2023
Financial Report

NORTH CAROLINA EASTERN MUNICIPAL POWER AGENCY

Annual Financial Report
(With Report of Independent Auditor Thereon)

December 31, 2023 and 2022

PBMares
CPAs and Consultants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of North Carolina Eastern Municipal Power Agency (the Agency), the statements of net position as of December 31, 2023 and 2022, the related statements of revenues and expenses and changes in net position, and cash flow 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2023 and 2022, and the results of its operations and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Carolina Eastern Municipal Power Agency's basic financial statements. The supplementary Schedules of Revenues and Expenses per Bond Resolution, Budgetary Comparison and Changes in Assets of Funds Invested are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 Schedules of Revenues and Expenses per Bond Resolution, Budgetary Comparison and Changes in Assets of Funds Invested are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2024 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Agency's internal control over financial reporting and compliance.

PBMares, LLP

Morehead City, North Carolina
April 30, 2024

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, 2023 and 2022. 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.

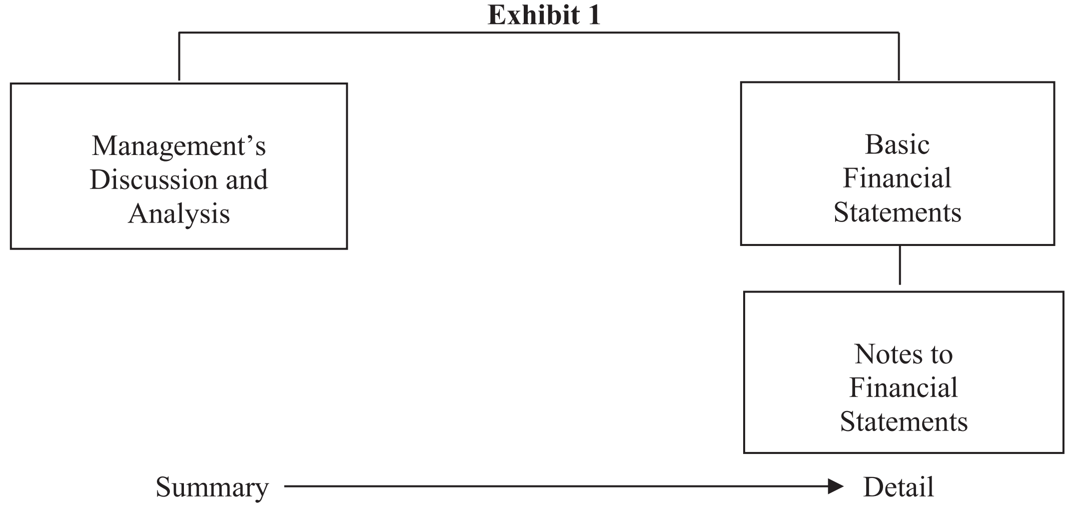
Financial Highlights

- The Agency's basic financial statements consist of a single electric enterprise fund.
- At year-end 2023 and 2022, the Agency's assets and deferred outflows exceeded its liabilities and deferred inflows by $67,339,000 and $121,122,000 (net position), respectively.
- The Agency's net position decreased by $53,783,000 and $52,733,000 for 2023 and 2022, respectively.
- Principal payments were made in the amount of $45,260,000 and $43,705,000 during 2023 and 2022 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 no rate change in 2023 and 2022.

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 supplementary 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 16 to 32 of this report.

After the notes, supplementary 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. Supplementary information can be found on pages 33 to 39 of this report.

Financial Analysis

The electric enterprise fund financial statements for the year ended December 31, 2023 and 2022 are presented in accordance with Governmental Accounting Standards Board.

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

	December 31,		
	2023	2022	2021
Assets and Deferred Outflows of Resources			
Capital assets/Leases	$ 23,374	$ 24,684	$ 25,642
Current and other assets	211,774	269,786	270,526
Deferred outflows of resources	57,649	106,981	146,244
Total assets and deferred outflows of resources	292,797	401,451	442,412
Liabilities and Deferred Inflows of Resources			
Long-term liabilities outstanding	49,118	96,132	141,090
Other liabilities	131,198	138,507	81,781
Deferred inflows of resources	45,142	45,690	45,686
Total liabilities and deferred inflows of resources	225,458	280,329	268,557
Net Position			
Net investment in capital assets	23,065	24,684	25,642
Restricted for debt service	6,473	4,066	4,542
Unrestricted	37,801	92,372	143,671
Total net position	$ 67,339	$ 121,122	$ 173,855

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 $67,339,000, $121,122,000 and $173,855,000 at December 31, 2023, 2022 and 2021, respectively, representing a decrease of $53,783,000 and $52,733,000 in 2023 and 2022, respectively.

A portion of the Agency's net position in the amount of $23,065,000, $24,684,000 and $25,642,000 at December 31, 2023, 2022 and 2021, respectively, is the net investment in capital assets (e.g. land, buildings, distributed generators and equipment) and leases (land).

An additional portion of the Agency's net position of $6,473,000, $4,066,000 and $4,542,000 at December 31, 2023, 2022 and 2021, respectively, represents resources that are restricted for the payment of debt service.

The remaining balance of $37,801,000, $92,372,000 and $143,671,000 at December 31, 2023, 2022, 2021 respectively, is unrestricted net position.

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

	Years Ended December 31, 2023	2022
Revenues:		
Operating revenues	$ 528,431	$ 553,393
Nonoperating revenues	3,593	2,405
Total Revenues	532,024	555,798
Expenses:		
Operating expenses	535,428	557,587
Interest on long-term debt	4,796	6,436
Other nonoperating expenses	45,583	44,496
Total Expenses	585,807	608,519
Decrease in net position	(53,783)	(52,721)
Restatement for Accounting Change	-	(12)
Net Position, Beginning of year	121,122	173,855
Net Position, End of year	$ 67,339	$ 121,122

Financial Highlights

- There was no rate change in 2023 and 2022.
- Operating expenses include an estimated FRPPA true-up of $40,000,000 in 2023 and 2022.

Capital Assets and Debt Administration

Capital Assets

The Agency's net investments in capital assets at December 31, 2023, 2022 and 2021 totaled $23,065,000, $24,684,000 and $25,642,000 (net of accumulated amortization and depreciation), respectively. These assets include land, buildings, distributed generators, and equipment.

Major capital asset transactions during 2023 and 2022 include the following:

- Electric Utility Plant and Non-Utility Property and Equipment were depreciated $1,279,000 and $1,278,000 for 2023 and 2022, respectively.
- Leases were amortized $31,000 and $31,000 for 2023 and 2022, respectively. Additional information regarding the Agency's leases can be found in Note H.

Capital Assets
Exhibit 4
($000s)

Electric Utility Plant, Net

	December 31, 2022	Additions	Transfers	Retirements	December 31, 2023
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 30,602	$ -	$ -	$ -	$ 30,602
Total Depreciable Utility Plant	30,602				30,602
Accumulated Depreciation					
Electric Plant in Service/Diesel Generators	(7,535)	(1,239)	-	-	(8,774)
Total Accumulated Depreciation	(7,535)	(1,239)	-	-	(8,774)
Depreciable Utility Plant/Diesel Generators, Net	23,067	(1,239)	-	-	21,828
Land and Other Non-Depreciable Assets					
Land	474	-	-	-	474
Total Electric Utility Plant, Net	$ 23,541	$ (1,239)	$ -	$ -	$ 22,302

	December 31, 2021	Additions	Transfers	Retirements	December 31, 2022
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 30,602	$ -	$ -	$ -	$ 30,602
Total Depreciable Utility Plant	30,602	-	-	-	30,602
Accumulated Depreciation					
Electric Plant in Service/Diesel Generators	(6,297)	(1,238)	-	-	(7,535)
Total Accumulated Depreciation	(6,297)	(1,238)	-	-	(7,535)
Depreciable Utility Plant/Diesel Generators, Net	24,305	(1,238)	-	-	23,067
Land and Other Non-Depreciable Assets					
Land	474	-	-	-	474
Total Electric Utility Plant, Net	$ 24,779	$ (1,238)	$ -	$ -	$ 23,541

Non-Utility Plant and Equipment, Net

	December 31, 2022	Additions	Transfers	Retirements	December 31, 2023
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544	$ -	$ -	$ -	$ 1,544
Accumulated Depreciation	(1,431)	(40)	-	-	(1,471)
Total Depreciable Property and Equipment, Net	113	(40)	-	-	73
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 823	$ (40)	$ -	$ -	$ 783

	December 31, 2021	Additions	Transfers	Retirements	December 31, 2022
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544	$ -	$ -	$ -	$ 1,544
Accumulated Depreciation	(1,391)	(40)	-	-	(1,431)
Total Depreciable Property and Equipment, Net	153	(40)	-	-	113
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 863	$ (40)	$ -	$ -	$ 823

Additional information on capital assets can be found in Note C beginning on page 22 of this report.

Outstanding Debt

Total debt outstanding at December 31, 2023, 2022 and 2021 was $95,830,000, $141,090,000 and $184,795,000, respectively, all of which consists of bonds issued during 2015. Total debt decreased by $45,260,000 and $43,705,000 during 2023 and 2022, 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 28 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors

The following key economic factors played a role in the 2024 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 1.7% annually for the next 10 years for the Agency based on current economic projections and anticipated improvements in end-use energy efficiency.
- Henry Hub natural gas prices are expected to average higher in the future. We expect supply and demand to grow at similar rates in the midterm, although inventories will build because supply will still slightly exceed demand.
- The long-term price outlook for coal remains relatively flat. Coal capacity retirements will continue and drive down regional coal demand levels across the country.

Budget Highlights for 2024

- Forecasts no overall wholesale rate change in 2024.
- Collection of $46,985,000 for debt principal due July 1, 2024.
- Forecasts an 8.4% increase in Power Agency Services for 2024.
- Projects a 10-year average annual load growth of 1.2% for energy and 1.5% for CP demand.

Requests for Information

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

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

	December 31, 2023	December 31, 2022
ASSETS		
Non-Current Assets		
Capital Assets (Note C):		
Electric Utility Plant, Net		
Electric plant in service/Diesel Generators	$ 31,076	$ 31,076
Accumulated depreciation	(8,774)	(7,535)
Total Electric Utility Plant, Net	22,302	23,541
Non-Utility Property and Equipment, Net		
Property and equipment	2,254	2,254
Accumulated depreciation	(1,471)	(1,431)
Total Non-Utility Property and Equipment, Net	783	823
Net Book Value Capital Assets	23,085	24,364
Leases (Note H)	413	413
Accumulated amortization-leases	(124)	(93)
Total Leases	289	320
Total Capital Assets/Leases	23,374	24,684
Restricted Assets		
Special Funds Invested (Note D):		
Revenue fund	6,400	4,044
Bond fund	37,629	37,576
Contingency fund	5,087	5,088
Total Special Funds Invested	49,116	46,708
Total Restricted Assets	49,116	46,708
Total Non-Current Assets	72,490	71,392
Current Assets		
Funds Invested (Note D):		
Supplemental fund	100,830	153,829
Total Funds Invested	100,830	153,829
Members accounts receivable	43,975	50,956
Operating receivable	10	274
Renewable Energy Certificate Inventory (Note E)	14,638	15,336
Prepaid expenses	3,205	2,683
Total Current Assets	162,658	223,078
Total Assets	$ 235,148	$ 294,470

See accompanying Notes to Financial Statements.

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

	December 31, 2023	December 31, 2022
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized debt issuance costs	$ 115	$ 223
Costs To Be Recovered (Note F)	57,534	106,758
Total Deferred Outflows of Resources	57,649	106,981
LIABILITIES		
Non-Current Liabilities		
Long-Term Debt (Note G)	48,845	95,830
Long-Term Lease Liability (Note H)	273	302
Total Non-Current Liabilities	49,118	96,132
Current Liabilities		
Operating Liabilities:		
Short-term lease liability (Note H)	29	28
Accrued Interest Liability-Leases	7	7
Accounts payable	82,256	90,429
Total Operating Liabilities	82,292	90,464
Special Funds Liabilities:		
Current maturities of bonds (Note G)	46,985	45,260
Accrued interest on bonds	1,921	2,783
Total Special Funds Liabilities	48,906	48,043
Total Current Liabilities	131,198	138,507
Total Liabilities	180,316	234,639
DEFERRED INFLOWS OF RESOURCES		
Collections To Be Expended (Note F)	45,142	45,690
Total Deferred Inflows of Resources	45,142	45,690
NET POSITION		
Net investment in capital assets	23,065	24,684
Restricted for debt service	6,473	4,066
Unrestricted	37,801	92,372
Total Net Position	$ 67,339	$ 121,122

See accompanying Notes to Financial Statements.

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

	Years Ended December 31, 2023	Years Ended December 31, 2022
Operating Revenues:		
Sales to participants/members	$ 526,603	$ 548,965
Other revenues	1,828	4,428
Total Operating Revenues	528,431	553,393
Operating Expenses:		
Operation and maintenance	415	495
Fuel	1,740	2,816
Power coordination services/FRPP:		
Purchased power	466,847	486,520
Transmission and distribution	29,276	29,976
Other	21,704	23,279
Total power coordination services	517,827	539,775
Administrative and general	13,881	12,918
Amounts in lieu of taxes	255	274
Depreciation	1,279	1,278
Amortization leases (Note H)	31	31
Total Operating Expenses	535,428	557,587
Operating Income (Loss)	(6,997)	(4,194)
Nonoperating (Revenues) Expenses		
Investment income	(3,593)	(2,405)
Net (increase)/decrease in fair value of investments	(3,210)	5,219
Interest expense	4,796	6,436
Interest Expense - Leases (Note H)	9	10
Amortization of debt issuance costs	108	136
Net decrease in costs to be recovered (Note F)	49,224	39,127
Net (decrease)/increase in collections to be expended (Note F)	(548)	4
Total nonoperating expenses	46,786	48,527
Decrease in Net Position	(53,783)	(52,721)
Net Position, Beginning of the year	121,122	173,855
Restatement for Accounting Change	-	(12)
Net Position, End of the year	$ 67,339	$ 121,122

See accompanying Notes to Financial Statements.

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

	Years Ended December 31, 2023	2022
Cash Flows from Operating Activities:		
Receipts from sales of electricity	$ 535,412	$ 543,901
Payments of operating expenses	(541,851)	(469,154)
Net cash (used in)/provided by operating activities	(6,439)	74,747
Cash Flows from Capital and Related Financing Activities:		
Interest paid	(5,658)	(7,213)
Lease payment	(37)	(36)
Bonds Principal Payment	(45,260)	(43,705)
Net cash used for capital and related financing activities	(50,955)	(50,954)
Cash Flows from Investing Activities:		
Sales and maturities of investment securities	1,050,896	1,212,260
Purchases of investment securities	(994,960)	(1,237,245)
Investment earnings receipts	1,489	1,183
Net cash provided by/(used in) investing activities	57,425	(23,802)
Net Change in Operating Cash	31	(9)
Operating Cash, Beginning of year	57	66
Operating Cash, End of year	$ 88	$ 57
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ (6,997)	$ (4,194)
Adjustments:		
Depreciation	1,279	1,278
Amortization leases	31	31
Changes in assets and liabilities:		
Decrease/(increase) in participant accounts receivable	6,981	(9,492)
Decrease in operating receivable	264	32,036
(Increase)/decrease in prepaid expenses	(522)	27
Decrease/(increase) in renewable energy certificate inventory	698	(852)
(Decrease)/increase in accounts payable	(8,173)	55,913
Total Adjustments	558	78,941
Net Cash Provided by Operating Activities	$ (6,439)	$ 74,747

See accompanying Notes to Financial Statements.

A. General Matters

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

Full Requirements Project

In order to provide the power and energy that the Agency has agreed to provide to the Members under the Full Requirements Power Sales Agreements, the 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 the 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 the Agency and the provision of service to other wholesale and retail DEP customers.

Under the FRPPA, DEP charges the Agency a monthly capacity charge and monthly energy charge. The monthly capacity charge for each month is determined by applying the measured demand of the 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 the Agency in a given month. Under the FRPPA, DEP also charges the 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 the Agency are based on DEP's system wide average cost of producing power and energy.

On December 17, 2021 DEP submitted a filing to the Federal Energy Regulatory Commission (FERC) to adjust the billing determinant used to calculate the capacity charge under the FRPPA. An adjustment to the capacity billing determinant would be made in any month that the difference between the Agency's non-coincident peak billing demand minus the Agency's coincident-peak billing demand exceeds a predetermined threshold. On February 28, 2022 FERC accepted DEP's filing to become effective March 1, 2022, subject to refund, and established hearing and settlement judge procedures. Per the filing dated July 7, 2023, DEP and the Agency entered into a settlement agreement in which the ninth amended and restated FRPPA agreement would be effective from March 1, 2022 through December 31, 2022. Additionally, the ninth amended restated FRPPA agreement was replaced with the tenth amended and restated FRPPA with a FERC effective date of January 1, 2023.

The term of the FRPPA continues through December 31, 2043. The 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.

A. General Matters (Continued)

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.

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, 2021 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 $12,823,000 and $13,789,000 for the years ended December 31, 2023 and 2022, 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.

B. Significant Accounting Policies (Continued)

Electric Plant in Service

The Agency installed 20MW of diesel generation (DG) 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 FRPPA with 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 2020. 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.

Leases

The Agency has adopted GASB Statement No. 87 "Leases" See note H. The capitalized threshold for leases is $5,000 effective January 1, 2021.

Investments

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

Accounts Receivable

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

B. Significant Accounting Policies (Continued)

Renewable Energy Certificate Inventory

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

Taxes

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

Statements of Cash Flows

For purposes of the statements of cash flows, operating cash consists of unrestricted cash of $35,076 and $15,759 at December 31, 2023 and 2022, respectively, and is included on the statement of net position in the line item “Current Assets: Funds Invested”. Restricted cash of $53,358 and $40,808 at December 31, 2023 and 2022, 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.

B. Significant Accounting Policies (Continued)

Debt Issuance Costs

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

Recently Adopted GASB Standards

In June 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. As a result of the implementation of GASB Statement No. 87 for the year ended December 31, 2022, an additional footnote disclosure has been included (see Note H) to describe the impact for this change in accounting principle.

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

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

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

B. Significant Accounting Policies (Continued)

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

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

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 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 of 2022, GASB issued Statement No. 100, "Accounting Changes and Error Corrections". The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of the Statement are effective for accounting changes and error corrections beginning after June 15, 2023.

In June of 2022, GASB issued Statement No. 101, "Compensated Absences". The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

B. Significant Accounting Policies (Continued)

In December of 2023, GASB issued Statement No. 102, "Certain Risk Disclosures". The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

C. Capital Assets

Changes in components of electric utility plant, net during 2023 and 2022 are as follows (in thousands of dollars):

	December 31, 2022	Additions	Transfers	Retirements	December 31, 2023
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 30,602	$ -	$ -	$ -	$ 30,602
Total Depreciable Utility Plant	30,602				30,602
Accumulated Depreciation					
Electric Plant in Service/Diesel Generators	(7,535)	(1,239)	-	-	(8,774)
Total Accumulated Depreciation	(7,535)	(1,239)	-	-	(8,774)
Depreciable Utility Plant/Diesel Generators, Net	23,067	(1,239)	-	-	21,828
Land and Other Non-Depreciable Assets					
Land	474	-	-	-	474
Total Electric Utility Plant, Net	$ 23,541	$ (1,239)	$ -	$ -	$ 22,302

	December 31, 2021	Additions	Transfers	Retirements	December 31, 2022
Depreciable Utility Plant					
Electric Utility Plant					
Diesel Generators	$ 30,602	$ -	$ -	$ -	$ 30,602
Total Depreciable Utility Plant	30,602	-	-	-	30,602
Accumulated Depreciation					
Electric Plant in Service/Diesel Generators	(6,297)	(1,238)	-	-	(7,535)
Total Accumulated Depreciation	(6,297)	(1,238)	-	-	(7,535)
Depreciable Utility Plant/Diesel Generators, Net	24,305	(1,238)	-	-	23,067
Land and Other Non-Depreciable Assets					
Land	474	-	-	-	474
Total Electric Utility Plant, Net	$ 24,779	$ (1,238)	$ -	$ -	$ 23,541

C. Capital Assets (Continued)

Changes in components of non-utility property and equipment, net during 2023 and 2022 are as follows (in thousands of dollars):

	December 31, 2022	Additions	Transfers	Retirements	December 31, 2023
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544	$ -	$ -	$ -	$ 1,544
Accumulated Depreciation	(1,431)	(40)	-	-	(1,471)
Total Depreciable Property and Equipment, Net	113	(40)	-	-	73
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 823	$ (40)	$ -	$ -	$ 783

	December 31, 2021	Additions	Transfers	Retirements	December 31, 2022
Non-Utility Property and Equipment					
Property and Equipment	$ 1,544	$ -	$ -	$ -	$ 1,544
Accumulated Depreciation	(1,391)	(40)	-	-	(1,431)
Total Depreciable Property and Equipment, Net	153	(40)	-	-	113
Land	710	-	-	-	710
Total Non-Utility Property and Equipment, Net	$ 863	$ (40)	$ -	$ -	$ 823

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) and North Carolina Investment Pool (NCIP). The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCIP, a commingled local government investment pool established to invest idle funds in various short-term investments in accordance with North Carolina General Statute 159-30, is measured at fair value.

D. Investments (Continued)

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

		December 31, 2023		December 31, 2022	
	Method of Valuation	Cost Basis	Reported Value	Cost Basis	Reported Value
U.S. Government Agencies	Fair Value Level 2	$ 54,110	$ 52,990	$ 95,053	$ 91,640
Treasury Coupons	Fair Value Level 1	38,549	37,482	39,594	37,495
Treasury Discount Notes	Fair Value Level 1	4,889	4,902	6,766	6,802
Commercial Paper	Fair Value Level 2	22,923	22,936	15,659	15,780
North Carolina Investment Pool	Fair Value Level 1	29,687	29,686	48,422	48,422
NC Capital Management Trust -Government Portfolio	Fair Value Level 1	1,391	1,391	-	-
Sub-total funds invested		151,549	149,387	205,494	200,139
Cash					
Unrestricted cash		-	35	-	16
Restricted cash		-	53	-	41
Accrued interest		471	471	341	341
Total funds invested		$ 152,020	$ 149,946	$ 205,835	$ 200,537
Consisting of:					
Unrestricted Assets			$ 100,830		$ 153,829
Restricted Assets			49,116		46,708
Total funds invested			$ 149,946		$ 200,537

Interest Rate Risk

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

D. Investments (Continued)

As of December 31, 2023, and 2022, the maturities of the Agency's investments are as follows (in thousands of dollars):

	December 31, 2023				
	Reported Value	Investment Maturity (In Years) Under 1	1-5	6-10	Over 10
U.S. government agencies	$ 52,990	$ 26,949	$ 26,041	$ -	$ -
Treasury State and Local Government Securities					
Treasury Coupons	37,482	16,432	21,050	-	-
Treasury Discount Notes	4,902	4,902	-	-	-
Commercial Paper	22,936	22,936	-	-	-
NC Investment Pool	29,686	29,686	-	-	-
NC Capital Management Trust	1,391	1,391	-	-	-
Total	$ 149,387	$ 102,296	$ 47,091	$ -	$ -

	December 31, 2022				
	Reported Value	Investment Maturity (In Years) Under 1	1-5	6-10	Over 10
U.S. government agencies	$ 91,640	$ 34,836	$ 56,804	$ -	$ -
Treasury State and Local Government Securities					
Treasury Coupons	37,495	10,311	27,184	-	-
Treasury Discount Notes	6,802	6,802	-	-	-
Commercial Paper	15,780	15,780	-	-	-
NC Investment Pool	48,422	48,422	-	-	-
Total	$ 200,139	$ 116,151	$ 83,988	$ -	$ -

As of December 31, 2023, and 2022, the Agency's impaired investments are detailed in the following schedule (in thousands of dollars):

	December 31, 2023					
	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	$ -	$ -	$ 65,364	$ 2,554	$ 65,364	$ 2,554
Total	$ -	$ -	$ 65,364	$ 2,554	$ 65,364	$ 2,554

	December 31, 2022					
	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	$ 38,873	$ 1,203	$ 60,029	$ 4,450	$ 98,902	$ 5,653
Total	$ 38,873	$ 1,203	$ 60,029	$ 4,450	$ 98,902	$ 5,653

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, 2023, and 2022, 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 Trust's Government Portfolio are rated AAAm by Standard and Poor's Corporation. The investments in the North Carolina Investment Pool Liquid Portfolio is rated AAAm by Standard & Poor's and AAAmmf by Fitch Ratings.

The Board of Directors of the Agency approved an Investment Risk Management Policy in 2012, with updates 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, 2023 and 2022 the Agency's investments, by issuer, are detailed in the following schedule (in thousands of dollars):

	December 31, 2023		December 31, 2022	
	Reported Value	Percentage of Portfolio	Reported Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	$ 12,251	8%	$ 23,306	12%
Federal National Mortgage Association	16,838	11%	13,079	7%
Federal Home Loan Bank	16,502	11%	45,547	23%
Federal Farm Credit Bank	7,399	5%	9,708	5%
Commercial Paper:				
MacQuarie Bank Ltd.	-	0%	4,944	2%
MUFG Bank Ltd/NY	22,936	15%	4,091	2%
Toronto Dominion Holding	-	0%	6,745	3%
NC Capital Management Trust	1,391	1%	-	0%
North Carolina Investment Pool	29,686	20%	48,422	24%
U.S. Treasury Department	42,384	29%	44,297	22%
Total	$149,387	100%	$200,139	100%

D. Investments (Continued)

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

All depositories must collateralize public deposits in excess of federal depository insurance coverage. The Agency's depositories use the pooling method, a single financial institution collateral pool. Under the pooling method, a depository establishes a single escrow account on behalf of all governmental agencies. Collateral is maintained with an eligible escrow agent in the name of the State Treasurer of North Carolina based on an approved averaging method for demand deposits and the actual current balance for time deposits less the applicable federal depository insurance for each depositor. The financial institutions using the pooling method are responsible for assuring sufficient collateralization of these excess deposits. Because of the inability to measure the exact amount of collateral pledged for the Agency under the pooling method, the potential exists for under-collateralization. However, the State Treasurer enforces strict standards for each pooling method depository, which minimizes any risk of under-collateralization. At December 31, 2023 and 2022, the Agency had $88,435 and $56,567, respectively, covered by federal depository insurance.

E. Renewable Energy Certificate Inventory

The following show RECs activity during 2023 and 2022 (in thousands of dollars):

	December 2022	Additions and other adjustments	Retirements	December 2023
RECs	$ 15,336	$ 2,079	$ (2,777)	$ 14,638

	December 2021	Additions and other adjustments	Retirements	December 2022
RECs	$ 14,484	$ 3,341	$ (2,489)	$ 15,336

F. Costs To Be Recovered and Collections to be Expended

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

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

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

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

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

All wholesale 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,	
	2023	2022	2023	2022
Costs To Be Recovered				
Net decrease/(increase) in fair value of investments	$ (3,210)	$ 5,219	$ 2,710	$ 5,920
Participant billing offsets	(46,014)	(44,346)	(347,553)	(301,539)
Defeased Bonds	-	-	402,377	402,377
Costs To Be Recovered	$ (49,224)	$ (39,127)	$ 57,534	$ 106,758

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

	Year Ended December 31,		Inception to December 31,	
	2023	2022	2023	2022
Collections To Be Expended				
Net special funds withdrawals	$ -	$ -	$ 35,738	$ 35,738
Restricted investment income	1,429	430	4,857	3,428
Special funds valuations	-	-	154	154
Depreciation and amortization	(1,279)	(1,278)	(10,245)	(8,966)
Other collections to be expended	(698)	852	14,638	15,336
Net Collections To Be Expended	$ (548)	$ 4	$ 45,142	$ 45,690

G. Bonds

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

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

G. Bonds (Continued)

The following shows bond activity during 2023 and 2022 (in thousands of dollars):

Summary of Changes in Long Term Liabilities

	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due within one year
Bonds Payable	$ 141,090	$ -	$ (45,260)	$ 95,830	$ 46,985

	Balance 12/31/2021	Additions	Reductions	Balance 12/31/2022	Amount Due within one year
Bonds Payable	$ 184,795	$ -	$ (43,705)	$ 141,090	$ 45,260

	2023	2022
Bonds Outstanding - Beginning of year	$ 141,090	$ 184,795
Principal payments July 1	(45,260)	(43,705)
Net Bonds Outstanding after Principal Payment	$ 95,830	$ 141,090

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

	December 31, 2023	December 31, 2022
Series 2015A		
3.808% maturing in 2023	$ -	$ 45,260
3.958% maturing in 2024	46,985	46,985
4.058% maturing in 2025	48,845	48,845
	95,830	141,090
Total Bonds Outstanding	95,830	141,090
Current maturities of bonds	(46,985)	(45,260)
Long-Term Debt, Bonds Payable	$ 48,845	$ 95,830

The fair market value of the Agency's long-term debt was estimated using a yield curve derived from December 31, 2023 and 2022 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 $94,840,347 and $138,779,232 at December 31, 2023 and 2022, respectively.

G. Bonds (Continued)

Certain proceeds of the Series 1991 A, 1993 B, 2003 E, 2005 A, 2008 A, 2008 B, 2009 B, 2009 C, 2010 A, 2012 B, 2012 C, 2012 D and 2015 bonds, were used to establish trusts for refunding $5,232,495,000 of previously issued bonds at December 31, 2015. $5,193,330,000 of these bonds has been redeemed at December 31, 2023 and 2022, leaving $39,165,000 still outstanding. 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, 2023 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 $46,123,000 were collected during 2023. These amounts were deposited monthly into the Bond Fund to provide for the principal payments due July 1, 2023 in the amount of $45,260,000 and a portion of $46,985,000 principal payment due July 1, 2024. Debt service deposit requirements from the designated year's rates for long-term debt outstanding at December 31, 2023 are as follows (in thousands of dollars):

	Principal	Interest	Total
2024	$ 46,985	$ 3,842	$ 50,827
2025	48,845	1,982	50,827
Total	$ 95,830	$ 5,824	$ 101,654

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 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.

G. Bonds (Continued)

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, 2023, and 2022, the balance of the bond fund reserve was $12,174,000 and $12,160,000, respectively.

The Resolution also establishes a contingency account to be funded with the proceeds of the 2015 bond issuance. As of December 31, 2023, and 2022, the balance of the contingency account was $5,087,000 and $5,088,000, respectively.

H. Leases

The Agency reports according to the provision of GASB Statement No. 87 "Leases" which requires the Agency to recognize a lease liability and an intangible right of use lease asset in the financial statements. The Agency recognizes lease assets with an initial, individual value of $5,000 or more.

At the commencement of a lease, the Agency initially measures the lease liability at the present value of payments expected to be during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over its useful lives of the leases.

Key estimates and judgements related to leases include how the Agency determines (1) discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The A rated Municipal Market Data rate, provided by the Agency's investment management firm, is used as the estimated incremental borrowing rate. The incremental borrowing rate is averaged for various lease terms and updated quarterly.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Agency is reasonably certain to exercise.

The Agency monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

The Agency's effective transition date for GASB Statement No. 87 "Leases' implementation is January 1, 2022. Prior year net position was restated to reflect the effect of adoption.

The Agency has recorded one right to use leased asset. The asset is a right to use land in Pitt County for the purpose of siting and operating 20MW of diesel generators. The lease is for a term of twenty years beginning April 1, 2013 and requires annual payment before April 1 of each year. The payment may be revised for the subsequent five-year period after 2018 with an increase no greater than five percent. For the next five-year period 2024-2028 the lease payment will be set at $37,904. The lease liability is measured at a discount rate of 2.75%.

H. Leases (Continued)

Leases activity for the year ended December 31, 2023 was as follows:

	December 31, 2022	Additions	Deletions	December 31, 2023
	($000)			
Leases				
Land	$ 413	$ -	$ -	$ 413
Accumulated Amortization				
Land	(93)	(31)	-	(124)
Total Leases, Net	$ 320	$ (31)	$ -	$ 289

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2023 were as follows:

Years ending December 31	Principal Payment	Interest Payment	Total
2024	29	9	38
2025	30	8	38
2026	31	7	38
2027	32	6	38
2028	35	5	40
2029-2032	145	6	151
	$ 302	$ 41	$ 343

I. Subsequent Events

The Agency has evaluated subsequent events through April 30, 2024, 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)

	Years Ended December 31, 2023	Years Ended December 31, 2022
Revenues:		
Sales to members/participants	$ 526,603	$ 548,965
Investment income	2,164	1,975
Other revenues	1,828	4,428
Total Revenues	530,595	555,368
Expenses:		
Operation and maintenance	455	531
Fuel	1,740	2,816
Power coordination services/FRPP:		
Purchased power	466,847	486,520
Transmission and distribution	29,276	29,976
Other	21,005	24,131
Total power coordination services/FRPP:	517,128	540,627
Administrative and general	13,881	12,918
Taxes		
Amounts in lieu of taxes	255	274
Total taxes	255	274
Debt service:		
Debt administrative costs	93	93
Debt service	50,826	50,825
Total debt service	50,919	50,918
Total Expenses	584,378	608,084
Revenues Over (Under) Expenses	$ (53,783)	$ (52,716)
Reconciliation of Bond Resolution Basis to GAAP		
Total Revenues	$ 530,595	$ 555,368
Total Expenses	584,378	608,084
Revenues Over (Under) Expenses	(53,783)	(52,716)
Reconciling Items		
Leases adjustment	-	(5)
Decrease in Net Position (Pg. 14)	$ (53,783)	$ (52,721)

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, 2023 and 2022.

See Accompanying Report of Independent Auditor.

North Carolina Eastern Municipal Power Agency
Budgetary Comparison Schedule
Years Ended December 31, 2023 and 2022
($000's)

	2023 Budget		Actuals	Positive (Negative)
	Original	Final	(Budgetary Basis)	Variance With Final Budget
Revenues:				
Sales to participants	$ 555,660	$ 526,603	$ 526,603	$ -
Investment income	2,795	2,164	2,164	-
Other revenues	-	1,828	1,828	-
Total Revenues	558,455	530,595	530,595	-
Expenses:				
Operation and maintenance	1,169	774	455	319
Fuel	2,947	2,662	1,740	922
Power coordination expenses:				
Purchased power	440,905	467,354	466,847	507
Transmission and distribution	32,553	29,998	29,276	722
Other	4,542	21,328	21,005	323
Total power coordination expenses	478,000	518,680	517,128	1,552
Administrative and general	14,203	14,203	13,881	322
Taxes	400	400	255	145
Debt service	51,061	51,061	50,919	142
Total Expenses	547,780	587,780	584,378	3,402
Revenues Over Expenses	$ 10,675	$ (57,185)	$ (53,783)	$ (3,402)

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, 2023 and 2022. Additionally, some items have been reclassed for comparative purposes.

See Accompanying Report of Independent Auditor.

	2022 Budget		Actuals	Positive (Negative)
	Original	Final	(Budgetary Basis)	Variance With Final Budget
Revenues:				
Sales to participants	$ 547,294	$ 544,300	$ 548,965	$ 4,665
Investment income	796	1,704	1,975	271
Other revenues	-	4,158	4,428	270
Total Revenues	548,090	550,162	555,368	5,206
Expenses:				
Operation and maintenance	568	568	531	37
Fuel	1,540	2,800	2,816	(16)
Power coordination expenses:				
Purchased power	439,900	483,773	486,520	(2,747)
Transmission and distribution	29,323	28,654	29,976	(1,322)
Other	6,903	30,559	24,131	6,428
Total power coordination expenses	476,126	542,986	540,627	2,359
Administrative and general	13,184	13,184	12,918	266
Taxes	400	400	274	126
Debt service	51,060	51,060	50,918	142
Total Expenses	542,878	610,998	608,084	2,914
Revenues Over Expenses	$ 5,212	$ (60,836)	$ (52,716)	$ 8,120

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

	Funds Invested January 1, 2022	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers
Bond Fund:					
Interest account	$ 3,560	$ -	$ 26	$ (7,120)	$ 6,316
Reserve account	12,280	-	110	-	609
Principal account	21,862	-	240	(43,705)	44,321
Total Bond Fund	37,702	-	376	(50,825)	51,246
Contingency Fund	5,142	-	44	-	246
Revenue Fund	4,537	-	15	5	(406)
Supplemental Fund	132,877	540,549	1,987	(465,951)	(51,086)
	$ 180,258	$ 540,549	$ 2,422	$ (516,771)	$ -

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, 2023 and 2022.

See Accompanying Report of Independent Auditor.

Funds Invested December 31, 2022	Power Billing Receipts	Invest-ment Income	Receipts (Disburse-ments)	Transfers	Funds Invested December 31, 2023
$ 2,782	$ -	$ 67	$ (5,562)	$ 4,637	$ 1,924
12,999	-	171		(549)	12,621
22,718	-	1,091	(45,259)	44,978	23,528
38,499	-	1,329	(50,821)	49,066	38,073
5,432	-	69	-	(245)	5,256
4,151	-	32	-	2,263	6,446
158,376	534,742	2,172	(541,325)	(51,084)	102,881
$ 206,458	$ 534,742	$ 3,602	$ (592,146)	$ -	$ 152,656

PBMares CPAs and Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of North Carolina Eastern Muncipal Power Agency (the Agency), which are comprised of the statement of net position as of December 31, 2023, and the related statements of revenue and expenses and changes in net position, and cash flows for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with goverance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Morehead City, North Carolina
April 30, 2024