Northeast Power Coordinating Council, Inc.

Financial Statements
December 31, 2018

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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 Statement of Financial Position as of December 31, 2018 and the related Statement of Activities and Statement of Cash Flows for the year 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.

Auditors' 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, 2018, its activities and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

New York, New York

March 21, 2019

Northeast Power Coordinating Council, Inc.
Statement of Financial Position
December 31, 2018

Assets		
Cash	$	6,912,908
Restricted cash		270,293
Investments		1,840,294
Prepaid expenses		244,237
Other assets		247,216
Equipment and leasehold improvements, less accumulated depreciation and amortization of $2,274,315		611,242
Total assets	$	10,126,190
Liabilities and Net Assets		
Accrued expenses and other liabilities	$	2,817,673
Deferred revenue		509,901
Deferred rent		526,061
Total liabilities		3,853,635
Net assets		
Without donor restrictions:		
Available for operations		5,272,555
Board designated for future use		1,000,000
Total without donor restrictions		6,272,555
Total net assets		6,272,555
Total liabilities and net assets	$	10,126,190

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

Northeast Power Coordinating Council, Inc.
Statement of Activities
Year Ended December 31, 2018

Operating	
Revenue	
Criteria Services assessments	$ 1,019,141
Regional Entity assessments	14,341,787
Penalty sanctions	120,000
Workshops	63,449
Total revenue	15,544,377
Expenses	
Salaries and employee benefits	9,903,451
Administrative and consultant fees	2,500,876
Professional fees	574,705
Meetings and travel	954,993
Telephone and telecommunications	197,547
Office supplies and expense	482,542
Equipment leases	115,764
Rent expense	625,013
Insurance expense	63,704
Miscellaneous	49,604
Depreciation and amortization	265,531
Total expenses	15,733,730
Change in net assets from operating activities without donor restrictions	(189,353)
Non-operating	
Interest and dividend income	28,777
Change in net assets without donor restrictions	(160,576)
Net assets	
Beginning of year	6,433,131
End of year	$ 6,272,555

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

Northeast Power Coordinating Council, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	$ (160,576)
Depreciation and amortization	265,531
Decrease in prepaid expenses	54,017
(Increase) in other assets	(31,804)
Increase in accrued expenses and other liabilities	175,825
(Decrease) in deferred revenue	(174,325)
(Decrease) in deferred rent	(53,644)
Net cash provided by operating activities	75,024
Cash flows from investing activities	
Purchases of equipment and leasehold improvements	(71,179)
Purchases of investments	(23,416)
Restricted cash	(45,150)
Net cash (used for) investing activities	(139,745)
Net (decrease) in cash	(64,721)
Cash	
Beginning of year	6,977,629
End of year	$ 6,912,908

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

The Company uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk.

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor restrictions.
>
> *Net Assets With Donor Restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be

maintained in perpetuity. NPCC did not have any net assets with donor restrictions at December 31, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which is intended to develop a single, principle-based revenue standard for US GAAP. This revenue standard aims to improve accounting for contracts with customers by providing a robust framework for addressing revenue issues as they arise, increasing comparability across industries and capital markets, and requiring improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized.

The majority of the Company's revenue is recognized over time, with performance obligations that are satisfied within the same fiscal year. The majority of the Company's contracts do not contain variable consideration and contract modifications are generally minimal. Based on the Company's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

NPCC has elected to early adopt ASU 2014-09 effective January 1, 2018, utilizing the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. The adoption did not result in adjustment to the beginning net assets and the presentation of these statements.

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. The Company recognizes revenue as the performance obligations for Criteria Services and Regional Entity are satisfied throughout a membership year. The amount of revenue recognized reflects the consideration the Company expects to receive from members in connection with the Company's activities. The Company uses the input method to recognize revenue on the basis of the Company's efforts to satisfy the performance obligations evenly throughout the membership year. 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 Statement 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, 2018 is approximately $192,000.

Income Taxes
The Company has been classified as exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code. The Company is subject to income taxes on revenues from unrelated business activities. The Company is subject to an unrelated business income tax on transportation benefits starting January 1, 2018. The amount of tax incurred for 2018 is approximately $16,000.

The Company follows standards in Accounting Standards Codification (ASC) 740, "Income Taxes", in establishing and classifying any tax provisions for uncertain tax positions and in recognizing any interest and penalties.

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, 2018, the Company owned 1,840,294 units of $1 par value per unit. In 2018, the funds earned average yields of 1.29%. 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, 2018 consist of the following:

	Depreciable Life		
Furniture	10 years	$	204,968
Computer equipment	3 years		441,079
Website	3 years		232,000
Software	3 years		1,032,819
Leasehold improvements	15 years (see Note 2)		974,691
			2,885,557
Less: Accumulated depreciation and amortization			(2,274,315)
		$	611,242

In 2018, depreciation and amortization expense totaled $265,531.

5. Net Assets Without Donor Restrictions

Effective in 2018, NPCC's Board of Directors designated $1,000,000 of Net Assets to serve as a Business Continuity Reserve ("BCR"). The BCR will serve to fund varying financial impacts over several years beginning in 2020, in connection with succession initiatives for the office of President and CEO or in the event of multiple coincident staff retirements.

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan which provides for safe harbor matching contributions. All employees are immediately eligible for the plan 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 $228,716 for 2018. Additionally, upon completion of a full calendar year of service, the Company's employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2018 was 8% of base compensation and totaled $459,055. 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 $37,000 to this supplemental plan for 2018. During 2013, the Company adopted a 457(f) plan for the President and CEO. The Company contributed $35,000 to this plan for 2018.

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC's office lease, which commenced in 2009, provides for base rent along with 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 $150,000. 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 $740,777 for 2018.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2018 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31,			
2019	$ 704,392	$ 80,884	$ 785,276
2020	720,392	50,137	770,529
2021	720,392	-	720,392
2022	720,392	-	720,392
2023	720,392	-	720,392
Thereafter	240,131	-	240,131
	$ 3,826,091	$ 131,021	$ 3,957,112

8. Salaries and employee benefits

During 2018, salaries and employee benefits consist of the following:

President, COO and technical staff	$ 6,914,556
Administrative support	199,694
Payroll taxes, insurance, educational assistance, savings and supplemental plans	2,789,201
Total salaries and employee benefits	$ 9,903,451

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to $3,075,581 in 2018, and consist of the following:

Consultants	$ 1,768,513
Accounting, legal and other services	1,277,212
Savings and supplemental plan administration	29,856
Total administrative, consultant and professional fees	$ 3,075,581

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

10. Functional Classification

The Company is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NPCC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NPCC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities). The following table summarizes operational and administrative programs on a functional basis for the year ended December 31, 2018:

	Programs		**Supporting Services**	
	Regional Entity	Criteria Services	Management and General	**Total**
Salaries and employee benefits	$ 6,630,990	$ 503,213	$ 2,769,248	$ 9,903,451
Administrative and consultant fees	2,029,138	47,693	424,045	2,500,876
Professional fees	425,282	28,735	120,688	574,705
Meetings and travel	700,140	49,854	204,999	954,993
Telephone and telecommunications	146,185	9,877	41,485	197,547
Office supplies and expense	368,446	22,648	91,448	482,542
Equipment leases	85,666	5,788	24,310	115,764
Rent expense	462,509	31,251	131,253	625,013
Insurance expense	47,141	3,185	13,378	63,704
Miscellaneous	36,707	2,480	10,417	49,604
Depreciation and amortization	196,492	13,277	55,762	265,531
Total expenses	$ 11,128,696	$ 718,001	$ 3,887,033	$ 15,733,730

11. Liquidity and Availability

NPCC regularly monitors liquidity required to meet its operating needs. NPCC is substantially supported by assessment revenue from the Regional Entity and the Criteria Services divisions. As part of NPCC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In the event of an unanticipated liquidity need, NPCC can also draw upon its available line of credit as further discussed in Note 14.

NPCC's financial assets available to meet cash needs for general expenditures within one year are as follows:

Financial assets:	
Cash	$ 6,912,908
Investments	1,840,294
Financial assets, at December 31, 2018	8,753,202
Less: Assets unavailable for general expenditures within one year:	
Board-designated reserve - BCR	1,000,000
Financial assets available to meet cash needs for general expenditures within one year	$ 7,753,202

12. Revenues

The following table shows the Company's revenues disaggregated according to the timing of satisfaction of performance obligations for the year ended December 31, 2018:

Revenue recognized at a point in time:	
Penalty sanctions	$ 120,000
Workshops	63,449
Total revenue recognized at a point in time	183,449
Revenue recognized over time:	
Criteria Services assessments	1,019,141
Regional Entity assessments	14,341,787
Total revenue recognized over time	15,360,928
Total revenues	$ 15,544,377

13. 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 2018, total Criteria Services assessments billed amounted to $1,019,141.

Description	Percent	Total Share
Hydro-Quebec TransEnergie	28.96%	$ 295,017
Independent Electricity System Operator	21.78%	222,007
ISO-NewEngland, Inc.	19.78%	201,628
New Brunswick System Operator	2.18%	22,199
New York Independent System Operator	25.57%	260,590
Nova Scotia Power Inc.	1.74%	17,700
Total Criteria Services assessments	100.00%	$ 1,019,141

14. 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 is renewed on an annual basis. The line of credit expires on June 18, 2019. 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 year ended December 31, 2018.

15. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 21, 2019, the date the financial statements were available to be issued.