt refunding costs	7,808	8,392
Amortization of debt discount, premium costs and issuance costs	(10,564)	(11,805)
Net decrease in costs to be recovered (Note G)	59,741	22,415
Net increase (decrease) in collections to be expended (Note G)	190	(22,658)
Total Nonoperating (Revenues) Expenses	<u>139,806</u>	<u>28,882</u>
Change in Net Position	(26,185)	76,923
Net Position, Beginning of Year	298,238	221,315
Net Position, End of Year	<u>\$ 272,053</u>	<u>\$ 298,238</u>

See accompanying Notes to Financial Statements.

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

	Years Ended December 31,	
	2019	2018
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 493,127	\$ 533,056
Receipts from other revenues	1,401	1,416
Payments of operating expenses	<u>(265,187)</u>	<u>(290,403)</u>
Net cash provided by operating activities	229,341	244,069
Cash Flows from Capital and Related Financing Activities:		
Refunding Bonds issued	102,035	-
Bond Principal Payments	(71,505)	(81,845)
Interest paid	(53,581)	(48,905)
Additions to electric utility plant and non-utility property and equipment	(85,896)	(92,044)
Bonds Refunded - Deposited with escrow agent	(130,985)	-
Bonds Defeased - Deposited with escrow agent	(68,900)	-
Debt premium net of issuance costs	18,259	4
Working Capital Refunded	(75,000)	-
Investment earnings receipts from construction fund	68	459
Net cash used for capital and related financing activities	<u>(365,505)</u>	<u>(222,331)</u>
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,827,717	1,606,713
Purchases of investment securities	(1,705,943)	(1,639,895)
Investment earnings receipts	14,411	11,423
Net cash provided by (used in) investing activities	<u>136,185</u>	<u>(21,759)</u>
Net Increase (Decrease) in Operating Cash	21	(21)
Operating Cash, Beginning of year	57	78
Operating Cash, End of year (Note B)	<u>\$ 78</u>	<u>\$ 57</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 113,621	\$ 105,805
Adjustments:		
Depreciation	41,757	40,078
Amortization of nuclear fuel	40,376	41,386
Amortization of asset retirement obligation	31,673	37,914
Changes in assets and liabilities:		
Decrease in participant accounts receivable	834	2,007
Decrease in operating accounts receivable	1,814	10,251
Increase in plant materials and renewable certificate inventory	(1,150)	(422)
Increase in accounts payable	416	7,252
Decrease in accrued taxes	-	(202)
Total Adjustments	<u>115,720</u>	<u>138,264</u>
Net Cash Provided by Operating Activities	<u>\$ 229,341</u>	<u>\$ 244,069</u>

See accompanying Notes to Financial Statements.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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 \$200,710,000 and \$217,546,000 in 2019 and 2018, respectively.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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 2019, and a separate similar agreement for 2020.
- 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 2019 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. The contract automatically renews for successive one-year terms unless terminated by 60 days written notice by either party. Neither party has given notice as of December 31, 2019.

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, 2019 and 2018

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, 2019.

For the years ended December 31, 2019 and 2018, the Agency paid ElectriCities \$12,664,000 and \$14,389,000, 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, 2019 and 2018

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, 2019, the remaining life for Catawba Units 1 and 2 was 24 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 2019 and 2018, 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 2019 and 2018 was \$911,000 and \$946,000 respectively.

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

The DOE announced that it would cease the collection of the of 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 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, 2019 and 2018

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 \$40,346,000 and \$39,070,000, at December 31, 2019 and 2018, 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, 2019 and 2018

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 \$58,000 and \$30,000 at December 31, 2019 and 2018 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$20,000 and \$27,000 at December 31, 2019 and 2018, 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 \$2,585,000 and \$7,831,000 at December 31, 2019 and 2018, respectively. The cash flows associated with the increase in accounts payable of \$416,000 and \$7,252,000 in 2019 and 2018, 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, 2019 and 2018

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 29 for more detailed information.

Net Position Classifications

Certain items on the Statement of Net Position have been reclassified from their presentation in the prior year financial statements. The reclassification did not have an effect on the Agency's overall net position for the years ended December 31, 2018 and 2019.

Recently Adopted GASB Standards

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

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

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. As a result, the Agency has expanded the footnote disclosure related to outstanding bonds.

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 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, 2019 and 2018

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 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 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 May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020.

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing 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, 2020.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

C. Capital Assets

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2019 and 2018 are as follows (in thousands of dollars):

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,892,283	\$ 15	\$ 16,845	\$ 90,272	\$ 1,999,415
Nuclear fuel	240,702	41,589	(32,453)		249,838
Total Depreciable Utility Plant	2,132,985	41,604	(15,608)	90,272	2,249,253
Accumulated Depreciation and Amortization					
Electric plant in service	(895,673)	(41,714)	1,591	(90,272)	(1,026,068)
Nuclear fuel	(134,582)	(40,376)	32,453		(142,505)
Total Accumulated Depreciation and Amortization	(1,030,255)	(82,090)	34,044	(90,272)	(1,168,573)
Depreciable Utility Plant, Net	1,102,730	(40,486)	18,436	-	1,080,680
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	34,159	44,292	(18,436)	-	60,015
Total Electric Utility Plant, Net	<u>\$ 1,156,657</u>	<u>\$ 3,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,160,463</u>

Electric Utility Plant, Net

	December 31, 2017	Additions	Transfers	Retirements	December 31, 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
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>

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 2020 and 2021 will be approximately \$85,000,000.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

C. Capital Assets (continued)

Non-Utility Property and Equipment

Changes in components of non-utility property and equipment, net during 2019 and 2018 are as follows (in thousands of dollars):

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Non-Utility Property and Equipment					
Property and equipment	\$ 3,638	\$ -	\$ -	\$ -	\$ 3,638
Accumulated depreciation	(3,350)	(43)	-	-	(3,393)
Total Depreciable Non-Utility Property and Equipment, Net	288	(43)	-	-	245
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 998</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 955</u>

Non-Utility Property and Equipment

	December 31, 2017	Additions	Transfers	Retirements	December 31, 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>

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, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

D. Investments (continued)

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

	Method of Valuation	December 31,			
		2019		2018	
		Cost Basis	Reported Value	Cost Basis	Reported Value
Commercial Paper	Fair Value Level 1	\$ 96,506	\$ 96,763	\$ 97,710	\$ 98,154
U.S. Government Agencies	Fair Value Level 1	50,554	51,187	127,974	127,135
U.S. Treasury Securities	Fair Value Level 1	284,848	285,928	295,527	293,628
NCCMT* -Government Portfolio	Fair Value Level 1	25,098	25,098	19,463	19,463
NCCMT* -Term Portfolio	Fair Value Level 1	68,051	68,051	133,950	133,950
Collateralized mortgage obligations	Fair Value Level 2	59,300	59,582	35,089	34,192
Sub-total funds invested		<u>584,357</u>	<u>586,609</u>	<u>709,713</u>	<u>706,522</u>
Decommissioning Trust securities:					
U.S. government agencies	Fair Value Level 1	83,097	89,103	87,196	92,534
U.S. Treasury Securities	Fair Value Level 1	169,831	229,408	152,785	216,595
Collateralized mortgage obligations	Fair Value Level 2	51,378	51,675	36,719	35,379
NCCMT* -Government Portfolio	Fair Value Level 1	940	940	-	-
NCCMT* -Term Portfolio	Fair Value Level 1	43	43	894	894
Sub-total funds invested		<u>305,289</u>	<u>371,169</u>	<u>277,594</u>	<u>345,402</u>
Cash					
Operating cash		58	58	30	30
Restricted cash		20	20	27	27
Accrued interest		2,600	2,600	2,676	2,676
Total funds invested		<u>\$ 892,324</u>	<u>\$ 960,456</u>	<u>\$ 990,040</u>	<u>\$ 1,054,657</u>
Consisting of:					
Special funds invested			\$ 158,257		\$ 253,393
Decommissioning Trust			372,225		346,228
Operating assets			429,974		455,036
Total funds invested			<u>\$ 960,456</u>		<u>\$ 1,054,657</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, 2019 and 2018

D. Investments (continued)

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

	Recorded Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Commercial Paper	\$ 96,763	\$ 96,763	\$ -	\$ -	\$ -
U.S. Government Agencies	51,187	17,674	33,513	-	-
U.S. Treasury Securities	285,928	70,873	215,055	-	-
NCCMT	93,149	93,149	-	-	-
Collateralized mortgage obligations	59,582	-	14,007	16,143	29,432
Sub-total funds invested	586,609	278,459	262,575	16,143	29,432
Decommissioning Trust securities	371,169	18,733	148,838	59,412	144,186
Total	<u>\$ 957,778</u>	<u>\$ 297,192</u>	<u>\$ 411,413</u>	<u>\$ 75,555</u>	<u>\$ 173,618</u>

December 31, 2018					
	Recorded Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Commercial Paper	\$ 98,154	\$ 98,154	\$ -	\$ -	-
U.S. Government Agencies	127,135	58,682	68,453	-	-
U.S. Treasury Securities	293,628	47,195	246,433	-	-
NCCMT	153,413	153,413	-	-	-
Collateralized mortgage obligations	34,192	-	7,979	13,372	12,841
Sub-total	706,522	357,444	322,865	13,372	12,841
Decommissioning Trust securities	345,402	78,041	157,899	27,640	81,822
Total	<u>\$ 1,051,924</u>	<u>\$ 435,485</u>	<u>\$ 480,764</u>	<u>\$ 41,012</u>	<u>\$ 94,663</u>

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

	December 31, 2019					
	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	\$ -	\$ -	\$ 11,557	\$ 58	\$ 11,557	\$ 58
U.S. Treasury Securities	30,996	938	75,439	668	106,435	1,606
Collateralized mortgage obligations	-	-	20,244	267	\$ 20,244	\$ 267
Sub-total	30,996	938	107,240	993	138,236	1,931
Decommissioning Trust securities	\$ -	\$ -	\$ 79,009	\$ 1,930	\$ 79,009	\$ 1,930
Total	<u>\$ 30,996</u>	<u>\$ 938</u>	<u>\$ 186,249</u>	<u>\$ 2,923</u>	<u>\$ 217,245</u>	<u>\$ 3,861</u>

	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	<u>\$ 79,272</u>	<u>\$ 1,241</u>	<u>\$ 324,150</u>	<u>\$ 8,306</u>	<u>\$ 403,422</u>	<u>\$ 9,547</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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.

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, 2019		December 31, 2018	
	Recorded Value	Percentage	Recorded Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 52,978	5.5%	\$ 56,752	5.4%
Federal National Mortgage Association	104,909	11.0%	131,788	12.5%
Federal Home Loan Bank	75,252	7.9%	75,393	7.2%
Federal Farm Credit Bank	14,008	1.5%	20,672	2.0%
Government National Mortgage Association	2,896	0.3%	3,182	0.3%
Resolution Funding Corporation	1,504	0.2%	1,453	0.1%
Commercial Paper				
MUFG Bank (formerly Bank of Tokyo-Mitsubishi UFJ)	54,003	5.6%	31,755	3.0%
JPMorgan Securities	-	0.0%	7,944	0.8%
Mitsubishi UFJ T&B NY	12,991	1.4%	10,981	1.0%
Mizuho Securities (USA)	-	0.0%	11,068	1.1%
Natixis NY	9,926	1.0%	-	0.0%
SwedBank	19,842	2.1%	-	0.0%
Toronto Dominion Bank	-	0.0%	28,251	2.7%
Toyota Motor Credit	-	0.0%	8,155	0.8%
NC Capital Management Trust	94,133	9.8%	154,307	14.7%
US Treasury Department	515,336	53.7%	510,223	48.4%
Total	<u>\$ 957,778</u>	<u>100.0%</u>	<u>\$ 1,051,924</u>	<u>100.0%</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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, 2019 and 2018, the Agency had \$58,000 and \$30,000 in operating funds, respectively, and \$20,000 and \$27,000 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 2019 and 2018 (in thousands of dollars):

Summary of Changes in RECs				
	Balance 12/31/2018	Additions	Retirements	Balance 12/31/2019
RECs	8,541	2,425	(713)	10,253
	Balance 12/31/2017	Additions	Retirements	Balance 12/31/2018
RECs	6,986	2,078	(523)	8,541

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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 \$675,956,000, stated in 2019 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 2019 and 2018 are as follows (in thousands of dollars):

	Years Ended December 31,	
	2019	2018
Balance, beginning of year	\$ 435,074	\$ 397,160
Accretion expense	25,546	22,995
Revisions in estimated cash flows	6,127	14,919
Balance, end of year	\$ 466,747	\$ 435,074

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, 2019 and 2018

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 2019 and 2018 (in thousands of dollars):

Summary of Changes in Long term Liability

	December 31, 2018	Additions	Reductions	December 31, 2019	Amounts Due within One Year
Bonds payable	<u>\$ 974,125</u>	<u>\$ 102,035</u>	<u>\$ (271,390)</u>	<u>\$ 804,770</u>	<u>\$ 41,410</u>
	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts Due within One Year
Bonds payable	<u>\$ 1,055,970</u>	<u>\$ -</u>	<u>\$ (81,845)</u>	<u>\$ 974,125</u>	<u>\$ 71,505</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

H. Bonds (continued)

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

	December 31,	
	2019	2018
Series 2008A		
5.25% maturing annually from 2016 to 2020	-	2,695
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026		30,280
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027		4,825
5% maturing in 2030 with annual sinking fund requirements beginning in 2027		22,270
Total 2009A	-	57,375
Series 2009B (Federally Taxable)		
5.482% maturing in 2021	9,200	9,200
Series 2009C		
5% maturing in 2021	-	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	11,260	33,775
Series 2010B		
5.00% maturing annually from 2020 to 2021	15,950	36,905

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

H. Bonds (continued)

	December 31,	
	2019	2018
Series 2012A 2.00% to 5% maturing annually from 2017 to 2020	\$ 14,200	\$ 76,485
Series 2012B 3.00% to 5% maturing annually from 2021 to 2032	34,360	94,870
Series 2012C (Federally Taxable) 2.447% to 3.922% maturing annually from 2021 to 2032	38,115	41,185
Series 2015A 5.0% to 5.25% maturing annually from 2023 to 2032	274,710	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	87,230	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
Series 2019A 5% maturing 2021	18,640	-
5% maturing annually 2025-2032	63,300	-
	81,940	-
Series 2019B 5% maturing 2021	20,095	-
Total Bonds Outstanding	804,770	974,125
Current maturities of bonds	(41,410)	(71,505)
Total Long-Term Debt, Bonds	\$ 763,360	\$ 902,620

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

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 \$41,410,000 at December 31, 2019 were collected monthly through rates during 2019 and were deposited into the Bond Fund to make the January 1, 2020 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2019 are as follows (in thousands of dollars):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	49,265	37,486	86,751
2021	51,005	35,012	86,017
2022	53,390	32,988	86,378
2023	55,550	30,467	86,017
2024	58,255	27,751	86,006
2025 to 2029	336,670	92,947	429,617
2030 to 2032	159,225	12,376	171,601
Total	<u>\$ 763,360</u>	<u>\$ 269,027</u>	<u>\$ 1,032,387</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2019 and 2018 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 \$935,032,000 and \$1,068,628,000 at December 31, 2019 and 2018, 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, 2019A, 2019B bonds were used to establish trusts for the refunding of \$2,663,175,000 of previously issued bonds at December 31, 2019. At December 31, 2019 and 2018, \$2,620,780,000 and \$2,677,345,000 of these bonds has been redeemed leaving \$42,395,000 and \$228,390,000 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.

On October 8, 2019 the Agency issues \$81,940,000 and \$20,095,000 of Refunding Series 2019A and 2019B Bonds, respectively to refund \$130,985,000 of outstanding Series 2009A, 2009C, 2010A, 2010B and 2015A bonds. The net proceeds of \$121,636,000 (after payment of \$832,000 in underwriting fees and issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the Series 2009A and 2009C bonds are considered to be defeased and a portion of the Series 2010A, 2010B and 2015A bonds are considered to be defeased and the liability for those bonds have been removed from the Agency's Statement of Net Position.

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

H. Bonds (continued)

debt of \$6,453,000. The loss is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized over the remaining life of the refunded bonds outstanding. As a result of the refunding, the Agency will be able to reduce its total debt service payments over the next 13 years by \$34,907,000 and obtain an economic gain of \$21,566,000.

On September 11, 2019, the Agency applied \$75,515,000 of available funds to defease \$68,900,000 of certain outstanding Series 2012B, 2012C and 2015C bonds. The funds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. All of the defeased bonds are still outstanding as of December 31, 2019.

The defeasance resulted in a difference between the net carrying value of the old debt and the reacquisition price of \$5,565,284. The gain is reported in the accompanying financial statements as a deferred inflow of resources and is being amortized over the remaining life of the original bonds. As a result of the defeasance, the Agency will be able to reduce its total debt service payments over the next 12 years by \$22,044,000 and obtain an economic gain of \$12,249,000.

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 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 \$85,514,000 and \$116,807,000 for 2019 and 2018, respectively. As of December 31, 2019, and 2018, the balances of the reserve were \$85,725,000 and \$119,352,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling \$8,511,000 and \$11,681,000 for 2019 and 2018, respectively. As of December 31, 2019, and 2018, the balances of the contingency fund were

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

H. Bonds (continued)

\$8,535,000 and \$11,798,000, respectively.

As of December 31, the Agency had \$3,414,000 and \$28,606,000 in unspent bond funds in restricted cash and investments for 2019 and 2018, 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.

Liability Coverage

In accordance with the Price-Anderson Act, Duke, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$13.97 billion, \$450 million of which is by private insurance with a like amount to cover certain worker tort claims. The remaining amount of approximately \$13.5 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$13.5 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 \$33.135 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 \$7.314 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

Duke also purchases on behalf of all co-owners, increased cost of generation and/or purchased power insurance resulting from an accidental outage of a nuclear unit. Each unit at Catawba is insured for up to approximately \$3.9 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 92.1 weeks. The accident outage policy limit is \$490 million per unit. If the insurer's losses exceed its reserves for this program, Catawba will be liable, on a pro rata basis, for additional assessments of up to \$12.252 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.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2019 and 2018

J. Subsequent Events

The Agency has evaluated subsequent events through April 29, 2020, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	Year Ended December 31, 2019		
	Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 274,178	\$ 111,902	\$ 386,080
Sales to utilities	104,399	-	104,399
Investment income	6,122	7,064	13,186
Excess Funds valuation	37,751	-	37,751
Other revenue	1,333	68	1,401
Total Revenues	423,783	119,034	542,817
Expenses:			
Operation and maintenance	101,824	1,240	103,064
Nuclear fuel	40,566	330	40,896
Interconnection services:			
Purchased power	36,620	40,382	77,002
Transmission and distribution	-	16,923	16,923
Other	-	2,826	2,826
Total interconnection services	36,620	60,131	96,751
Administrative and general – Duke	26,669		26,669
Administrative and general – Agency	5,031	5,530	10,561
Miscellaneous Agency expenses	389	2,804	3,193
Gross receipts and excise taxes	2,141	-	2,141
Property tax	22,520	184	22,704
Working capital refund	-	75,000	75,000
Debt service	158,764	-	158,764
Special funds deposits:			
Decommissioning fund	3,600	-	3,600
Reserve and contingency fund	25,659	-	25,659
Total special funds deposits	29,259	-	29,259
Total Expenses	423,783	145,219	569,002
Revenues Over Expenses	\$ -	\$ (26,185)	\$ (26,185)

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, 2019 and 2018.

See accompanying Report of Independent Auditor.

Year Ended
December 31, 2018

Project	Supple- mental	Total
\$ 257,391	\$ 148,418	\$ 405,809
114,989	-	114,989
5,298	4,332	9,630
18,596	-	18,596
1,332	84	1,416
<u>397,606</u>	<u>152,834</u>	<u>550,440</u>
115,676	1,254	116,930
41,386	539	41,925
42,806	46,226	89,032
-	16,868	16,868
-	2,487	2,487
<u>42,806</u>	<u>65,581</u>	<u>108,387</u>
33,467	-	33,467
4,799	5,820	10,619
799	2,491	3,290
2,121	-	2,121
21,888	226	22,114
118,656	-	118,656
3,600	-	3,600
<u>12,408</u>	<u>-</u>	<u>12,408</u>
<u>16,008</u>	<u>-</u>	<u>16,008</u>
<u>397,606</u>	<u>75,911</u>	<u>473,517</u>
<u>\$ -</u>	<u>\$ 76,923</u>	<u>\$ 76,923</u>

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

	2019 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
Sales to participants	\$ 388,436	\$ 383,034	\$ 386,080	\$ 3,046
Sales to utilities	103,942	104,830	104,399	(431)
Investment income	10,995	13,365	13,186	(179)
Excess Funds valuation	22,637	35,068	37,751	2,683
Other revenues	1,405	1,401	1,401	-
Total Revenues	<u>527,415</u>	<u>537,698</u>	<u>542,817</u>	<u>5,119</u>
Expenses:				
Operations and maintenance	126,020	112,906	103,064	9,842
Nuclear fuel	45,562	45,510	40,896	4,614
Fossil fuel			-	-
Interconnection services:				
Purchased power	80,262	76,647	77,002	(355)
Transmission and distribution	20,708	18,814	16,923	1,891
Other interconnection expenses	3,996	3,715	2,826	889
Total interconnection services	<u>104,966</u>	<u>99,176</u>	<u>96,751</u>	<u>2,425</u>
Administrative and general – Duke	32,776	38,978	26,669	12,309
Power Agency services	14,718	14,718	13,754	964
Taxes	25,584	25,301	24,845	456
Working capital refund	-	75,000	75,000	-
Debt service	85,228	157,445	158,764	(1,319)
Special funds deposits	29,916	29,259	29,259	-
Total Expenses	<u>464,770</u>	<u>598,293</u>	<u>569,002</u>	<u>29,291</u>
Excess of Revenues Over Expenses	<u>\$ 62,645</u>	<u>\$ (60,595)</u>	<u>\$ (26,185)</u>	<u>\$ 34,410</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, 2019 and 2018.

See accompanying Report of Independent Auditor.

	2018 Budget		Actuals (Budgetary Basis)	Positive (Negative) Variance With Final Budget
	Original	Final		
Revenues:				
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	<u>547,697</u>	<u>523,834</u>	<u>550,440</u>	<u>26,606</u>
Expenses:				
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	<u>106,482</u>	<u>102,826</u>	<u>108,387</u>	<u>(5,561)</u>
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	<u>525,857</u>	<u>509,093</u>	<u>473,517</u>	<u>35,576</u>
Excess of Revenues Over Expenses	<u>\$ 21,840</u>	<u>\$ 14,741</u>	<u>\$ 76,923</u>	<u>\$ 62,182</u>

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

	Funds Invested January 1, 2018	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers
Construction Fund	\$ 55,363	\$ -	\$ -	\$ 588	\$ (27,326)	\$ -
Bond Fund:						
Interest account	25,272	-	-	216	(48,742)	46,790
Reserve account	132,455	-	-	2,484	-	(15,587)
Principal account	81,931	-	-	717	(81,845)	71,017
Total Bond Fund	239,658	-	-	3,417	(130,587)	102,220
Reserve and Contingency Fund	13,197		-	251	(8,294)	6,644
Revenue Fund	66,155	-	263,576	1,000	34,545	(282,529)
Rate Stabilization account	-	-				
Revenue Fund	66,155	-	263,576	1,000	34,545	(282,529)
Operating Fund:						
Working Capital account	46,551	-	-	1,272	(167,297)	164,382
Fuel account	54,285	-	-	-	(54,483)	45,630
Total Operating Fund	100,836	-	-	1,272	(221,780)	210,012
Supplemental Fund:						
Supplemental account	196,932	-	144,649	4,334	(37,751)	(36,347)
Reserve for future costs	11,740	-	-	185	-	-
Total Supplemental Fund	208,672	-	144,649	4,519	(37,751)	(36,347)
Total Funds Invested	<u>\$ 683,881</u>	<u>\$ -</u>	<u>\$ 408,225</u>	<u>\$ 11,047</u>	<u>\$ (391,193)</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, 2019 and 2018.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2018	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2019
\$ 28,625	\$ -	\$ -	\$ 352	\$ (25,564)	\$ -	\$ 3,413
23,536	-	-	197	(47,330)	41,998	18,401
119,352	-	-	2,481	(10,709)	(25,398)	85,726
71,820	-	-	450	(71,505)	40,915	41,680
<u>214,708</u>	<u>-</u>	<u>-</u>	<u>3,128</u>	<u>(129,544)</u>	<u>57,515</u>	<u>145,807</u>
11,798	-	-	398	(13,732)	10,071	8,535
82,747	-	227,860	1,493	39,677	(263,142)	88,635
-	-	-	-	-	-	-
<u>82,747</u>	<u>-</u>	<u>227,860</u>	<u>1,493</u>	<u>39,677</u>	<u>(263,142)</u>	<u>88,635</u>
44,908	-	-	1,548	(173,604)	176,642	49,494
45,432	-	-	-	(29,557)	43,396	59,271
<u>90,340</u>	<u>-</u>	<u>-</u>	<u>1,548</u>	<u>(203,161)</u>	<u>220,038</u>	<u>108,765</u>
271,817	-	84,511	7,063	(120,323)	(24,482)	218,586
11,925	-	-	228	-	-	12,153
<u>283,742</u>	<u>-</u>	<u>84,511</u>	<u>7,291</u>	<u>(120,323)</u>	<u>(24,482)</u>	<u>230,739</u>
<u>\$ 711,960</u>	<u>\$ -</u>	<u>\$ 312,371</u>	<u>\$ 14,210</u>	<u>\$ (452,647)</u>	<u>\$ -</u>	<u>\$ 585,894</u>