

# **Northeast Power Coordinating Council, Inc.**

**Financial Statements  
December 31, 2016 and 2015**

**Northeast Power Coordinating Council, Inc.**  
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**December 31, 2016 and 2015**

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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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

New York, New York  
March 16, 2017

**Northeast Power Coordinating Council, Inc.**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

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	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash	\$ 7,176,480	\$ 5,772,460
Restricted cash	225,224	217,101
Investments	1,811,039	1,811,014
Prepaid expenses	342,349	307,164
Other assets	178,306	117,086
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$1,759,608 and \$1,566,827, respectively	<u>788,564</u>	<u>870,589</u>
Total assets	<u>\$ 10,521,962</u>	<u>\$ 9,095,414</u>
<b>Liabilities and Net Assets</b>		
Accrued expenses and other liabilities	\$ 2,489,073	\$ 2,004,110
Deferred revenue	823,560	788,147
Deferred rent	<u>633,349</u>	<u>686,992</u>
Total liabilities	<u>3,945,982</u>	<u>3,479,249</u>
Net assets		
Unrestricted net assets	<u>6,575,980</u>	<u>5,616,165</u>
Total net assets	<u>6,575,980</u>	<u>5,616,165</u>
Total liabilities and net assets	<u>\$ 10,521,962</u>	<u>\$ 9,095,414</u>

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

**Northeast Power Coordinating Council, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Criteria Services assessments	\$ 1,060,543	\$ 1,035,222
Regional Entity assessments	14,349,196	14,068,876
Penalty sanctions	75,000	10,000
Workshops	64,540	56,230
Interest income	5,158	6,266
Total revenue	<u>15,554,437</u>	<u>15,176,594</u>
<b>Operating expenses</b>		
Salaries and employee benefits	9,208,150	10,479,309
Administrative and consultant fees	2,183,058	1,898,511
Professional fees	472,662	504,708
Meetings and travel	1,069,327	994,458
Telephone and telecommunications	209,710	227,233
Office supplies and expense	373,572	433,730
Equipment leases	92,157	137,534
Rent expense	631,575	629,066
Insurance expense	50,584	50,119
Miscellaneous	44,316	46,249
Depreciation and amortization	259,511	300,434
Total operating expenses	<u>14,594,622</u>	<u>15,701,351</u>
Increase (Decrease) in net assets	959,815	(524,757)
<b>Net assets</b>		
Beginning of year	<u>5,616,165</u>	<u>6,140,922</u>
End of year	<u>\$ 6,575,980</u>	<u>\$ 5,616,165</u>

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

**Northeast Power Coordinating Council, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

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	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 959,815	\$ (524,757)
Depreciation and amortization	259,511	300,434
(Increase) in prepaid expenses	(35,185)	(63,540)
(Increase) in other assets	(61,220)	(64,208)
Increase in accrued expenses and other liabilities	484,963	355,284
(Decrease) in accrued liability for pension	-	(18,777)
Increase (decrease) in deferred revenue	35,413	(206,763)
(Decrease) in deferred rent	(53,643)	(53,644)
Net cash provided by (used in) operating activities	<u>1,589,654</u>	<u>(275,971)</u>
<b>Cash flows from investing activities</b>		
Purchases of equipment and leasehold improvements	(177,486)	(197,800)
(Purchases) sales of investments	(25)	399,988
Restricted cash	(8,123)	431,695
Net cash (used for) provided by investing activities	<u>(185,634)</u>	<u>633,883</u>
Net increase in cash	1,404,020	357,912
<b>Cash</b>		
Beginning of year	<u>5,772,460</u>	<u>5,414,548</u>
End of year	<u>\$ 7,176,480</u>	<u>\$ 5,772,460</u>

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

# **Northeast Power Coordinating Council, Inc.**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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#### **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, 2016 and 2015, 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.

# Northeast Power Coordinating Council, Inc.

## Notes to Financial Statements

### December 31, 2016 and 2015

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#### **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, 2016 is approximately \$264,000.

#### **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



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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, 2016 and 2015, the Company owned 1,811,039 and 1,811,014 units of \$1 par value per unit, respectively. In 2016 and 2015, 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, 2016 and 2015 consists of the following:

	Depreciable Life	2016	2015
Furniture	10 years	\$ 203,906	\$ 203,906
Computer equipment	3 years	347,725	312,487
Website	3 years	232,000	232,000
Software	3 years	789,850	714,332
Leasehold improvements	15 years (see Note 2)	974,691	974,691
		<u>2,548,172</u>	<u>2,437,416</u>
Less: Accumulated depreciation and amortization		<u>(1,759,608)</u>	<u>(1,566,827)</u>
		<u>\$ 788,564</u>	<u>\$ 870,589</u>

In 2016 and 2015, depreciation and amortization expense totaled \$259,511 and \$300,434, respectively.

**5. Pension Plan**

The Company had a trustee, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. In November 2014, the Company decided to terminate the Plan effective January 31, 2015 and freeze all benefits accruals for the Plan's participants effective December 31, 2014. 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 Company's plan contributions were \$0 and \$1,645,291 for the years 2016 and 2015, respectively. The amount of pension expense included in salaries and employee benefits in the Statements of Activities is \$0 and \$1,626,514 for the years ended December 31, 2016 and 2015, respectively.

**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 \$226,578 and \$218,427 for 2016 and 2015, 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 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

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contribution for those employees. The discretionary contribution for 2016 and 2015 was 8% of base compensation and totaled \$452,018 and \$429,558, respectively. The 2% supplemental contribution totaled \$36,879 and \$35,916 for 2016 and 2015, 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 2016 and 2015. 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 IRS code limitations. The Company contributed \$37,100 to this plan for each of the years 2016 and 2015.

**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 2020. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$723,732 and \$766,600 for 2016 and 2015, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2016 are as follows:

	<b>Office Space</b>	<b>Other Leases</b>	<b>Total</b>
<b>Year Ending December 31</b>			
2017	\$ 672,392	\$ 90,193	\$ 762,585
2018	672,392	44,483	716,875
2019	704,392	23,188	727,580
2020	720,392	10,018	730,410
2021	720,392	-	720,392
Thereafter	1,680,915	-	1,680,915
	<u>\$ 5,170,875</u>	<u>\$ 167,882</u>	<u>\$ 5,338,757</u>

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**8. Functional Expenses**

During 2016 and 2015 salaries and employee benefits consist of the following:

	<b>2016</b>	<b>2015</b>
President, COO and technical staff	\$ 6,495,668	\$ 6,259,389
Administrative support	208,503	193,308
Payroll taxes, insurance, pension and educational assistance	<u>2,503,979</u>	<u>4,026,612</u>
Total salaries and employee benefits	<u>\$ 9,208,150</u>	<u>\$ 10,479,309</u>

**9. Other Expenses**

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,655,720 and \$2,403,219 in 2016 and 2015, respectively, and consist of the following:

	<b>2016</b>	<b>2015</b>
Consultants	\$ 1,683,514	\$ 1,438,362
Accounting, legal and other services	944,324	948,131
Pension administration	<u>27,882</u>	<u>16,726</u>
Total administrative, consultant and professional fees	<u>\$ 2,655,720</u>	<u>\$ 2,403,219</u>

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 2016 and

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2015, total Criteria Services assessments billed amounted to \$1,060,543 and \$1,035,222, respectively.

Description	2016		2015	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	29.52%	\$ 313,097	29.25%	\$ 302,809
Independent Electricity System Operator	21.80%	231,219	21.70%	224,626
ISO-NewEngland, Inc.	19.83%	210,332	19.95%	206,495
New Brunswick System Operator	2.18%	23,077	2.17%	22,479
New York Independent System Operator	24.96%	264,718	25.21%	260,980
Nova Scotia Power Inc.	1.71%	18,100	1.72%	17,833
Total Criteria Services assessments	100.00%	\$ 1,060,543	100.00%	\$ 1,035,222

**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. On June 18, 2016, the line was renewed for one year until June 18, 2017. Outstanding borrowings are secured by all of the Company's assets. There were no borrowings against the line of credit as of December 31, 2016 and 2015.

**12. Subsequent Events**

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 16, 2017, the date the financial statements were available to be issued.