Northeast Power Coordinating Council, Inc.

Financial Statements
December 31, 2017 and 2016

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Report of Independent Auditors

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, 2017 and December 31, 2016, and the related Statements of Activities and Statements of 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. as of December 31, 2017 and 2016, its activities 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 26, 2018

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Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash	$ 6,977,629	$ 7,176,480
Restricted cash	225,143	225,224
Investments	1,816,878	1,811,039
Prepaid expenses	298,254	342,349
Other assets	215,412	178,306
Equipment and leasehold improvements, less accumulated depreciation and amortization of $2,008,784 and $1,759,608, respectively	805,594	788,564
Total assets	$ 10,338,910	$ 10,521,962
Liabilities and Net Assets		
Accrued expenses and other liabilities	$ 2,641,848	$ 2,489,073
Deferred revenue	684,226	823,560
Deferred rent	579,705	633,349
Total liabilities	3,905,779	3,945,982
Net assets		
Unrestricted net assets	6,433,131	6,575,980
Total net assets	6,433,131	6,575,980
Total liabilities and net assets	$ 10,338,910	$ 10,521,962

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Revenue		
Criteria Services assessments	$ 1,105,866	$ 1,060,543
Regional Entity assessments	14,255,060	14,349,196
Penalty sanctions	-	75,000
Workshops	69,728	64,540
Interest and dividend income	11,502	5,158
Total revenue	15,442,156	15,554,437
Operating expenses		
Salaries and employee benefits	9,693,807	9,208,150
Administrative and consultant fees	2,467,949	2,183,058
Professional fees	531,020	472,662
Meetings and travel	1,165,189	1,069,327
Telephone and telecommunications	209,593	209,710
Office supplies and expense	444,560	373,572
Equipment leases	100,377	92,157
Rent expense	627,208	631,575
Insurance expense	45,097	50,584
Miscellaneous	51,029	44,316
Depreciation and amortization	249,176	259,511
Total operating expenses	15,585,005	14,594,622
(Decrease) Increase in net assets	(142,849)	959,815
Net assets		
Beginning of year	6,575,980	5,616,165
End of year	$ 6,433,131	$ 6,575,980

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

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ (142,849)	$ 959,815
Depreciation and amortization	249,176	259,511
Decrease (increase) in prepaid expenses	44,095	(35,185)
(Increase) in other assets	(37,106)	(61,220)
Increase in accrued expenses and other liabilities	152,775	484,963
(Decrease) increase in deferred revenue	(139,334)	35,413
(Decrease) in deferred rent	(53,644)	(53,643)
Net cash provided by operating activities	73,113	1,589,654
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(266,206)	(177,486)
Purchases of investments	(5,839)	(25)
Restricted cash	81	(8,123)
Net cash (used for) investing activities	(271,964)	(185,634)
Net (decrease) increase in cash	(198,851)	1,404,020
Cash		
Beginning of year	7,176,480	5,772,460
End of year	$ 6,977,629	$ 7,176,480

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, 2017 and 2016, 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 less accumulated depreciation and amortization. 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, 2017 is approximately $228,000.

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 Commissioners ("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, 2017 and 2016, the Company owned 1,816,878 and 1,811,039 units of $1 par value per unit, respectively. In 2017 and 2016, the funds earned average yields of 0.3% and 0%, respectively. 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, 2017 and 2016 consists of the following:

	Depreciable Life	2017	2016
Furniture	10 years	$ 204,968	$ 203,906
Computer equipment	3 years	387,228	347,725
Website	3 years	232,000	232,000
Software	3 years	1,015,491	789,850
Leasehold improvements	15 years (see Note 2)	974,691	974,691
		2,814,378	2,548,172
Less: Accumulated depreciation and amortization		(2,008,784)	(1,759,608)
		$ 805,594	$ 788,564

In 2017 and 2016, depreciation and amortization expense totaled $249,176 and $259,511, respectively.

5. 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 $229,064 and $226,578 for 2017 and 2016, 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. Starting with 2015, due to the termination of the Company's defined benefit pension plan in 2015, 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 2017 and 2016 was 8% of base compensation and totaled $471,182 and $452,018, respectively. The 2% supplemental contribution totaled $36,971 and $36,879 for 2017 and 2016 respectively. 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 to this supplemental plan for each of the years 2017 and 2016. 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 to this plan for each of the years 2017 and 2016.

6. 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 2020. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled $727,585 and $723,732 for 2017 and 2016, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2017 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2018	672,392	115,764	788,156
2019	704,392	80,884	785,276
2020	720,392	48,567	768,959
2021	720,392	-	720,392
2022	720,392	-	720,392
Thereafter	960,523	-	960,523
	$ 4,498,483	$ 245,215	$ 4,743,698

7. Functional Expenses

During 2017 and 2016 salaries and employee benefits consist of the following:

	2017	2016
President, COO and technical staff	$ 6,810,134	$ 6,495,668
Administrative support	208,650	208,503
Payroll taxes, insurance, educational assistance, savings and supplemental plans	2,675,023	2,503,979
Total salaries and employee benefits	$ 9,693,807	$ 9,208,150

8. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to $2,998,969 and $2,655,720 in 2017 and 2016, respectively, and consist of the following:

	2017	2016
Consultants	$ 1,746,351	$ 1,683,514
Accounting, legal and other services	1,221,368	944,324
Savings and supplemental plan administration	31,250	27,882
Total administrative, consultant and professional fees	$ 2,998,969	$ 2,655,720

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

9. 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 2017 and 2016, total Criteria Services assessments billed amounted to $1,105,866 and $1,060,543, respectively.

	2017		2016	
Description	**Percent**	**Total Share**	**Percent**	**Total Share**
Hydro-Quebec TransEnergie	29.07%	$ 321,358	29.52%	$ 313,097
Independent Electricity System Operator	21.56%	238,478	21.80%	231,219
ISO-NewEngland, Inc.	19.98%	220,974	19.83%	210,332
New Brunswick System Operator	2.23%	24,714	2.18%	23,077
New York Independent System Operator	25.43%	281,227	24.96%	264,718
Nova Scotia Power Inc.	1.73%	19,115	1.71%	18,100
Total Criteria Services assessments	100.00%	$ 1,105,866	100.00%	$ 1,060,543

10. 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. Starting June 18, 2016, the line is renewed on an annual basis. The current expiration date of the line is June 18, 2018. Outstanding borrowings are secured by all of the Company's assets. There were no borrowings against the line of credit as of and during the years ended December 31, 2017 and 2016.

11. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 26, 2018, the date the financial statements were available to be issued.