

REGENERATION

North Carolina Municipal Power Agency 1
2015 Financial Report



**NORTH CAROLINA MUNICIPAL
POWER AGENCY NUMBER 1**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2015 and 2014

This page intentionally left blank.

	<u>Page(s)</u>
Report of Independent Auditor	1-2
Management’s Discussion and Analysis - Unaudited.....	3-9
Basic Financial Statements	
Statements of Net Position, December 31, 2015 and 2014	10-11
Statements of Revenues and Expenses and Changes in Net Position, Years Ended December 31, 2015 and 2014	12
Statements of Cash Flows, Years Ended December 31, 2015 and 2014	13
Notes to Financial Statements	14-36
Supplementary Information	
Schedules of Revenues and Expenses per Bond Resolution and Other Agreements	39-40
Schedule of Budgetary Comparison	41
Schedule of Changes in Assets of Funds Invested	43-44

This page intentionally left blank.

Independent Auditor's Report

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

RSM US LLP

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Municipal Power Agency 1 (the Agency), which are comprised of the statements of net position as of December 31, 2015 and 2014, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Municipal Power Agency 1 as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the year ended December 31, 2015 and 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other information

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

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

RSM VS LLP

Morehead City, North Carolina
April 15, 2016

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, 2015 and 2014. 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.

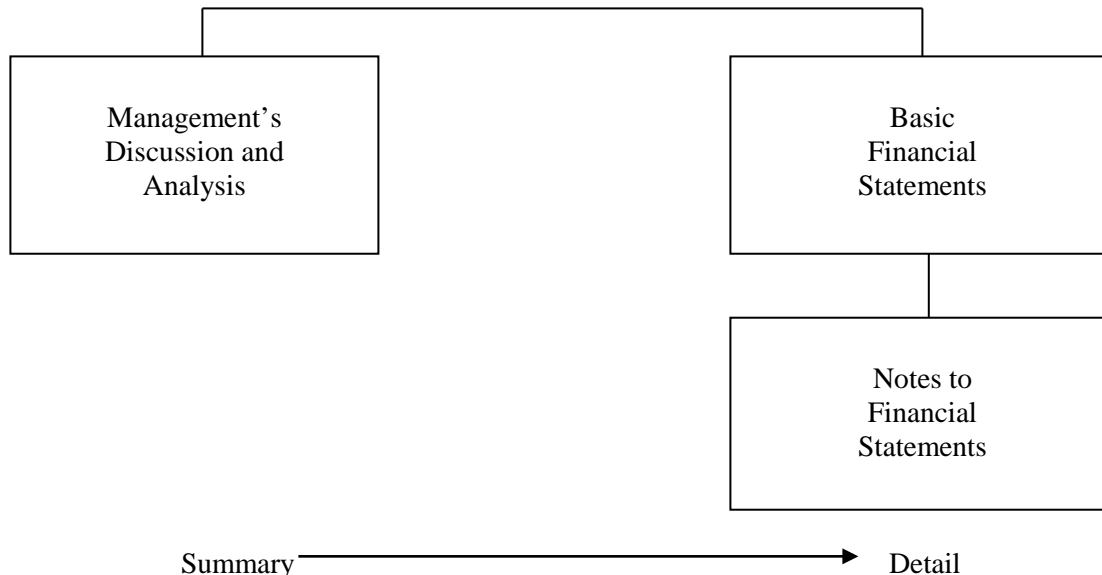
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2015 and 2014, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$117,145,000 and \$78,524,000 (net position).
- The Agency's net position increased by \$38,621,000 and \$27,248,000 for 2015 and 2014, respectively.
- Year-end 2015 and 2014 unrestricted net position deficit was \$(629,115,000) and \$(608,801,000), respectively, after increasing \$20,314,000 and \$30,672,000, respectively.
- The Agency's total debt decreased by \$141,250,000 and \$118,635,000 during 2015 and 2014, respectively, due to principal paid, in accordance with debt service schedules.
 - Decreased \$117,720,000 and \$115,510,000 due to principal paid in 2015 and 2014, respectively, in accordance with the debt service schedules.
 - Decreased \$23,530,000 in 2015 and \$3,125,000 in 2014 due to the early redemption of bonds.
- In July and October 2015, the Agency issued \$480,065,000 of Series 2015A, 2015B, 2015C, 2015D and 2015E Bonds to refund \$503,595,000 of 2008A, 2008C, 2009A, 2009C, 2010A, 2010B, 2012A and 2012B Series. The bonds pay interest of 2.0% to 5.25% and mature annually from 2023 to 2032. This bond issuance extended debt payments from 2026 to 2032 and resulted in net present value losses of \$19,363,000 with debt service savings/(losses) ranging from \$111,061,000 to (\$50,575,000).
- The bond ratings remained the same as follows:
 - Standard and Poor's – Unchanged at A (stable).
 - Moody's – Unchanged at A2 (stable).
 - Fitch – Unchanged at A (stable).
- The Agency decreased rates to Participants by 6% and increased by 1.8% effective July 1, 2015 and 2014, 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, 2015 and 2014 are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34.

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

	December 31,		
	2015	2014	2013
Assets and Deferred Outflows of Resources			
Capital assets	\$ 1,187,230	\$ 1,162,774	\$ 1,162,326
Current and other assets	974,332	1,016,155	1,010,009
Deferred outflows of resources	78,461	66,573	108,367
Total assets and deferred outflows of resources	2,240,023	2,245,502	2,280,702
Liabilities and Deferred Inflows			
Non-current liabilities	1,599,448	1,604,577	1,726,625
Current liabilities	85,789	175,090	192,420
Deferred inflows of resources	437,641	387,311	310,381
Total liabilities and deferred inflows of resources	2,122,878	2,166,978	2,229,426
Net Position			
Net invested in capital assets	649,658	489,567	395,232
Restricted for debt service	96,602	197,758	234,173
Unrestricted	(629,115)	(608,801)	(578,129)
Total Net Position	\$ 117,145	\$ 78,524	\$ 51,276

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 \$117,145,000, \$78,524,000 and \$51,276,000 at December 31, 2015, 2014 and 2013, respectively, representing an increase of \$38,621,000 in 2015 and \$27,248,000 in 2014.

The first portion of net position of \$649,658,000, \$489,567,000 and \$395,232,000 at December 31, 2015, 2014 and 2013, 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.

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 \$96,602,000, \$197,758,000 and \$234,173,000 as of December 31, 2015, 2014 and 2013, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$(629,115,000), \$(608,801,000) and \$(578,129,000) as of December 31, 2015, 2014 and 2013, 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,		
	2015	2014	2013
Revenues:			
Sales of electricity and other operating revenue	\$ 531,108	\$ 535,454	\$ 514,164
Nonoperating revenues and changes in fair value	8,969	26,866	(17,124)
Total Revenues	540,077	562,320	497,040
Expenses:			
Operating expenses	396,894	370,777	356,302
Interest on long-term debt	55,905	65,136	68,466
Other nonoperating expenses	48,657	99,159	89,548
Total Expenses	501,456	535,072	514,316
Change in Net Position	38,621	27,248	(17,276)
Net Position, Beginning of the year	78,524	51,276	68,552
Net Position, End of the year	<u>\$ 117,145</u>	<u>\$ 78,524</u>	<u>\$ 51,276</u>

Financial Highlights

- The Agency implemented a 6% decrease and 1.8% rate increase effective July 1, 2015 and 2014, 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, 2015, 2014 and 2013 totaled \$1,187,230,000, \$1,162,774,000 and \$1,162,326,000, respectively, (net of accumulated amortization and depreciation). These assets include land, buildings, generation facilities, nuclear fuel and equipment.

Major capital asset transactions during 2015 and 2014 include the following:

- Construction work in progress increased \$43,204,000 and \$34,468,000 in 2015 and 2014, respectively, due to capital additions at the Catawba plant.
- Construction work in progress decreased and electric plant in service increased by \$57,850,000 and \$14,052,000 in 2015 and 2014, respectively, due to the transfer of completed projects.
- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$35,944,000 and \$35,165,000 for 2015 and 2014, respectively.
- Nuclear Fuel was amortized \$46,795,000 and \$33,534,000 for 2015 and 2014, respectively.
- In 2015 and 2014 there were retirements of Electric Utility Plant of \$40,675,000 and \$19,551,000, respectively. There were no write-offs of spent nuclear fuel in 2015 and 2014.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

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

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,847,361	\$ 8,631	\$ 14,534	\$ (19,551)	\$ 1,850,975
Nuclear fuel	211,192	25,961	(35,838)	-	201,315
Depreciable Utility Plant	2,058,553	34,592	(21,304)	(19,551)	2,052,290
Accumulated Depreciation and Amortization					
Electric plant in service	(849,719)	(35,086)	(482)	19,551	(865,736)
Nuclear fuel	(89,728)	(33,534)	35,838	-	(87,424)
Total Accumulated Depreciation and Amortization	(939,447)	(68,620)	35,356	19,551	(953,160)
Depreciable Utility Plant, Net	1,119,106	(34,028)	14,052	-	1,099,130
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	22,222	34,468	(14,052)	-	42,638
Total Electric Utility Plant, Net	<u>\$ 1,161,096</u>	<u>\$ 440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,536</u>

Non-Utility Plant and Equipment, Net

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

	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ 87	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,433)	(79)	-	-	(4,512)
Total Depreciable Non-Utility Property and Equipment, Net	520	8	-	-	528
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,230</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238</u>

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

Outstanding Debt

The Agency's total debt outstanding at December 31, 2015, 2014 and 2013 was \$1,173,205,000, \$1,314,455,000 and \$1,433,090,000, respectively, all of which are revenue bonds. Total debt decreased by \$141,250,000 (10.75%) and \$118,635,000 (8.28%) during 2015 and 2014, 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 stayed the same or improved over the two year period as follows:

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

Additional information regarding the Agency's long-term debt can be found in Note G beginning on page 31 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2016 budget.

- The historical 10 year average weather-normalized load (energy) growth rate is approximately 0.3%/year. Load is expected to grow at a rate of 0.6% annually for the next 10 years for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Market prices for steam coal are expected to deteriorate in the near term due to oversupply conditions and current and anticipated environmental regulations that are causing electric utilities to retire coal-fired generating facilities.
- Market prices for natural gas remain low and are expected to stay relatively flat or rising slightly in the near and mid-term due to lower load forecasts and strong domestic natural gas supply. Long term prices are expected to increase comparable with inflation.

Budget Highlights for 2016

- Forecasts no change in wholesale rates for the years 2016-2019; the actual increase will be considered at the Spring 2016 Rate Committee Meeting.
- The load forecast estimates energy and demand growth of 0.6% and 0.5%, respectively, for the period.
- Collection through rates of \$79,390,000 for debt principal due January 1, 2017.
- Anticipates scheduled refueling outages for Catawba Unit 2 and McGuire Unit 1.
- Projects that total \$32,102,000 will be spent on capital additions at the Catawba plant funded from bonds.

Requests for Information

This report is designed to provide an overview of the Agency's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, North Carolina Municipal Power Agency Number 1, P.O. Box 29513, Raleigh, NC 27626-0513.

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

	December 31,	
	2015	2014
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service	\$ 1,893,673	\$ 1,870,743
Construction work in progress	27,992	42,638
Nuclear fuel	208,159	201,315
Accumulated depreciation and amortization	(943,756)	(953,160)
Total Electric Utility Plant, Net	1,186,068	1,161,536
Non-Utility Property and Equipment, Net		
Property and Equipment	5,750	5,750
Accumulated depreciation	(4,588)	(4,512)
Total Non-Utility Property and Equipment, Net	1,162	1,238
Total Capital Assets	1,187,230	1,162,774
Restricted Assets		
Special Funds Invested (Note D):		
Construction fund	110,287	56,260
Bond fund	190,175	340,530
Reserve and contingency fund	13,342	19,040
Total Special Funds Invested	313,804	415,830
Trust for Decommissioning Costs (Notes D and E)	315,831	308,324
Total Restricted Assets	629,635	724,154
Total Non-Current Assets	1,816,865	1,886,928
Current Assets		
Funds Invested (Notes D):		
Revenue fund	\$ 65,803	\$ 21,710
Operating fund	73,409	84,466
Supplemental fund	114,338	90,443
Total Funds Invested	253,550	196,619
Participant accounts receivable	30,769	34,062
Operating accounts receivable	2,723	8,775
Plant materials and renewable certificate inventory	57,655	52,545
Total Current Assets	344,697	292,001
Total Assets	\$ 2,161,562	\$ 2,178,929

See accompanying notes to financial statements.

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

	December 31,	
	2015	2014
DEFERRED OUTFLOWS OF RESOURCES		
Costs of advance refundings of debt	\$ 72,292	\$ 61,773
Unamortized debt issuance costs	6,169	4,800
Total Deferred Outflows of Resources	<u>\$ 78,461</u>	<u>\$ 66,573</u>
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt:		
Bonds (Note G)	\$ 1,142,935	\$ 1,196,735
Unamortized premium	101,637	72,389
Total Long-Term Debt, net	1,244,572	1,269,124
Asset Retirement Obligation (Note E)	354,876	335,453
Total Non-Current Liabilities	1,599,448	1,604,577
Current Liabilities		
Operating Liabilities:		
Accounts payable	28,722	24,742
Accrued taxes	132	585
Total Operating Liabilities	28,854	25,327
Special Funds Liabilities:		
Current maturities of bonds (Note G)	30,270	117,720
Accrued interest on bonds	26,665	32,043
Total Special Funds Liabilities	56,935	149,763
Total Current Liabilities	85,789	175,090
Total Liabilities	<u>\$ 1,685,237</u>	<u>\$ 1,779,667</u>
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note F)	437,641	387,311
Total Deferred Inflows of Resources	<u>\$ 437,641</u>	<u>\$ 387,311</u>
NET POSITION		
Net investment in capital assets	\$ 649,658	\$ 489,567
Restricted for debt service	96,602	197,758
Unrestricted (deficit)	(629,115)	(608,801)
Total Net Position	<u>\$ 117,145</u>	<u>\$ 78,524</u>

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

	Years Ended December 31,	
	2015	2014
Operating Revenues:		
Sales to participants	\$ 434,049	\$ 437,656
Sales to utilities	95,420	96,133
Other revenues	1,639	1,665
Total Operating Revenues	531,108	535,454
Operating Expenses:		
Operation and maintenance	134,226	120,520
Fuel	47,930	36,752
Interconnection services:		
Purchased power	72,967	69,371
Transmission and distribution	16,355	14,946
Other	892	974
Total interconnection services	90,214	85,291
Administrative and general	47,406	45,968
Gross receipts and excise taxes	2,043	9,366
Property tax	19,708	19,355
Depreciation	35,944	35,165
Amortization of asset retirement obligation	19,423	18,360
Total Operating Expenses	396,894	370,777
Operating Income	134,214	164,677
Nonoperating (Revenues) Expenses		
Investment income	(16,642)	(17,677)
Net (increase) decrease in fair value of investments	7,673	(9,189)
Interest expense	55,905	65,136
Amortization of debt refunding costs	13,928	16,447
Amortization of debt discount, premium costs and issuance costs	(15,601)	(18,610)
Net decrease in costs to be recovered (Note F)	32,380	70,650
Net increase in collections to be expended (Note F)	17,950	30,672
Total Nonoperating (Revenues) Expenses	95,593	137,429
Change in Net Position	38,621	27,248
Net Position, Beginning of Year	78,524	51,276
Net Position, End of Year	\$ 117,145	\$ 78,524

See accompanying notes to financial statements.

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

	Years Ended December 31,	
	2015	2014
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 538,778	\$ 539,833
Receipts from other revenues	1,639	1,664
Payments of operating expenses	(295,317)	(303,662)
Net cash provided by operating activities	245,100	237,835
Cash Flows from Capital and Related Financing Activities:		
Refunding Bonds issued	480,065	-
Interest paid	(61,283)	(67,234)
Additions to electric utility plant and non-utility property and equipment	(108,157)	(71,843)
Deposited in escrow for refunding	(503,595)	(3,125)
Principal paid	(117,720)	(115,510)
Debt (discount) premium net of issuance costs	19,033	3
Investment earnings receipts from construction fund	262	376
Net cash used for capital and related financing activities	(291,395)	(257,333)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,314,334	1,231,346
Purchases of investment securities	(1,275,181)	(1,222,145)
Investment earnings receipts	7,182	10,229
Net cash provided by investing activities	46,335	19,430
Net Increase (Decrease) in Operating Cash	40	(68)
Operating Cash, Beginning of year	32	100
Operating Cash, End of year	\$ 72	\$ 32
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 134,214	\$ 164,677
Adjustments:		
Depreciation	35,944	35,165
Amortization of nuclear fuel	47,757	36,230
Amortization of asset retirement obligation	19,423	18,360
Changes in assets and liabilities:		
Decrease (Increase) in participant accounts receivable	3,293	(1,600)
Decrease in operating accounts receivable	6,052	7,643
(Increase) in plant materials and operating supplies	(5,110)	(5,198)
Increase in accounts payable	3,980	6,818
(Decrease) in accrued taxes	(453)	(24,260)
Total Adjustments	110,886	73,158
Net Cash Provided by Operating Activities	\$ 245,100	\$ 237,835

See accompanying notes to financial statements.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

A. General Matters

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

The Project

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

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

- The Purchase, Construction and Ownership Agreement provides, among other things, for the Agency to purchase its ownership share of the project. However, by virtue of various exchange provisions contained in the Interconnection Agreement and the Operation and Fuel Agreement, the Agency (1) bears the costs of acquisition, construction, operation and maintenance of 37.5% of both Unit 1 and Unit 2, and (2) has the same proportionate right to the output of and bears the risks associated with the lack of operation of such units.
- The Operation and Fuel Agreement provides for Duke to operate, maintain and fuel the station; to make renewals, replacements and capital additions as approved by the Agency; and for the ultimate decommissioning of the station at the end of its useful life.
- The Interconnection Agreement provides for the interconnection of the Project with the Duke system and for the exchange of power between Unit 1 and Unit 2 of Catawba and between the Catawba units and Duke's McGuire Nuclear Station (Reliability Exchanges).

Pursuant to the reliability exchanges, project output is provided in essentially equal amounts from Catawba Unit 2, Catawba Unit 1, McGuire Unit 1 and McGuire Unit 2, all in operation on the Duke system and all of similar size and capacity. The reliability exchanges are intended to make more reliable the supply of capacity and energy to the Agency in the amount to which the Agency is entitled pursuant to its ownership interest in Catawba Unit 2 and to mitigate potential adverse economic effects on the Agency and the Participants from unscheduled outages of Catawba Unit 2. Correspondingly, the Agency bears risks resulting from unscheduled outages of any Catawba or McGuire Unit.

Under the terms of the Operating and Fuel Agreement, The Agency paid Duke cash amounts of \$271,118,000 and \$238,483,000 in 2015 and 2014, respectively.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

A. General Matters (continued)

The Agency entered into 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 into 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 50 MW of capacity and the associated energy as scheduled by the Agency through 2015.
- 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 2015, and a separate similar agreement for 2016.
- Agreement with Southern Power Company for the purchase of 100 MW of capacity and the associated energy as scheduled by the Agency for the period 2011 through 2015, and increasing to 150 MW for the period 2016 through 2030.
- 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 2014 through 2016.
- Agreement with Southern Power Company for a put option related to Catawba Project surplus energy, involving the sale of up to 200 MWh of energy to Southern Power Company as scheduled by NCMPA1, for the period January 1, 2011 through December 31, 2018.

In addition to the agreements with third parties mentioned above, the Agency has developed or assisted the Participants and/or certain of their customers in developing additional generating facilities. The Agency had 65 MW of Distributed Generation which the Agency constructed to be called upon as needed. In addition, the Agency also has under remote control operation 81 MW of city-owned and customer-owned generation and has been successful in placing an additional 18 MW of generation owned by cities and retail customers under contract for local operation under the Agency's power supply program. The Agency also has 24 MW of gas turbine generation that became commercially operable in 2010.

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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, 2013, 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, 2015.

For the years ended December 31, 2015 and 2014, the Agency paid ElectriCities \$13,788,000 and \$13,653,000, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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, 2015, the remaining life for Catawba Units 1 and 2 was 28 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 2015 and 2014, no such impairment occurred.

Construction Work in Progress

All expenditures related to capital additions at Catawba and expenditures related to distributive generation units that have not been declared commercial are capitalized as construction work in progress until such time as they are completed and transferred to Electric Plant in Service. Interest is not capitalized on capital additions. Depreciation expense is recognized on these assets after they are transferred to Electric Plant in Service.

Nuclear Fuel

Nuclear Fuel, net of amortization, includes all expenditures related to the purchase and construction of the Agency's undivided ownership interests in nuclear fuel cores are capitalized until such time as the cores are placed in the reactor. Interest is not capitalized on fuel cores. Once placed in the reactor, the cores are amortized to fuel expense utilizing the units of production method. Amounts are removed from the books upon disposal of the spent nuclear fuel. Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal costs which is being collected currently from members. Amortization of nuclear fuel costs includes estimated disposal costs of \$0 and \$2,696,000 for the years ended December 31, 2015 and 2014, respectively.

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 2015 and 2014 was \$1,100,000 and \$3,744,778 respectively.

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

The DOE announced that it would cease the collection of the 0.1-cent charge from utilities customers for each nuclear-generated kilowatt-hour of electricity as of May 16th, 2014, 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, 2015 and 2014

B. Significant Accounting Policies (continued)

Non-Utility Property and Equipment

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

Pollution Remediation Obligations

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

Accounts Receivable

Accounts receivable consist of trade accounts receivable associated with the sale of electricity and are stated at cost. The Agency primarily sells to the Participants in the project and high quality utilities and accordingly, management does not believe an allowance for doubtful accounts is required.

Premiums/Discounts on Bonds

Premiums (net of discounts) on bonds, shown net of accumulated accretion/amortization of \$3,161,000 and \$8,747,000, at December 31, 2015 and 2014, 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. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires investments to be reported at fair value. In addition, the Agency reports according to the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures" which addresses risks such as credit risk and interest rate risk.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

B. Significant Accounting Policies (continued)

Taxes

Income of the Agency is excludable from federal income tax under Section 115 of the Internal Revenue Code. Chapter 159B of the General Statutes of North Carolina exempts the Agency from property and franchise or other privilege taxes. In lieu of North Carolina property taxes, the Agency pays an amount that would otherwise be assessed on the non-utility property and equipment and North Carolina generation of the Agency. In 2014, in lieu of a franchise or privilege tax, the Agency paid to North Carolina an amount equal to 3.22% of the gross receipts from sales of electricity to Participants. The Catawba plant is located in South Carolina and subject to South Carolina property tax. An electric power excise tax equal to 0.05% (5/10 mill) for each kilowatt-hour of electric power generated and sold for resale within South Carolina is also paid. The gross receipts taxes were eliminated effective July 1, 2014 as a result of legislative changes.

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of \$52,000 and \$27,000 at December 31, 2015 and 2014 and is included on the balance sheet in the line item "Current Assets: Funds Invested". Restricted cash of \$20,000 and \$5,000 at December 31, 2015 and 2014, 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 \$1,830,000 and \$4,373,000 at December 31, 2015 and 2014, respectively. The cash flows associated with the increase in accounts payable of \$3,980,000 and \$6,818,000 in 2015 and 2014, respectively, includes the impact of the special fund liabilities noted above.

Use of Estimates

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

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

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 F beginning on page 29 for more detailed information.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

B. Significant Accounting Policies (continued)

Recently Adopted GASB Standards

In June 2012, GASB issued Statement No. 67, “Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25”. This Statement improves accounting and financial reporting for state and local governments for pensions. It replaces the requirements of Statements No. 25 “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributed Plans”, and No. 50 “Pension Disclosures” as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement is effective for periods beginning after June 15, 2013, and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2015 or 2014.

In January 2013, GASB issued Statement No. 69, “Government Combinations and Disposals of Government Operations”. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for periods beginning after December 15, 2013 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2015 or 2014.

In April 2013, GASB issued Statement No. 70, “Accounting and Financial Reporting for Non-exchange Financial Guarantees”. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for reporting periods beginning after June 15, 2013 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2015 or 2014.

In June 2012, GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27”. This Statement improves accounting and financial reporting for state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement is effective for periods beginning after June 15, 2014, and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2015.

In November 2013, GASB issued Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68”. This Statement addresses an issue regarding application of the transition provisions of Statement No. 68 “Accounting and Financial Reporting for Pensions”. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations for 2015.

Future GASB 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 February 2015, GASB issued Statement No 72, “Fair Value Measurement and Application”. This Statement improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value guidance and enhances disclosures about fair value measurements. The provisions of this statement are effective for period beginning after June 15, 2015 and are not expected to have a material impact on the Agency’s financial statements as a whole.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

B. Significant Accounting Policies (continued)

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

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016 and is not expected to have a material impact on the Agency's financial statements as a whole.

In June 2015, GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This Statement is effective for fiscal years beginning after June 15, 2017 and is not expected to have a material impact on the Agency's financial statements as a whole.

In June 2015, GASB issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The Statement is not expected to have a material impact on the Agency's financial statements as a whole.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

B. Significant Accounting Policies (continued)

In August 2015, GASB issued Statement No. 77, “Tax Abatement Disclosures.” This Statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government’s financial position and economic condition. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 and are not expected to have a material impact on the Agency’s financial statements as a whole.

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

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

In January 2016, GASB issued Statement No. 80, “Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14.” The requirements of this Statement enhance the comparability of financial statements among governments. Greater comparability improves the decision-usefulness of information reported in financial statements and enhances its value for assessing government accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 and are not expected to have a material impact on the Agency’s financial statements as a whole.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

C. Capital Assets

Electric Utility Plant, Net

Changes in components of electric utility plant, net during 2015 and 2014 are as follows (in thousands of dollars):

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,850,975	\$ 6,384	\$ 57,221	\$ (40,675)	\$ 1,873,905
Nuclear fuel	201,315	57,607	(50,763)	-	208,159
Total Depreciable Utility Plant	2,052,290	63,991	6,458	(40,675)	2,082,064
Accumulated Depreciation and Amortization					
Electric plant in service	(865,736)	(35,868)	629	40,675	(860,300)
Nuclear fuel	(87,424)	(46,795)	50,763	-	(83,456)
Total Accumulated Depreciation and Amortization	(953,160)	(82,663)	51,392	40,675	(943,756)
Depreciable Utility Plant, Net	1,099,130	(18,672)	57,850	-	1,138,308
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	42,638	43,204	(57,850)	-	27,992
Total Electric Utility Plant, Net	<u>\$ 1,161,536</u>	<u>\$ 24,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,186,068</u>
	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Depreciable Utility Plant					
Electric Utility Plant					
Electric plant in service	\$ 1,847,361	\$ 8,631	\$ 14,534	\$ (19,551)	\$ 1,850,975
Nuclear fuel	211,192	25,961	(35,838)	-	201,315
Depreciable Utility Plant	2,058,553	34,592	(21,304)	(19,551)	2,052,290
Accumulated Depreciation and Amortization					
Electric plant in service	(849,719)	(35,086)	(482)	19,551	(865,736)
Nuclear fuel	(89,728)	(33,534)	35,838	-	(87,424)
Total Accumulated Depreciation and Amortization	(939,447)	(68,620)	35,356	19,551	(953,160)
Depreciable Utility Plant, Net	1,119,106	(34,028)	14,052	-	1,099,130
Land and Other Non-Depreciable Assets					
Land	19,768	-	-	-	19,768
Construction work in progress	22,222	34,468	(14,052)	-	42,638
Total Electric Utility Plant, Net	<u>\$ 1,161,096</u>	<u>\$ 440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,536</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 2016 and 2017 will be approximately \$93,993,000.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

C. Capital Assets (continued)

Non-Utility Property and Equipment

Changes in components of non-utility property and equipment, net during 2015 and 2014 are as follows (in thousands of dollars):

	December 31, 2014	Additions	Transfers	Retirements	December 31, 2015
Non-Utility Property and Equipment					
Property and equipment	\$ 5,040	\$ -	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,512)	(76)	-	-	(4,588)
Total Depreciable Non-Utility Property and Equipment, Net	528	(76)	-	-	452
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,238</u>	<u>\$ (76)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,162</u>
	December 31, 2013	Additions	Transfers	Retirements	December 31, 2014
Non-Utility Property and Equipment					
Property and equipment	\$ 4,953	\$ 87	\$ -	\$ -	\$ 5,040
Accumulated depreciation	(4,433)	(79)	-	-	(4,512)
Total Depreciable Non-Utility Property and Equipment, Net	520	8	-	-	528
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	<u>\$ 1,230</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238</u>

D. Investments

The Agency's investments are categorized to give an indication of the level of risk assumed by the Agency at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Agency's name. All investments except repurchase agreements are considered Category 1. Repurchase agreements are considered Category 3. In accordance with the provisions of the Resolution, the collateral under the repurchase agreements is segregated and held by the trustee for the Agency.

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

D. Investments (continued)

	December 31,			
	2015		2014	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Repurchase agreements	\$ -	\$ -	\$ 53,200	\$ 53,200
Commercial Paper	2,394	2,397		
U.S. government agencies	437,303	437,250	352,801	356,735
Money Market	121,567	121,567	109,878	109,878
Collateralized Certificates of Deposit	-	-	82,766	82,766
Collateralized mortgage obligations	4,422	4,886	7,649	8,548
Sub-total funds invested	565,686	566,100	606,294	611,127
Decommissioning Trust securities	250,502	315,312	246,064	307,786
Cash				
Operating cash	52	52	27	27
Restricted cash	20	20	5	5
Accrued interest	1,701	1,701	1,828	1,828
Total funds invested	<u>\$ 817,961</u>	<u>\$ 883,185</u>	<u>\$ 854,218</u>	<u>\$ 920,773</u>
Consisting of:				
Special funds invested		\$ 313,804		\$ 415,830
Decommissioning Trust		315,831		308,324
Operating assets		253,550		196,619
Total funds invested		<u>\$ 883,185</u>		<u>\$ 920,773</u>

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.

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

	December 31, 2015				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	437,250	111,982	320,735	4,533	-
Money Market	121,567	121,567	-	-	-
Commercial Paper	2,397	2,397	-	-	-
Collateralized Certificates of Deposit	-	-	-	-	-
Collateralized mortgage obligations	4,886	-	4,886	-	-
Sub-total	566,100	235,946	325,621	4,533	-
Decommissioning Trust securities	315,312	11,430	166,773	133,369	3,740
Total	<u>\$ 881,412</u>	<u>\$ 247,376</u>	<u>\$ 492,394</u>	<u>\$ 137,902</u>	<u>\$ 3,740</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

D. Investments (continued)

	December 31, 2014				
	Fair Value	Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More than 10
Repurchase agreements	\$ 53,200	\$ 53,200	\$ -	\$ -	\$ -
U.S. government agencies	356,735	71,017	264,274	21,444	-
Money Market	109,878	109,878	-	-	-
Collateralized Certificates of Deposit	82,766	82,766	-	-	-
Collateralized mortgage obligations	8,548	-	8,179	369	-
Sub-total	611,127	316,861	272,453	21,813	-
Decommissioning Trust securities	307,786	12,475	145,257	146,253	3,801
Total	<u>\$ 918,913</u>	<u>\$ 329,336</u>	<u>\$ 417,710</u>	<u>\$ 168,066</u>	<u>\$ 3,801</u>

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

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

	December 31, 2014					
	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	\$ 94,682	\$ 488	\$ 38,741	\$ 586	\$ 133,423	\$ 1,074
Collateralized mortgage obligations	-	-	-	-	-	-
Sub-total	94,682	488	38,741	586	133,423	1,074
Decommissioning Trust securities	43,082	587	25,051	537	68,133	1,124
Total	<u>\$ 137,764</u>	<u>\$ 1,075</u>	<u>\$ 63,792</u>	<u>\$ 1,123</u>	<u>\$ 201,556</u>	<u>\$ 2,198</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

D. Investments (continued)

Credit Risk

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

As of December 31, 2015 and 2014 the Agency's investments in repurchase agreements are all collateralized by US Treasury or US Government securities. The Agency's investments in US Government Agencies, US Treasury Strips, US Government Agency Strips and Collateralized Mortgage Obligations are rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's Corporation. The Agency's investments in commercial paper at December 31, 2015 were rated A-1+ by S&P and P-1 by Moody's. The Agency's investments in Money Market Instruments—namely, in the North Carolina Capital Management Trust- Cash Portfolio, are rated AAAM by Standard and Poor's Corporation. The investments in the North Carolina Capital Management Trust – Term Portfolio are not rated by any rating agency.

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

Issuer	December 31, 2015		December 31, 2014	
	Fair Value	Percentage	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 126,089	14.3%	\$ 123,512	13.4%
Federal National Mortgage Association	101,382	11.5%	126,647	13.8%
Federal Home Loan Bank	161,232	18.3%	161,165	17.5%
Federal Farm Credit Bank	30,921	3.5%	52,443	5.7%
Resolution Funding Corporation	2,712	0.3%	2,659	0.3%
Repurchase Agreements				
Morgan Stanley	-	0.0%	53,200	5.8%
Bank of America	-	0.0%	-	0.0%
Commercial Paper				
US Bank National Association	2,397	0.3%	-	0.0%
Money Market Fund - NC Capital Management Trust	121,602	13.8%	111,022	12.1%
Bank of America Collateralized CD's	-	0.0%	82,766	9.0%
US Treasury Department	335,077	38.0%	205,499	22.4%
Total	<u>\$ 881,412</u>	<u>100.0%</u>	<u>\$ 918,913</u>	<u>100.0%</u>

Bank time deposits may only be in banks with capital stock, surplus and undivided profits of \$20,000,000 or \$50,000,000 for North Carolina banks and out-of-state banks, respectively, and the Agency's investments deposited in such banks cannot exceed 50% and 25%, respectively, of such banks' capital stock, surplus and undivided profits.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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, 2015 and 2014, the Agency had \$52,000 and \$27,000, respectively, covered by federal depository insurance.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk. All deposits are currently held in the name of North Carolina Municipal Power Agency Number 1.

E. 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 2013 site-specific study that was conducted on behalf of Duke utilizing the unit factor method, which follows the approach as outlined in the DOE Decommissioning handbook. The Agency's portion of decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, is \$529,084,000, stated in 2013 dollars.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

E. Decommissioning Costs (continued)

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 2015 and 2014 are as follows (in thousands of dollars):

	Years Ended December 31,	
	2015	2014
Balance, beginning of year	\$ 335,453	\$ 317,093
Liabilities incurred during the year	-	-
Liabilities settled during the year	-	-
Accretion expense	19,423	18,360
Revisions in estimated cash flows	-	-
Balance, end of year	<u>\$ 354,876</u>	<u>\$ 335,453</u>

F. Costs To Be Recovered and Collections To Be Expended

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

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

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

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

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

F. Costs To Be Recovered and Collections To Be Expended (continued)

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

	Years Ended December 31,		Inception to December 31,	
	2015	2014	2015	2014
Costs to be recovered				
Net deferred interest	\$ -	\$ -	\$ 155,316	\$ 155,316
Amortization of debt discount, premium & issuance costs	(15,601)	(18,610)	49,391	64,992
Depreciation and amortization	55,367	53,525	1,321,323	1,265,956
Amortization of debt refunding costs	13,928	16,447	579,470	565,542
Deferred Fuel	(4,477)	-	(17,020)	(12,543)
Participant billing offsets	(81,597)	(122,012)	(2,190,867)	(2,109,270)
Other unrecovered costs	-	-	23,749	23,749
Total Costs To Be Recovered *	<u>\$ (32,380)</u>	<u>\$ (70,650)</u>	<u>\$ (78,638)</u>	<u>\$ (46,258)</u>
	Years Ended December 31,		Inception to December 31,	
	2015	2014	2015	2014
Collections to be expended				
Net special funds (withdrawals)/deposits	\$ 8,700	\$ 6,677	\$ 37,556	\$ 28,856
Restricted investment income	9,480	9,467	300,320	290,840
Rate stabilization funds used for other than operations	-	-	(53,393)	(53,393)
Special Funds Valuations	2,332	141	(15,692)	(18,024)
Net decrease (increase) in fair value of investments	(7,673)	9,189	18,632	26,305
Asset Retirement Obligation Provision	-	-	31,288	31,288
Other collections to be expended	5,111	5,198	40,292	35,181
Total Collections To Be Expended	<u>\$ 17,950</u>	<u>\$ 30,672</u>	<u>\$ 359,003</u>	<u>\$ 341,053</u>

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

G. 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 2015 and 2014 (in thousands of dollars):

Summary of Changes in Long term Liability

	December 31, 2014	Additions	Reductions	December 31, 2015	Amounts Due within One Year
Bonds payable	<u>\$ 1,314,455</u>	<u>\$ 480,065</u>	<u>\$ (621,315)</u>	<u>\$ 1,173,205</u>	<u>\$ 30,270</u>

	December 31, 2013	Additions	Reductions	December 31, 2014	Amounts Due within One Year
Bonds payable	<u>\$ 1,433,090</u>	<u>\$ -</u>	<u>\$ (118,635)</u>	<u>\$ 1,314,455</u>	<u>\$ 117,720</u>

	2015	2014
Bonds Outstanding - Beginning of year	\$ 1,314,455	\$ 1,433,090
Principal payments January 1	(117,720)	(115,510)
Bonds Issued		
Series 2015 A	304,710	-
Series 2015 B	41,265	-
Series 2015 C	92,550	-
Series 2015 D	23,930	-
Series 2015 E	17,610	-
Bonds Early Redemption		
Series 2008 A	(146,430)	-
Series 2008 C	(36,005)	-
Series 2009 A	(64,665)	(3,125)
Series 2009 C	(1,335)	-
Series 2010 A	(12,405)	-
Series 2010 B	(31,980)	-
Series 2012 A	(204,350)	-
Series 2012 B	(6,425)	-
Bonds Outstanding - End of year	<u>\$ 1,173,205</u>	<u>\$ 1,314,455</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

G. Bonds (continued)

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

	December 31,	
	2015	2014
Series 1998A		
5.5% maturing annually from 2014 to 2015	\$ -	\$ 19,390
Series 2008A		
5.25% maturing annually from 2016 to 2020	92,220	289,205
Series 2008C		
4.0% to 5.25% maturing annually from 2016 to 2020	\$ 445	\$ 42,750
Series 2009A		
4.125% to 5% maturing annually from 2021 to 2026	104,285	104,985
4.75% maturing in 2030 with annual sinking fund requirements beginning in 2027	16,750	16,750
5% maturing in 2030 with annual sinking fund requirements beginning in 2027	13,295	77,260
Total 2009A	134,330	198,995
Series 2009B (Federally Taxable)		
5.482% maturing in 2021	9,200	9,200
Series 2009C		
5% maturing in 2021	6,665	8,000
Series 2009D (Federally Taxable Build America Bonds)		
6.184% maturing in 2032 with annual sinking fund requirements beginning in 2030	65,525	65,525
Series 2010A		
3.00% to 5.00% maturing annually from 2014 to 2021	51,460	69,420
Series 2010B		
5.00% maturing annually from 2020 to 2021	36,905	68,885

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

G. Bonds (continued)

	December 31,	
	2015	2014
Series 2012A		
2.00% to 5% maturing annually from 2014 to 2020	160,335	400,605
Series 2012B		
3.00% to 5% maturing annually from 2021 to 2032	94,870	101,295
Series 2012C (Federally Taxable)		
2.447% to 3.922% maturing annually from 2021 to 2032	41,185	41,185
Series 2015A		
5.0% to 5.25% maturing annually from 2023 to 2032	304,710	-
Series 2015B		
3.0% to 5.0% maturing annually from 2022 to 2024	41,265	-
Series 2015C		
3.5% to 5.0% maturing annually from 2029 to 2031	92,550	-
Series 2015D (Federally Taxable)		
3.34% maturing annually in 2022	23,930	-
Series 2015E (Forward Delivery Bonds)		
5.00% maturing annually in 2022 to 2023	17,610	-
 Total Bonds Outstanding	 1,173,205	 1,314,455
Current maturities of bonds	(30,270)	(117,720)
Total Long-Term Debt, Bonds	<u>\$ 1,142,935</u>	<u>\$ 1,196,735</u>

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

G. 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 \$30,270,000 at December 31, 2015 were collected monthly through rates during 2015 and were deposited into the Bond Fund to make the January 1, 2016 principal payment. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2015 are as follows (in thousands of dollars):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 79,390	\$ 54,889	\$ 134,279
2017	81,845	50,821	132,666
2018	71,505	47,312	118,817
2019	41,410	43,942	85,352
2020 to 2024	305,840	183,774	489,614
2025 to 2029	383,715	105,455	489,170
2030 to 2032	179,230	14,038	193,268
Total	<u>\$ 1,142,935</u>	<u>\$ 500,231</u>	<u>\$ 1,643,166</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2015 and 2014 market prices for similar securities. Using these yield curves, market prices were estimated for each individual maturity and the individual maturities were summed to arrive at an estimated fair market value of \$1,353,331,000 and \$1,478,019,000 at December 31, 2015 and 2014, respectively.

Certain proceeds of the Series 1998A, 2003A, 2003B (subsequently paid at maturity), 2008A, 2008B, 2009A, 2009B, 2010A, 2010B, 2012A, 2015A, 2015B, 2015C, 2015D and 2015E bonds were used to establish trusts for the refunding of \$2,828,780,000 of previously issued bonds at December 31, 2015. At December 31, 2015, \$2,477,430,000 of these bonds has been redeemed leaving \$351,350,000 of defeased bonds still outstanding.

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

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

Interest on the bonds is payable semi-annually.

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

G. Bonds (continued)

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

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

The Series 2009 B and D and 2012C Bonds are subject to redemption on any business day at the Make Whole Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. The Series 2009D and 2012C are also subject to redemption on any business day at the Extraordinary Optional Redemption Price which is the greater of (i) 100% of principal amount to be redeemed or (ii) the sum of the present value of the remaining scheduled principal and interest to be redeemed. An Extraordinary Event will have occurred if the Agency determines that a material adverse change has occurred which is not the Agency's fault, which results in a reduction or elimination of the Federal subsidy payment.

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

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

The Resolution requires that the agency maintains a reserve fund balance in an amount to sufficiently cover the highest annual debt service payment over the life of the bonds, which was \$132,438,000 and \$189,281,000 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, the balances of the reserve were \$133,195,000 and \$190,678,000, respectively. The Resolution also requires a bond contingency fund to be established to maintain 10% of the required reserves for the year totaling \$13,244,000 and \$18,928,000 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, the balances of the contingency fund were \$13,342,000 and \$19,040,000, respectively.

As of December 31, the Agency had \$110,067,000 and \$56,243,000 in unspent bond funds in restricted cash and investments for 2015 and 2014, respectively.

H. Commitments and Contingencies

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

North Carolina Municipal Power Agency Number 1
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

H. Commitments and Contingencies (continued)

Liability Coverage

In accordance with the Price-Anderson Act, Duke, on behalf of all co-owners, insures against public liability claims from a nuclear incident to the full limit of liability of approximately \$13.5 billion, \$375 million of which is by private insurance with a like amount to cover certain worker tort claims. The remaining amount of approximately \$13.1 billion has been provided through a mandatory industry-wide excess secondary insurance program of risk pooling. The \$13.1 billion amount will increase by \$127 million as each new nuclear reactor is licensed and decrease by \$127 million for each insured nuclear reactor that is no longer operational and has been exempted from the program. The Agency is liable for 37.5% of these premiums.

The terms of this coverage require the owners of all licensed facilities to provide retrospective premiums of up to \$127 million per year per unit owned (adjusted annually for inflation) in the event of any nuclear incident involving any licensed facility in the nation, with an annual maximum assessment of \$19 million per unit owned. If any such payments are required, the Agency would be liable for 37.5% of those payment amounts.

The Price Anderson Act expires in 2025.

Property, Decontamination and Decommissioning Coverage

Primary property damage insurance coverage purchased for the station is \$1.5 billion. If the insurer's losses ever exceed its reserves, Duke will be liable, on a pro rata basis, for additional assessments of up to \$30.9 million. This amount represents ten times of Catawba's annual premium. Excess property damage, decontamination and decommissioning liability insurance of \$1.25 billion have also been purchased. If industry losses ever exceed the accumulated funds available to the insurer for the excess property, decontamination and decommissioning liability program, Catawba will be liable, on a pro rata basis, for additional assessments of up to \$6.97 million which represents ten times the annual premium.

Extended Accidental Outage Coverage

Duke also purchases on behalf of all co-owners, increased cost of generation and/or purchased power insurance resulting from an accidental outage of a nuclear unit. Each unit at Catawba is insured for up to approximately \$3.5 million per week, after a 12-week deductible period, with declining amounts per unit where more than one unit is involved in the accidental outage. The coverage continues at 100% for 52 weeks and 80% for the next 110 weeks. The accident outage policy limit is \$490 million per unit. If the insurer's losses exceed its reserves for this program, Catawba will be liable, on a pro rata basis, for additional assessments of up to \$10.8 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.

I. Subsequent Events

The Agency has evaluated subsequent events through April 15, 2016, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

In February 2016, the Agency issued \$69,380,000 of Series 2016A bonds to refund \$79,955,000 of 2009A Series. The bonds pay interest of 4.0% to 5.0% and mature annually from 2022 to 2030. Net present value savings realized was \$8,638,000 with debt service savings ranging from \$325,000 to \$1,079,000.

SUPPLEMENTARY INFORMATION

This page intentionally left blank.

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

	Year Ended December 31, 2015		
	Project	Supple- mental	Total
Revenues:			
Sales to participants	\$ 349,235	\$ 84,814	\$ 434,049
Sales to utilities	95,420	-	95,420
Investment income	6,431	731	7,162
Excess Funds valuation	13,277	-	13,277
Other revenue	1,323	20,315	21,638
Total Revenues	465,686	105,860	571,546
Expenses:			
Operation and maintenance	137,060	1,147	138,207
Nuclear fuel	52,234	-	52,234
Fossil fuel	-	173	173
Interconnection services:			
Purchased power	42,917	30,050	72,967
Transmission and distribution	-	16,355	16,355
Other	-	2,021	2,021
Total interconnection services	42,917	48,426	91,343
Administrative and general – Duke	33,974	-	33,974
Administrative and general – Agency	4,552	5,376	9,928
Miscellaneous Agency expenses	423	3,081	3,504
Gross receipts and excise taxes	2,043	-	2,043
Property tax	19,372	336	19,708
Debt service	135,115	-	135,115
Special funds deposits:			
Decommissioning fund	2,000	8,700	10,700
Revenue	20,000	-	20,000
Reserve and contingency fund	15,996	-	15,996
Total special funds deposits	37,996	8,700	46,696
Total Expenses	465,686	67,239	532,925
Excess of (Expenses) Over Revenues	\$ -	\$ 38,621	\$ 38,621

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, 2015 and 2014.

See accompanying Report of Independent Auditor.

Year Ended December 31, 2014		
Project	Supple- mental	Total
\$ 348,900	\$ 88,756	\$ 437,656
96,133	-	96,133
7,334	876	8,210
18,843	-	18,843
1,572	93	1,665
472,782	89,725	562,507
124,769	829	125,598
36,229	-	36,229
-	523	523
38,685	30,686	69,371
-	13,993	13,993
-	2,047	2,047
38,685	46,726	85,411
33,193	-	33,193
4,371	5,106	9,477
387	2,998	3,385
8,822	544	9,366
18,981	374	19,355
185,981	-	185,981
2,000	5,377	7,377
1,300	-	1,300
18,064	-	18,064
21,364	5,377	26,741
472,782	62,477	535,259
\$ -	\$ 27,248	\$ 27,248

North Carolina Municipal Power Agency Number 1
Budgetary Comparison Schedule
Year Ended December 31, 2015
(\$000's)

	2015 Budget		Actuals	Positive
	Original	Final	(Budgetary	(Negative)
			Basis)	Variance With
				Final Budget
Revenues:				
Sales to participants	\$452,823	\$434,823	\$ 434,049	\$ (774)
Sales to utilities	93,571	93,571	95,420	1,849
Investment income	7,240	7,240	7,162	(78)
Excess Funds valuation	19,338	19,338	13,277	(6,061)
Other revenues	21,432	21,432	21,638	206
Total Revenues	\$594,404	\$576,404	571,546	(4,858)
Expenses:				
Operations and maintenance	133,427	133,427	138,207	(4,780)
Nuclear fuel	47,104	47,104	52,234	(5,130)
Fossil fuel	1,193	1,193	173	1,020
Interconnection services:				
Purchased power	68,138	68,138	72,967	(4,829)
Transmission and distribution	17,225	17,225	16,355	870
Other interconnection expenses	1,965	1,965	2,021	(56)
Total interconnection services	87,328	87,328	91,343	(4,015)
Administrative and general – Duke	41,292	41,292	33,974	7,318
Power Agency services	14,374	14,373	13,432	941
Taxes	24,155	24,155	21,751	2,404
Debt service	193,603	135,103	135,115	(12)
Special funds deposits	50,038	50,038	46,696	3,342
Total Expenses	592,514	534,013	532,925	1,088
Excess of Revenues Over Expenses	\$1,890	\$ 42,391	\$ 38,621	\$ (3,770)

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, 2015.

See accompanying Report of Independent Auditor.

This page intentionally left blank.

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

	Funds Invested January 1, 2014	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers
Construction Fund	\$ 95,455	\$ -	\$ -	\$ 319	\$ (39,565)	\$ -
Bond Fund:						
Interest account	34,142	-	-	17	(66,184)	64,070
Reserve account	186,122	-	-	4,794	-	(4,807)
Principal account	<u>115,529</u>	<u>-</u>	<u>-</u>	<u>85</u>	<u>(115,510)</u>	<u>117,700</u>
Total Bond Fund	335,793	-	-	4,896	(181,694)	176,963
Reserve and Contingency Fund	18,880			339	939	(1,251)
Revenue Fund	22,036	-	362,144	43	42,232	(404,744)
Operating Fund:						
Working Capital account	48,792	-	-	140	(207,839)	206,044
Fuel account	<u>19,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,053)</u>	<u>44,999</u>
Total Operating Fund	68,222	-	-	140	(234,892)	251,043
Supplemental Fund:						
Supplemental account	64,615	-	73,932	876	(42,736)	(27,387)
Reserve for future costs	15,651	-	-	196	-	5,376
Total Supplemental Fund	<u>80,266</u>	<u>-</u>	<u>73,932</u>	<u>1,072</u>	<u>(42,736)</u>	<u>(22,011)</u>
Total Funds Invested	<u>\$ 620,652</u>	<u>\$ -</u>	<u>\$ 436,076</u>	<u>\$ 6,809</u>	<u>\$ (455,716)</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, 2015 and 2014.

See accompanying Report of Independent Auditor.

Funds Invested December 31, 2014	Debt Proceeds	Power Billing Receipts	Investment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2015
\$ 56,209	\$ -	\$ -	\$ 465	\$ 53,796	\$ 116	\$ 110,586
32,045	-	-	19	(61,083)	55,688	26,669
186,109	-	-	5,897	(55,841)	(4,178)	131,987
117,804	-	-	65	(166,660)	79,099	30,308
335,958	-	-	5,981	(283,584)	130,609	188,964
18,907	-	-	311	(5,772)	(139)	13,307
21,711	-	335,733	292	37,062	(328,856)	65,942
47,137	-	-	160	(190,365)	186,259	43,191
37,376	-	-		(55,326)	48,223	30,273
84,513	-	-	160	(245,691)	234,482	73,464
69,300	-	101,566	730	(42,013)	(24,912)	104,671
21,223	-	-	85	-	(11,300)	10,008
90,523	-	101,566	815	(42,013)	(36,212)	114,679
\$ 607,821	\$ -	\$ 437,299	\$ 8,024	\$ (486,202)	\$ -	\$ 566,942