Northeast Power Coordinating Council, Inc.

Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors and the Members of Northeast Power Coordinating Council, Inc.

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc., which comprise the Statements of Financial Position as of December 31, 2015 and December 31, 2014, and the related change in net assets and cash flows for the years then ended.

Management's Responsibility 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; 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company'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 Company'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 Northeast Power Coordinating Council, Inc. at December 31, 2015 and December 31, 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

New York, New York
March 24, 2016

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash	$ 5,772,460	$ 5,414,548
Restricted cash	217,101	648,796
Investments	1,811,014	2,211,002
Prepaid expenses	307,164	243,624
Other assets	117,086	52,878
Equipment and leasehold improvements, less accumulated depreciation and amortization of $1,566,827 and $1,360,479, respectively	870,589	973,224
Total assets	$ 9,095,414	$ 9,544,072
Liabilities and Net Assets		
Accrued expenses and other liabilities	$ 2,004,110	$ 1,648,827
Accrued liability for pension	-	18,777
Deferred revenue	788,147	994,910
Deferred rent	686,992	740,636
Total liabilities	3,479,249	3,403,150
Net assets		
Unrestricted net assets	5,616,165	6,140,922
Total net assets	5,616,165	6,140,922
Total liabilities and net assets	$ 9,095,414	$ 9,544,072

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2015 and 2014

	2015	2014
Revenue		
Criteria services assessments	$ 1,035,222	$ 989,709
Regional entity assessments	14,068,876	13,611,880
Penalty sanctions	10,000	170,500
Workshops	56,230	62,579
Interest income	6,266	12,291
Miscellaneous income	-	5,245
Total revenue	15,176,594	14,852,204
Operating expenses		
Salaries and employee benefits	10,479,309	8,586,111
Administrative and consultant fees	1,898,511	2,584,644
Professional fees	504,708	587,125
Meetings and travel	994,458	1,042,927
Telephone and telecommunications	227,233	219,647
Office supplies and expense	433,730	358,014
Equipment leases	137,534	129,578
Rent expense	629,066	617,862
Insurance expense	50,119	51,020
Miscellaneous	46,249	41,592
Depreciation and amortization	300,434	321,986
Total operating expenses	15,701,351	14,540,506
Change in net assets before nonoperating expenses	(524,757)	311,698
Nonoperating expenses		
Pension change other than net periodic pension cost	-	1,705,000
Decrease in net assets	(524,757)	(1,393,302)
Net assets		
Beginning of year	6,140,922	7,534,224
End of year	$ 5,616,165	$ 6,140,922

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (524,757)	$ (1,393,302)
Depreciation and amortization	300,434	321,986
(Increase) in prepaid expenses	(63,540)	(7,073)
(Increase) decrease in other assets	(64,208)	84,313
Increase in accrued expenses and other liabilities	355,284	76,244
(Decrease) in accrued liability for pension	(18,777)	(1,116,340)
(Decrease) increase in deferred revenue	(206,763)	260,793
(Decrease) in deferred rent	(53,644)	(33,632)
Net cash used in operating activities	(275,971)	(1,807,011)
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(197,800)	(152,792)
Sales (purchases) of investments	399,988	(58)
Restricted cash	431,695	(37,775)
Net cash provided by (used for) investing activities	633,883	(190,625)
Net increase (decrease) in cash	357,912	(1,997,636)
Cash		
Beginning of year	5,414,548	7,412,184
End of year	$ 5,772,460	$ 5,414,548

The accompanying notes are an integral part of these financial statements.

1. Background

Northeast Power Coordinating Council, Inc. ("NPCC" or the "Company") is a New York State not-for-profit corporation whose purpose is to promote and enhance the reliable and efficient operation of the international, interconnected bulk power system in Northeastern North America through its regional entity and criteria services divisions. The Company's regional entity division is responsible for the development of regional reliability standards and compliance assessment and enforcement of continent-wide and regional reliability standards, coordination of system planning, design and operations, and assessment of reliability. These responsibilities are pursuant to an agreement with the North American Electric Reliability Corporation ("NERC"), an Electric Reliability Organization ("ERO"), under authority of the U.S. Federal Energy Regulatory Commission ("FERC"), and by Memoranda of Understanding with applicable Canadian Provincial regulatory and/or governmental authorities. The Company's criteria services division establishes regionally-specific criteria, and monitors and enforces compliance with such criteria. In the development of regionally-specific reliability criteria, the Company, to the extent possible, facilitates attainment of fair, effective and efficient competitive electric markets.

The Company is primarily funded through the NERC based on the regional entity division annual business plan and budget submitted to and approved by the FERC and Canadian provincial regulatory and/or governmental authorities. The Company's criteria services division is funded by regional independent system operators or balancing authority areas based upon a "Net Energy for Load" formula.

2. Summary of Significant Accounting Policies

Basis of Accounting

For the years ended December 31, 2015 and 2014, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash

The Company's cash balance consists of its operating checking account, as well as a savings account. At times, cash balances may be in excess of depository insurance limits.

Restricted Cash

Restricted cash represents amounts in deposit accounts funded with penalties levied and received for noncompliance within NPCC U.S., which are required to be used for statutory activities in years subsequent to which the penalty was received, and amounts in deposit accounts for collateralizing a letter of credit as security for NPCC's office lease. At times, cash balances may be in excess of depository insurance limits.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation of furniture and computer equipment is computed on the straight-line basis over the estimated useful lives of the applicable assets. Amortization of leasehold improvements is computed on the straight-line basis over the estimated useful lives of the applicable assets, or over the term of the related lease, whichever is less.

Revenue Recognition
For the criteria services division, membership in the Company is on a calendar year basis. There are no fees assessed to full members other than those members that are Independent System Operators or Balancing Authority Areas. Criteria services assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. For the regional entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Regional entity assessments received are recorded as income in the year to which they were applied within the NPCC Business Plan and Budget irrespective of when billed or collected. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

Rent Expense
The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2015 is approximately $300,000.

Income Taxes
The Company has been classified as exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code.

Use of Estimates
The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

3. Investments

The Company's primary banking relationship is with JP Morgan Chase. Prior to 2009, both regional entity and criteria services revenues were invested in a JPMorgan 100% U.S. Treasury Security Money Market Fund (the "Fund"). The Fund aims to provide the highest possible level of current income while still maintaining liquidity and providing maximum safety of principal. The Fund is a money market fund managed to meet the requirements of Rule 2a-7 under the Investment Company Act of 1940. The Fund is not insured or guaranteed by the FDIC or any other government agency. In late 2008, the Fund was closed to additional investments. Subsequent excess cash is being deposited into a savings account with JP Morgan Chase.

The Fund invests solely in debt securities of the U.S. Treasury, including Treasury bills, bonds and notes. These investments carry different interest rates, maturities and issue dates. The National Association of Insurance Commissioner ("NAIC"), Moody's, Fitch IBCA and S&P ratings signify that the Fund has historically had a superior capacity to maintain a net asset value of $1.00 per share. The ratings do not eliminate the risks associated with investing in the Fund. The NAIC "approved" status indicates that the Fund meets certain pricing and quality guidelines. Management has determined that the likelihood of sustaining losses from money market funds to be remote based on the marketability of the underlying investment of the funds.

At December 31, 2015 and 2014, the Company owned 1,811,014 and 2,211,002 units of $1 par value per unit, respectively. In 2015 and 2014, the funds earned average yields of 0%. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis.

4. Equipment and Leasehold Improvements

Equipment and leasehold improvements at December 31, 2015 and 2014 consists of the following:

	Depreciable Life	**2015**	**2014**
Furniture	10 years	$ 203,906	$ 202,906
Computer equipment	3 years	312,487	375,949
Website	3 years	232,000	232,000
Software	3 years	714,332	548,157
Leasehold improvements	15 years (see Note 2)	974,691	974,691
		2,437,416	2,333,703
Less: Accumulated depreciation and amortization		(1,566,827)	(1,360,479)
		$ 870,589	$ 973,224

In 2015 and 2014, depreciation and amortization expense totaled $300,434 and $321,986, respectively.

5. Pension Plan

The Company had a trusteed, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. In November 2014, the Company decided, subject to Internal Revenue Service ("IRS") and Pension Benefit Guaranty Corporation ("PBGC") approval, to terminate the Plan effective January 31, 2015 and freeze all benefits accruals for the Plan's participants effective December 31, 2014. The plan freeze triggered curtailment accounting, which reduced the benefit obligation by $1,421,349 as of December 31, 2014, and resulted in additional 2014 income statement charges of $139,619. The Company's plan contributions were $1,645,291 and $3,150,000 for the years 2015 and 2014, respectively. The termination of the plan was approved by the IRS and PBGC, with an effective date of January 31, 2015. The plan assets, totalling $14,382,657, were fully distributed to plan participants by December 31, 2015. The amount of pension expense included in salaries and employee benefits in the Statements of Activities for the year ended December 31, 2015 was $1,626,514.

The following tables provide information with respect to the defined benefit plan as of and for the year ended December 31, 2014:

	2014
Components of net periodic benefit cost	
Service cost	$ 281,933
Interest cost	511,899
Expected return on plan assets	(712,715)
Amortization of prior service cost	20,532
Recognized actuarial loss	87,391
Curtailment loss	139,619
Net periodic benefit cost	$ 328,659
Change in benefit obligation	
Benefit obligation at January 1, 2014	$ 10,293,237
Service cost	281,933
Interest cost	511,899
Actuarial (gain) loss	3,186,110
Curtailments	(1,421,349)
Benefits paid and expected expenses	(103,307)
Benefit obligation at December 31, 2014	12,748,523
Change in fair value of plan assets	
Fair value of plan assets at January 1, 2014	9,158,120
Actual return on plan assets	524,933
Company contribution	3,150,000
Benefits paid and actual expenses	(103,307)
Fair value of plan assets at December 31, 2014	12,729,746
Funded status at December 31, 2014	$ (18,777)
Amounts recognized in unrestricted net assets consist of	
Loss	$ (5,032,433)
Prior service cost	-
	$ (5,032,433)
Changes in unrestricted assets recognized in nonoperating expenses	
Net (gain) loss	$ 3,373,891
Amortization of prior service cost	(160,151)
Amortization of net gain (loss)	(87,391)
	$ 3,126,349

Weighted-average assumptions as of December 31, 2014 used for obligation	
Discount rate	4.00 %
Expected return on plan assets	0.00 %
Rate of compensation increase	0.00 %
Weighted-average assumptions as of December 31, 2014 used for net periodic benefit cost	
Discount rate	4.00 %
Expected return on plan assets	7.50 %
Rate of compensation increase	3.00 %

The accumulated benefit obligation at December 31, 2014 was $12,748,523.

As a result of the decision to terminate the Plan, all investments were liquidated and all plan assets were being held in cash or cash equivalents as of December 31, 2014.

The Company's defined benefit plan weighted average asset allocation at December 31, 2014 by asset category was as follows:

	Allocation Percentage
Equity securities	0.0%
Debt securities	0.0%
Cash	100.0%
	100.0%

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan for which all employees are immediately eligible upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Company contributions to the 401(k) plan were $218,427 and $201,834 for 2015 and 2014, respectively. Additionally, for those employees joining the Company after February 6, 2007, and upon completion of a full calendar year of service, such employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2014 was 8% of base compensation and totaled $239,139 for these employees. Starting with 2015, due to the termination of the defined benefit pension plan, those employees who were participants in the defined benefit plan are eligible for the discretionary contribution as well. In addition, for years 2015 through 2017 there is a 2% supplemental contribution for those employees. The discretionary contribution for 2015 was 8% of base compensation and totaled $429,558 and the 2% supplemental contribution totaled $35,916. During 2010, the Company adopted a supplemental plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS compensation limits. The Company contributed $36,000 and $29,300 to this supplemental plan for 2015 and 2014, respectively. During 2013, the Company adopted a 457(f) plan for the President and CEO to provide benefits not provided under the Pension Plan as a result of the IRS code limitations. The Company contributed $37,100 and $30,000 to this plan for 2015 and 2014, respectively.

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC executed office and equipment leases with effective rental dates starting in 2009 coordinated with its relocation of offices within New York City. NPCC's office lease provides for additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of $500,000 at lease inception and reduced to $150,000 at December 31, 2015 and for future years. NPCC executed various computer and equipment leases with expiration dates through 2018. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled $766,600 and $747,440 for 2015 and 2014, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2015 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2016	$ 672,392	$ 84,266	$ 756,658
2017	672,392	64,123	736,515
2018	672,392	17,215	689,607
2019	704,392	-	704,392
2020	720,392	-	720,392
Thereafter	2,401,307	-	2,401,307
	$ 5,843,267	$ 165,604	$ 6,008,871

8. Functional Expenses

During 2015 and 2014 salaries and employee benefits consist of the following:

	2015	2014
President, COO and technical staff	$ 6,259,389	$ 5,943,449
Administrative support	193,308	183,120
Payroll taxes, insurance, pension and educational assistance	4,026,612	2,459,542
Total salaries and employee benefits	$ 10,479,309	$ 8,586,111

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to $2,403,219 and $3,171,769 in 2015 and 2014, respectively, and consist of the following:

	2015	2014
Consultants	$ 1,438,362	$ 1,805,738
Accounting, legal and other services	948,131	1,313,535
Pension administration	16,726	52,496
Total administrative, consultant and professional fees	$ 2,403,219	$ 3,171,769

These costs are reflected in "Administrative and consultant fees" and "Professional fees" in the Statements of Activities.

10. Related Party Transactions

The NERC, through agreements with the FERC in the U.S. and Canadian Provincial regulatory and/or governmental agreements within Canada, delegates enforcement authority to eight

Regional Entities. NPCC is the cross-border regional entity for Northeastern North America. NERC was certified as the “Electric Reliability Organization” by the FERC on July 20, 2006. As of June 18, 2007, the U.S. FERC granted NERC the legal authority to enforce reliability standards with all U.S. users, owners, and operators of the bulk power system, and made compliance with those standards mandatory and enforceable. NERC relies on the diverse and collective expertise of industry participants to improve the reliability of the bulk power system. These entities account for virtually all the electricity supplied in the United States, Canada, and a portion of Baja California Norte, Mexico. NERC is subject to audit by the U.S. FERC and governmental and/or regulatory authorities in Canada. NERC funded the Regional Entities based upon Business Plans and Budgets submitted to and approved by FERC in the U.S. and Canadian regulatory and/or governmental authorities.

NPCC’s criteria services division was fully funded by regional independent system operator or balancing authority areas and operated on criteria services assessments to and funded from these six entities. Dues were based upon a “Net Energy for Load” funding formula. During 2015 and 2014, total criteria services assessments billed amounted to $1,035,222 and $989,709, respectively.

	2015		2014	
Description	**Percent**	**Total Share**	**Percent**	**Total Share**
Hydro-Quebec TransEnergie	29.25 %	$ 302,809	28.82 %	$ 285,198
Independent Electricity System Operator	21.70 %	224,626	22.03 %	218,018
ISO-NewEngland, Inc.	19.95 %	206,495	19.97 %	197,640
New Brunswick System Operator	2.17 %	22,479	2.17 %	21,458
New York Independent System Operator	25.21 %	260,980	25.39 %	251,279
Nova Scotia Power Inc.	1.72 %	17,833	1.63 %	16,116
Total criteria services assessments	100.00 %	$ 1,035,222	100.00 %	$ 989,709

11. Line of Credit

On March 18, 2013, pursuant to an agreement with a lender, the Company obtained a line of credit in the amount of $1,000,000. The line of credit, which had an initial term of 18 months, was renewed on September 18, 2014 for one year and on September 21, 2015 for nine months. The line expires on June 21, 2016. Outstanding borrowings are secured by all of the Company’s assets. There were no borrowings against the line of credit as of December 31, 2015 and 2014.

12. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 24, 2016, the date the financial statements were available to be issued.