



North Carolina Eastern
Municipal Power Agency
2020 Financial Report

**NORTH CAROLINA EASTERN MUNICIPAL
POWER AGENCY**

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Eastern Municipal Power Agency (the Agency), which are comprised of the statement of net position as of December 31, 2020, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, 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 Auditors

The financial statements of North Carolina Eastern Municipal Power Agency, as of and for the year ended December 31, 2019, were audited by other auditors, whose report, dated April 29, 2020, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The budgetary schedules and statements listed in the table of contents as Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Agency.

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

PBMares, LLP

Morehead City, North Carolina
April 14, 2021

Management's Discussion and Analysis (MD&A)

Unaudited

As management of North Carolina Eastern Municipal Power Agency (Agency), we offer this narrative overview and analysis of the financial activities of the Agency for the year ended December 31, 2020 and 2019. We encourage you to read this information in conjunction with the information furnished in the Agency's financial statements and accompanying notes that follow this narrative.

Financial Highlights

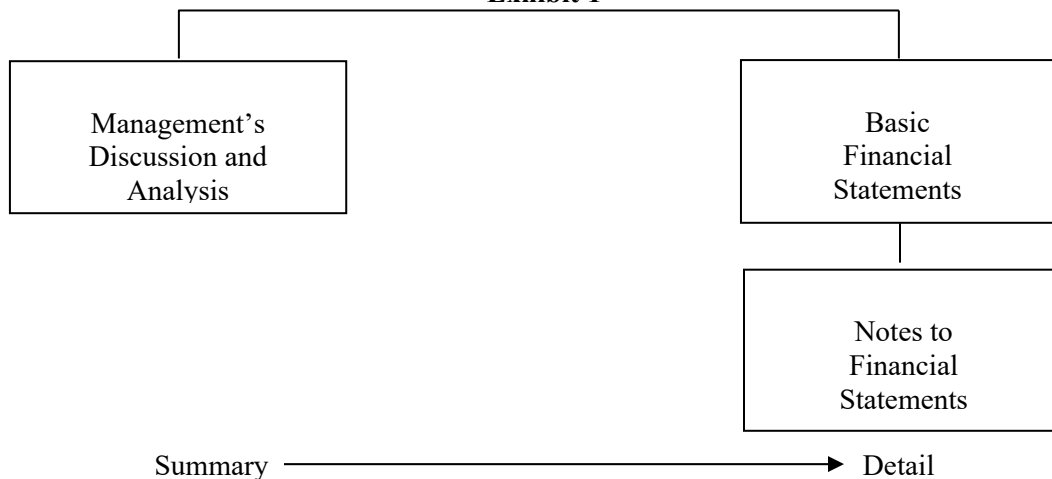
- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2020 and 2019, the Agency's assets and deferred outflows exceeded its liabilities and deferred inflows by \$104,993,000 and \$110,070,000 (net position), respectively.
- The Agency's net position decreased by \$5,077,000 and \$19,208,000 for 2020 and 2019, respectively.
- Principal payments were made in the amount of \$41,100,000 and \$40,065,000 during 2020 and 2019 respectively, in accordance with the debt payment schedule.
- The bond ratings remained the same as follows:
 - Standard and Poor's – A- (stable).
 - Fitch –A (stable).
- There was an overall 1.0% rate decrease in 2020 and 1.2% rate increase in 2019.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report

Exhibit 1



Basic Financial Statements

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

The second section of the basic financial statements is the notes that explain in more detail some of the data contained in the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are on pages 15 to 30 of this report.

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

Financial Analysis

The electric enterprise fund financial statements for the year ended December 31, 2020 and 2019 are presented in accordance with Governmental Accounting Standards Board.

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

	December 31,		
	2020	2019	2018
Assets and Deferred Outflows of Resources			
Capital assets	\$ 26,921	\$ 28,200	\$ 27,211
Current and other assets	402,718	441,790	524,016
Deferred outflows of resources	522	708	916
Total assets and deferred outflows of resources	430,161	470,698	552,143
Liabilities and Deferred Inflows of Resources			
Long-term liabilities outstanding	184,795	227,095	268,195
Other liabilities	94,683	88,224	113,446
Deferred inflows of resources	45,690	45,309	41,224
Total liabilities and deferred inflows of resources	325,168	360,628	422,865
Net Position			
Investment in capital assets	26,921	28,200	27,211
Restricted for debt service	4,422	3,587	2,269
Unrestricted	73,650	78,283	99,798
Total net position	\$ 104,993	\$ 110,070	\$ 129,278

The various components of net position may serve over time as a useful indicator of the Agency's financial condition. The assets and deferred outflows of resources of the Agency exceeded liabilities and deferred inflows by \$104,993,000, \$110,070,000, and \$129,278,000 at December 31, 2020, 2019 and 2018, respectively, representing a decrease of \$5,077,000 and \$19,208,000 for 2020 and 2019, respectively.

A portion of the Agency's net position in the amount of \$26,921,000, \$28,200,000 and \$27,211,000 at December 31, 2020, 2019 and 2018, respectively, is the investment in capital assets (e.g. land, buildings, distributed generators, and equipment).

An additional portion of the Agency's net position of \$4,422,000, \$3,587,000 and \$2,269,000 at December 31, 2020, 2019 and 2018, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of \$73,650,000, 78,283,000 and \$99,798,000 at December 31, 2020, 2019, 2018, respectively, is unrestricted net position.

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

	Year Ended December 31,	
	2020	2019
Revenues:		
Operating revenues	\$ 503,956	\$ 555,882
Nonoperating revenues	1,562	3,135
Total Revenues	505,518	559,017
Expenses:		
Operating expenses	459,299	523,229
Interest on long-term debt	9,215	10,329
Other nonoperating (revenues)/expenses	42,081	44,667
Total Expenses	510,595	578,225
Decrease in net position	(5,077)	(19,208)
Net Position, Beginning of year	110,070	129,278
Net Position, End of year	\$ 104,993	\$ 110,070

Financial Highlights

There was an overall 1.0% decrease in 2020 and an overall 1.2% rate increase in 2019.

Capital Assets and Debt Administration

Capital Assets

The Agency's investments in capital assets at December 31, 2020, 2019 and 2018 totaled \$26,921,000, \$28,200,000 and \$27,211,000 (net of accumulated amortization and depreciation), respectively. These assets include land, buildings, distributed generators, and equipment.

Major capital asset transactions during 2020 and 2019 include the following:

- Electric Utility Plant and Non-Utility Property and Equipment were depreciated \$1,279,000 and \$1,279,000 for 2020 and 2019, respectively.
- Construction Work in Progress decreased \$14,144,000 in 2019 due to capital additions projects to the distributed generators. There were no additions in 2020.
- Diesel Generators increased \$16,229,000 in 2019 due to completion of the distributed generators project. There were no additions in 2020.

Capital Assets
Exhibit 4
(\$000s)

Electric Utility Plant, Net

	December 31, 2019	Additions	Transfers	Retirements	December 31, 2020
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	\$ 30,602		\$ -		\$ 30,602
Total Depreciable Utility Plant	30,602	-	-	-	30,602
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(3,819)	(1,239)			(5,058)
Total Accumulated Depreciation and Amortization	(3,819)	(1,239)	-	-	(5,058)
Depreciable Utility Plant/DG, Net	26,783	(1,239)	-	-	25,544
Land and Other Non-Depreciable Assets					
Land	474		-		474
Construction Work In Progress	-	-	-	-	-
Total Electric Utility Plant, Net	\$ 27,257	\$ (1,239)	\$ -	\$ -	\$ 26,018

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	\$ 14,373		\$ 16,229		\$ 30,602
Total Depreciable Utility Plant	14,373	-	16,229	-	30,602
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(2,580)	(1,239)			(3,819)
Total Accumulated Depreciation and Amortization	(2,580)	(1,239)	-	-	(3,819)
Depreciable Utility Plant/DG, Net	11,793	(1,239)	16,229	-	26,783
Land and Other Non-Depreciable Assets					
Land	291		183		474
Construction Work In Progress	14,144	2,268	(16,412)	-	-
Total Electric Utility Plant, Net	\$ 26,228	\$ 1,029	\$ -	\$ -	\$ 27,257

Non-Utility Plant and Equipment, Net

	December 31, 2019	Additions	Transfers	Retirements	December 31, 2020
Non-Utility Property and Equipment					
Property and Equipment	\$ 1,544	\$ -	\$ -	\$ -	\$ 1,544
Accumulated Depreciation	(1,311)	(40)		-	(1,351)
Total Depreciable Property and Equipment, Net	233				193
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 943</u>	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903</u>

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Non-Utility Property and Equipment					
Property and Equipment	\$ 1,544	\$ -	\$ -	\$ -	\$ 1,544
Accumulated Depreciation	(1,271)	(40)		-	(1,311)
Total Depreciable Property and Equipment, Net	273				233
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 983</u>	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 943</u>

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

Outstanding Debt

Total debt outstanding at December 31, 2020, 2019 and 2018 was \$227,095,000, \$268,195,000, and \$308,260,000, respectively, all of which consists of bonds issued during 2015. Total debt decreased by \$41,100,000 and \$40,065,000 during 2020 and 2019, respectively, due to principal payments made in accordance with the debt service schedule.

The bond ratings remained the same as follows:

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

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

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2021 budget:

- The historical 10-year average weather-normalized load (energy) growth rate is approximately 0.1%/year. Load is expected to grow at a rate of 0.5% annually for the next 10 years for Power Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Natural gas prices are expected to remain low compared with historical levels for an extended time. Domestic natural gas production is expected to return to pre-pandemic levels starting in 2023.
- Market prices for coal are expected to stay flat or lower due to weak demand. Coal consumption through 2050 generally declines with the retirement of coal-fired electricity generating units in the United States.

Budget Highlights for 2021

- Forecasts no overall wholesale rate change in 2021.
- Assumes NCEMPA's share of coal ash settlement costs.
- Collection of \$42,300,000 for debt principal due July 1, 2021.
- Forecasts a 0.5% increase in Power Agency Services for 2021.
- The 10-year average annual load growth is 0.3% for both energy and CP demand based on economic factors from the previous year's load forecast.

Requests for Information

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

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

	December 31,	
	2020	2019
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service/DG	\$ 31,076	\$ 31,076
Construction work in process	-	-
Accumulated depreciation and amortization	(5,058)	(3,819)
Total Electric Utility Plant, Net	26,018	27,257
Non-Utility Property and Equipment, Net		
Property and equipment	2,254	2,254
Accumulated depreciation	(1,351)	(1,311)
Total Non-Utility Property and Equipment, Net	903	943
Total Capital Assets	26,921	28,200
Restricted Assets		
Special Funds Invested (Note D):		
Revenue fund	4,381	3,533
Bond fund	37,586	37,597
Contingency fund	5,094	5,098
Total Special Funds Invested	47,061	46,228
Total Restricted Assets	47,061	46,228
Regulatory Assets		
Costs To Be Recovered (Note F)	187,561	229,338
Total Regulatory Assets	187,561	229,338
Total Non-Current Assets	261,543	303,766
Current Assets		
Funds Invested (Note D):		
Supplemental fund	109,566	107,053
Total Funds Invested	109,566	107,053
Members accounts receivable	42,604	44,102
Operating receivable	-	135
Renewable Energy Certificate Inventory (Note E)	13,401	12,204
Prepaid expenses	2,525	2,730
Total Current Assets	168,096	166,224
Total Assets	\$ 429,639	\$ 469,990

See accompanying Notes to Financial Statements.

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

	December 31,	
	2020	2019
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized debt issuance costs	\$ 522	\$ 708
Total Deferred Outflows of Resources	<u>522</u>	<u>708</u>
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note G)		
Bonds payable	184,795	227,095
Total Non-Current Liabilities	<u>184,795</u>	<u>227,095</u>
Current Liabilities		
Operating Liabilities:		
Accounts payable	48,123	42,262
Total Operating Liabilities	<u>48,123</u>	<u>42,262</u>
Special Funds Liabilities:		
Current maturities of bonds (Note G)	42,300	41,100
Accrued interest on bonds	4,260	4,862
Total Special Funds Liabilities	<u>46,560</u>	<u>45,962</u>
Total Current Liabilities	<u>94,683</u>	<u>88,224</u>
Total Liabilities	<u>279,478</u>	<u>315,319</u>
DEFERRED INFLOWS OF RESOURCES		
Collections to be expended (Note F)	45,690	45,309
Total Deferred Inflows of Resources	<u>45,690</u>	<u>45,309</u>
NET POSITION		
Net investment in capital assets	26,921	28,200
Restricted for debt service	4,422	3,587
Unrestricted	73,650	78,283
Total Net Position	<u>\$ 104,993</u>	<u>\$ 110,070</u>

See accompanying Notes to Financial Statements.

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

	Year Ended December 31,	
	2020	2019
Operating Revenues:		
Sales to participants/members	\$ 503,671	\$ 554,920
Other revenues	285	962
Total Operating Revenues	503,956	555,882
Operating Expenses:		
Operation and maintenance	432	742
Fuel	793	1,099
Power coordination services/FRPP:		
Purchased power	394,389	448,181
Transmission and distribution	21,908	23,545
Other	28,082	36,101
Total power coordination services	444,379	507,827
Administrative and general	12,118	11,978
Amounts in lieu of taxes	298	304
Depreciation and amortization	1,279	1,279
Total Operating Expenses	459,299	523,229
Operating Income	44,657	32,653
Nonoperating (Revenues) Expenses		
Investment income	(1,562)	(3,135)
Net increase in fair value of investments	(263)	(1,415)
Interest expense	9,215	10,329
Amortization of debt issuance costs	186	208
Net decrease in costs to be recovered (Note F)	41,777	41,789
Net increase in collections to be expended (Note F)	381	4,085
Total nonoperating expenses	49,734	51,861
Decrease in Net Position	(5,077)	(19,208)
Net Position, Beginning of the year	110,070	129,278
Net Position, End of the year	\$ 104,993	\$ 110,070

See accompanying Notes to Financial Statements.

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

	Year Ended December 31,	
	2020	2019
Cash Flows from Operating Activities:		
Receipts from sales of electricity	\$ 505,454	\$ 553,997
Payments of operating expenses	(453,016)	(549,894)
Net cash provided by operating activities	52,438	4,103
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(9,817)	(10,845)
Additions to electric utility plant and non-utility property and equipment	-	(2,268)
Bonds Principal Payment	(41,100)	(40,065)
Net cash used for capital and related financing activities	(50,917)	(53,178)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,248,961	1,579,765
Purchases of investment securities	(1,252,220)	(1,532,865)
Investment earnings receipts	1,484	2,207
Net cash provided (used) by investing activities	(1,775)	49,107
Net Change in Operating Cash	(254)	32
Operating Cash, Beginning of year	56	24
Operating Cash, End of year	\$ (198)	\$ 56
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 44,657	\$ 32,653
Adjustments:		
Depreciation and amortization	1,279	1,279
Changes in assets and liabilities:		
Decrease/(increase) in participant accounts receivable	1,498	(1,885)
Decrease in operating receivable	135	51
Decrease/(increase) in prepaid expenses	205	(36)
Increase in renewable energy certificate inventory	(1,197)	(2,218)
Increase/(decrease) in accounts payable	5,861	(25,741)
Total Adjustments	7,781	(28,550)
Net Cash Provided by Operating Activities	\$ 52,438	\$ 4,103

See accompanying Notes to Financial Statements.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

A. General Matters

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

Full Requirements Project

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

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

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

The term of the FRPPA continues through December 31, 2043. Power Agency has certain options to terminate the FRPPA on an earlier date, the earliest such date being after the final maturity date of the 2015 Bonds which is July 1, 2025.

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

A. General Matters (continued)

ElectriCities of North Carolina, Inc.

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

The Agency entered into a management agreement with ElectriCities. Under the current management agreement with the Agency, ElectriCities is required to provide all personnel and personnel services necessary for the Agency to conduct its business in an economic and efficient manner. This agreement continued through December 31, 2018 and was automatically renewed for successive three-year periods unless terminated by one year's notice by either party prior to the end of the contract term. The Agency paid ElectriCities \$13,150,000 and \$13,598,000 for the years ended December 31, 2020 and 2019, respectively.

B. Significant Accounting Policies

Basis of Accounting

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

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

B. Significant Accounting Policies (continued)

Electric Plant in Service

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

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

Non-Utility Property and Equipment

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

Investments

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

Accounts Receivable

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

B. Significant Accounting Policies (continued)

Renewable Energy Certificate Inventory

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

Taxes

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

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of (\$255,081) and \$7,725 at December 31, 2020 and 2019, respectively, and is included on the statement of net position in the line item "Current Assets: Funds Invested". Restricted cash of \$56,811 and \$48,362 at December 31, 2020 and 2019, respectively, is included on the statement of net position in the line item "Restricted Assets: Special Funds Invested". "Restricted Assets: Special Funds Invested" is also included on the statement of cash flows.

Use of Estimates

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

Deferred Outflows/Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

B. Significant Accounting Policies (continued)

Debt Issuance Costs

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

Recently Adopted GASB Standards

In May 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. This statement is effective immediately (May 2020), and did not have a material impact on the Agency’s financial position, overall cash flow or balances or results of operations.

Future Accounting Standards

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

In June 2017, GASB issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. This Statement is effective for reporting periods starting with the fiscal year that ends June 30, 2022.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods starting with the fiscal year that ends December 31, 2022.

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures. This Statement is effective for reporting periods beginning with the fiscal year that ends December 31, 2022.

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement is effective for reporting periods beginning after June 15, 2021.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

B. Significant Accounting Policies (continued)

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020, and did not have a material impact on the Agency's financial position, overall cash flow or balances or results of operations. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021.

In March 2020, GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to the public-private and public-public partnership arrangements (PPPs). This Statement is effective for reporting periods beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This Statement is effective for reporting periods beginning after June 15, 2022.

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans are effective immediately (June 2020), and did not have a material impact on the Agency's financial position, overall cash flow or balances or results of operations. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

C. Capital Assets

Changes in components of electric utility plant, net during 2020 and 2019 are as follows (in thousands of dollars):

	December 31, 2019	Additions	Transfers	Retirements	December 31, 2020
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	\$ 30,602	\$ -	\$ -	\$ -	\$ 30,602
Total Depreciable Utility Plant	30,602	-	-	-	30,602
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(3,819)	(1,239)			(5,058)
Total Accumulated Depreciation and Amortization	(3,819)	(1,239)	-	-	(5,058)
Depreciable Utility Plant/DG, Net	26,783	(1,239)	-	-	25,544
Land and Other Non-Depreciable Assets					
Land	474		-		474
Construction Work In Progress	-	-	-	-	-
Total Electric Utility Plant, Net	\$ 27,257	\$ (1,239)	\$ -	\$ -	\$ 26,018

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	\$ 14,373	\$ -	\$ 16,229	\$ -	\$ 30,602
Total Depreciable Utility Plant	14,373	-	16,229	-	30,602
Accumulated Depreciation and Amortization					
Electric Plant in Service/DG	(2,580)	(1,239)			(3,819)
Total Accumulated Depreciation and Amortization	(2,580)	(1,239)	-	-	(3,819)
Depreciable Utility Plant/DG, Net	11,793	(1,239)	16,229	-	26,783
Land and Other Non-Depreciable Assets					
Land	291		183		474
Construction Work In Progress	14,144	2,268	(16,412)	-	-
Total Electric Utility Plant, Net	\$ 26,228	\$ 1,029	\$ -	\$ -	\$ 27,257

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

C. Capital Assets (Continued)

Changes in components of non-utility property and equipment, net during 2020 and 2019 are as follows (in thousands of dollars):

	December 31, 2019	Additions	Transfers	Retirements	December 31, 2020
Non-Utility Property and Equipment					
Property and Equipment	\$ 1,544	\$ -	\$ -	\$ -	\$ 1,544
Accumulated Depreciation	(1,311)	(40)		-	(1,351)
Total Depreciable Property and Equipment, Net	233				193
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 943</u>	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903</u>

	December 31, 2018	Additions	Transfers	Retirements	December 31, 2019
Non-Utility Property and Equipment					
Property and Equipment	\$ 1,544	\$ -	\$ -	\$ -	\$ 1,544
Accumulated Depreciation	(1,271)	(40)		-	(1,311)
Total Depreciable Property and Equipment, Net	273				233
Land	710				710
Total Non-Utility Property and Equipment, Net	<u>\$ 983</u>	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 943</u>

D. Investments

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

The Agency invests in the North Carolina Cash Management Trust (NCCMT). The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is bond fund, has no rating and is measured at fair value. As of December 31, 2020, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

D. Investments (Continued)

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

		December 31,		December 31,	
		2020		2019	
	Method of Valuation	Cost Basis	Reported Value	Cost Basis	Reported Value
U.S. Government Agencies	Fair Value Level 2	\$ 80,298	\$ 80,671	\$ 62,052	\$ 62,166
Treasury Coupons	Fair Value Level 1	15,734	15,797	8,855	8,970
Treasury Discount Notes	Fair Value Level 1	10,573	10,576	-	-
Commercial Paper	Fair Value Level 2	34,096	34,098	40,017	40,070
NC Capital Management Trust -Government Portfolio	Fair Value Level 1	15,477	15,477	1,691	1,691
NC Capital Management Trust -Term Portfolio	Fair Value Level 1	-	-	40,058	40,058
Sub-total funds invested		156,178	156,619	152,672	152,955
Cash					
Unrestricted cash		(255)	(255)	8	8
Restricted cash		57	57	48	48
Accrued interest		206	206	270	270
Total funds invested		<u>\$ 156,186</u>	<u>\$ 156,627</u>	<u>\$ 152,999</u>	<u>\$ 153,281</u>
Consisting of:					
Unrestricted Assets			\$ 109,566		\$ 107,053
Restricted Assets			47,061		46,228
Total funds invested			<u>\$ 156,627</u>		<u>\$ 153,281</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.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

D. Investments (Continued)

As of December 31, 2020, and 2019, the maturities of the Agency's investments are as follows (in thousands of dollars):

December 31, 2020					
	Reported Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
U.S. government agencies	\$ 80,671	\$ 15,366	\$ 65,305	\$ -	\$ -
Treasury State and Local Government Securities					
Treasury Coupons	15,797	10,588	5,209	-	-
Treasury Discount Notes	10,576	10,576	-	-	-
Commercial Paper	34,098	34,098	-	-	-
NC Capital Management Trust	15,477	15,477	-	-	-
Total	<u>\$ 156,619</u>	<u>\$ 86,105</u>	<u>\$ 70,514</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2019					
	Reported Value	Investment Maturity (In Years)			
		Under 1	1-5	6-10	Over 10
U.S. government agencies	62,166		60,179	1,987	-
Treasury State and Local Government Securities					
Treasury Coupons	\$ 8,970	\$ 3,514	\$ 3,300	\$ 2,156	\$ -
Commercial Paper	40,070	40,070	-	-	-
NC Capital Management Trust	41,749	41,749	-	-	-
Total	<u>\$ 152,955</u>	<u>\$ 85,333</u>	<u>\$ 63,479</u>	<u>\$ 4,143</u>	<u>\$ -</u>

As of December 31, 2020, and 2019, the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

December 31, 2020					
	Less Than 12 Months		12 Months or Longer		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value Unrealized Losses
U.S. government securities	\$ 28,499	\$ 50	\$ 1,024	\$ 2	\$ 29,523 \$ 52
Total	<u>\$ 28,499</u>	<u>\$ 50</u>	<u>\$ 1,024</u>	<u>\$ 2</u>	<u>\$ 29,523 \$ 52</u>

December 31, 2019					
	Less Than 12 Months		12 Months or Longer		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value Unrealized Losses
U.S. government securities	\$ 3,514	\$ 5	\$ 29,976	\$ 85	\$ 33,490 \$ 90
Total	<u>\$ 3,514</u>	<u>\$ 5</u>	<u>\$ 29,976</u>	<u>\$ 85</u>	<u>\$ 33,490 \$ 90</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

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, 2020, and 2019, the Agency's investments in U.S. Government Agencies and U.S. Treasury Securities are rated Aaa by Moody's Investor Service and AA+ by Standard and Poor's Corporation. The Agency's investments in Money Market Instruments and the North Carolina Capital Management Trusts' Government Portfolio are rated AAAM by Standard and Poor's Corporation. The investments in the North Carolina Capital Management Trust Term Portfolio are not rated by any rating agency.

The Board of Directors of the Agency approved an Investment Risk Management Policy in 2012, with updated in May 2016 and April 2018. The policy set the overall investment objectives and established sector and issuer guidelines. It is reviewed annually to ensure its compliant with the current law and the Local Government Commission. The Agency places no limit on the amount the Agency may invest in direct obligations of the United States Treasury. Limits have been established for all remaining issuers. As of December 31, 2020 and 2019 the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2020		December 31, 2019	
	Reported	Percentage	Reported	Percentage
	Value	of Portfolio	Value	of Portfolio
	Value	Portfolio	Value	Portfolio
Federal Home Loan Mortgage Corporation	\$ 38,038	24%	\$ 16,563	11%
Federal National Mortgage Association	20,124	13%	15,468	10%
Federal Home Loan Bank	11,943	7%	12,595	8%
Federal Farm Credit Bank	10,566	7%	17,540	11%
Commercial Paper:				
Exxon Mobile Corp.	3,248	2%	-	-
Met Life	-	0%	7,096	5%
MUFG Bank Ltd/NY	30,850	20%	29,984	20%
Societe Generale	-	0%	2,990	2%
NC Capital Management Trust	15,477	10%	41,749	27%
U.S. Treasury Department	26,373	17%	8,970	6%
Total	<u>\$ 156,619</u>	<u>100%</u>	<u>\$ 152,955</u>	<u>100%</u>

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

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, 2020 and 2019, the Agency had \$100,000 and \$56,000, respectively, covered by federal depository insurance.

E. Renewable Energy Certificate Inventory

The following show RECs activity during 2020 and 2019 (in thousands of dollars):

Summary of Changes in RECs				
	December 2019	Additions and other adjustments	Retirements	December 2020
RECs	\$ 12,204	\$ 2,903	\$ (1,706)	\$ 13,401
	December 2018	Additions and other adjustments	Retirements	December 2019
RECs	\$ 9,986	\$ 3,385	\$ (1,167)	\$ 12,204

F. Costs To Be Recovered and Collections to be Expended

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

F. Costs To Be Recovered and Collections to be Expended (Continued)

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

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

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

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

	Year Ended December 31,		Inception to December 31,	
	2020	2019	2020	2019
Costs To Be Recovered				
Net (decrease) in fair value of investments	\$ (263)	\$ (1,415)	\$ (463)	\$ (200)
Participant billing offsets	(41,514)	(40,374)	(214,353)	(172,839)
Defeased Bonds	-	-	402,377	402,377
Costs To Be Recovered	<u>\$ (41,777)</u>	<u>\$ (41,789)</u>	<u>\$ 187,561</u>	<u>\$ 229,338</u>

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

	Year Ended December 31,		Inception to December 31,	
	2020	2019	2020	2019
Collections To Be Expended				
Net special funds withdrawals	\$ (18)	\$ 2,286	\$ 35,738	\$ 35,756
Restricted investment income	481	860	2,806	2,325
Special funds valuations	-	-	154	154
Depreciation and amortization	(1,279)	(1,279)	(6,409)	(5,130)
Other collections to be expended	1,197	2,218	13,401	12,204
Net Collections To Be Expended	<u>\$ 381</u>	<u>\$ 4,085</u>	<u>\$ 45,690</u>	<u>\$ 45,309</u>

G. Bonds

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

G. Bonds (continued)

The following shows bond activity during 2020 and 2019 (in thousands of dollars):

Summary of Changes in Long Term Liabilities					
	Balance 12/31/2019	Additions	Reductions	Balance 12/30/2020	Amount Due within one year
Bonds Payable	\$ 268,195	\$ -	\$ (41,100)	\$ 227,095	\$ 42,300

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Amount Due within one year
Bonds Payable	\$ 308,260	\$ -	\$ (40,065)	\$ 268,195	\$ 41,100

	2020	2019
Bonds Outstanding - Beginning of year	\$ 268,195	\$ 308,260
Principal payments July 1	(41,100)	(40,065)
Net Bonds Outstanding after Principal Payment	<u>\$ 227,095</u>	<u>\$ 268,195</u>

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

	December 31, 2020	December 31, 2019
Series 2015A		
2.928% maturing in 2020	-	41,100
3.308% maturing in 2021	42,300	42,300
3.558% maturing in 2022	43,705	43,705
3.808% maturing in 2023	45,260	45,260
3.958% maturing in 2024	46,985	46,985
4.058% maturing in 2025	48,845	48,845
	<u>227,095</u>	<u>268,195</u>
Total Bonds Outstanding	227,095	268,195
Current maturities of bonds	(42,300)	(41,100)
Long-Term Debt, Bonds Payable	<u>\$ 184,795</u>	<u>\$ 227,095</u>

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2020 and 2019 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 \$242,281,430 and \$280,301,985 at December 31, 2020 and 2019, respectively.

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

G. Bonds (continued)

Certain proceeds of the Series 1991 A, 1993 B, 2003 E, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C, 2010 A, 2012 B, 2012 C, 2012 D and 2015 bonds, were used to establish trusts for refunding \$5,232,495,000 of previously issued bonds at December 31, 2015. \$4,507,510,000 and \$4,446,620,000 of these bonds has been redeemed at December 31, 2020 and 2019, respectively, leaving \$724,985,000 and \$785,875,000 still outstanding, respectively. Under these Refunding Trust Agreements, obligations of, or guaranteed by the United States have been placed in irrevocable Refunding Trust Funds maintained by the Bond Fund Trustee. The government obligations in the Refunding Trust Funds, along with the interest earnings thereon, are pledged solely for the benefit of the holders of the refunded bonds and will be sufficient to pay all interest when due and to redeem at par all refunded bonds unredeemed at December 31, 2020 at various dates prior to or on their original maturities. Since the establishment of each Refunding Trust Fund, the refunded bonds are no longer considered outstanding obligations of the Agency.

The following table reflects principal debt service included in the designated year's rates. In accordance with the Resolution, these moneys are collected through rates during the 12 months prior to the July 1st maturity and deposited into the Bond Fund as collected for payment when due. Under the Debt Service Agreement between the Agency and the Members, Principal Debt service costs in the amount of \$41,700,000 were collected during 2020. These amounts were deposited monthly into the Bond Fund to provide for the principal payments due July 1, 2020 in the amount of \$41,100,000 and a portion of \$42,300,000 principal payment due July 1, 2021. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2020 are as follows (in thousands of dollars):

	Principal	Interest	Total
2021	\$ 42,300	\$ 8,520	\$ 50,820
2022	43,705	7,120	50,825
2023	45,260	5,565	50,825
2024	46,985	3,842	50,827
2025	48,845	1,982	50,827
Total	<u>\$ 227,095</u>	<u>\$ 27,029</u>	<u>\$ 254,124</u>

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

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

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

North Carolina Eastern Municipal Power Agency
Notes to Financial Statements
Years Ended December 31, 2020 and 2019

G. Bonds (continued)

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

The Resolution (BDR-6-15) establishes that the agency maintains a reserve fund balance from the proceeds of the 2015 Series. As of December 31, 2020, and 2019, the balance of the bond fund reserve was \$12,077,000 and \$12,154,000, respectively.

The Resolution also establishes a contingency account to be funded with the proceeds of the 2015 bond issuance. As of December 31, 2020, and 2019, the balance of the contingency account was \$5,094,000 and \$5,098,000, respectively.

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

In 2018 the Agency and Duke Energy Progress (DEP) reached an agreement to amend the Full Requirements Power Purchase Agreement (FRPPA) to allow for the recovery of cost associated with the cleanup of DEP's coal ash ponds. The Agency's contract between DEP and the Agency did not include a provision for recovering its compliance costs related to coal ash remediation, so the contract was amended to allow DEP to recover Agency's pro-rata share of "CCR Costs" beginning August 1, 2015. For 2018 the total amount was \$44,583,000, which included \$42,300,000 for the prior period 2015 through 2017. For 2019 the total amount was \$34,873,000 which included \$42,799,000 for the current period and a 2017-2018 true up credit \$7,296,000. As of December 31, 2020 and 2019 there was no balance due. Going forward, DEP will recover the Agency's pro-rata share of CCR costs through the annual production formula rate as specified in the amended FRPPA.

I. Subsequent Events

The Agency has evaluated subsequent events through April 14, 2021, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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

	Year Ended December 31,	
	2020	2019
Revenues:		
Sales to members/participants	\$ 503,671	\$ 554,920
Investment income	1,081	2,275
Other revenues	285	962
Total Revenues	505,037	558,157
Expenses:		
Operation and maintenance	432	742
Fuel	793	1,099
Power coordination services/FRPP:		
Purchased power	394,389	448,181
Transmission and distribution	21,908	23,545
Other	29,279	40,605
Total power coordination services/FRPP:	445,576	512,331
Administrative and general	12,100	11,978
Taxes		
Amounts in lieu of taxes	298	304
Total taxes	298	304
Debt service:		
Debt administrative costs	94	89
Debt service	50,821	50,822
Total debt service	50,915	50,911
Total Expenses	510,114	577,365
Revenues Under Expenses	\$ (5,077)	\$ (19,208)

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, 2020 and 2019.

See Accompanying Report of Independent Auditor.

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Years Ended December 31, 2020 and 2019
(\$000's)

	2020 Budget		Actuals	Positive
	Original	Final	(Budgetary	(Negative)
			Basis)	Variance With
				Final Budget
Revenues:				
Sales to participants	\$ 534,855	\$ 534,855	\$ 503,671	\$ (31,184)
Investment income	1,883	1,883	1,081	(802)
Other revenues	-	-	285	285
Total Revenues	536,738	536,738	505,037	(31,701)
Expenses:				
Operation and maintenance	588	588	432	156
Fuel	1,465	1,465	793	672
Power coordination expenses:				
Purchased power	417,873	417,873	394,389	23,484
Transmission and distribution	23,118	23,118	21,908	1,210
Other	37,600	37,600	29,279	8,321
Total power coordination expenses	478,591	478,591	445,576	33,015
Administrative and general – DEP	12,620	12,620	12,100	520
Taxes	400	400	298	102
Debt service	51,057	51,057	50,915	142
Total Expenses	544,721	544,721	510,114	34,607
Revenues Under Expenses	\$ (7,983)	\$ (7,983)	\$ (5,077)	\$ 2,906

Note: The schedules above have been prepared in accordance with the underlying Bond Resolution, and accordingly, does not reflect the change in the fair value of investments as of December 31, 2020 and 2019.

See Accompanying Report of Independent Auditor.

	2019 Budget		Actuals	Positive
	Original	Final	(Budgetary	(Negative)
			Basis)	Variance With
				Final Budget
Revenues:				
Sales to participants	\$ 522,316	\$ 554,917	\$ 554,920	\$ 3
Investment income	2,480	2,480	2,275	(205)
Other revenues	-	962	962	-
Total Revenues	524,796	558,359	558,157	(202)
Expenses:				
Operation and maintenance	422	720	742	(22)
Fuel	1,430	1,099	1,099	-
Power coordination expenses:				
Purchased power	410,331	447,250	448,181	(931)
Transmission and distribution	23,998	23,545	23,545	-
Other	45,448	42,800	40,605	2,195
Total power coordination expenses	479,777	513,595	512,331	1,264
Administrative and general – DEP	12,036	12,036	11,978	58
Taxes	400	303	304	(1)
Debt service	51,057	51,057	50,911	146
Total Expenses	545,122	578,810	577,365	1,445
Revenues Under Expenses	\$ (20,326)	\$ (20,451)	\$ (19,208)	\$ 1,243

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

	Funds				
	Invested	Power	Invest-	Receipts	
	January 1,	Billing	ment	(Disburse-	
	2018	Receipts	Income	ments)	Transfers
Bond Fund:					
Interest account	\$ 11,198	\$ -	\$ 53	\$ (10,756)	\$ 10,183
Reserve account	12,300	-	234	-	(376)
Principal account	14,218	-	456	(40,065)	40,120
Total Bond Fund	37,716	-	743	(50,821)	49,927
Contingency Fund	5,142	-	99	-	(162)
Revenue Fund	2,191	-	22	-	1,319
Supplemental Fund	153,972	553,666	2,294	(551,943)	(51,084)
	\$ 199,021	\$ 553,666	\$ 3,158	\$ (602,764)	\$ -

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, 2020 and 2019.

See Accompanying Report of Independent Auditor.

Funds Invested December 31, 2019	Power Billing Receipts	Invest- ment Income	Receipts (Disburse- ments)	Transfers	Funds Invested December 31, 2020
\$ 10,678	\$ -	\$ 11	\$ (9,723)	\$ 3,294	\$ 4,260
12,158	-	200	-	(281)	12,077
14,729	-	171	(41,100)	47,350	21,150
37,565	-	382	(50,823)	50,363	37,487
5,079	-	86	-	(110)	5,055
3,532	-	14	-	835	4,381
106,905	505,797	1,089	(453,462)	(51,088)	109,241
\$ 153,081	\$ 505,797	\$ 1,571	\$ (504,285)	\$ -	\$ 156,164