



posted on NERC's website and reviewed at the August 10, 2016 open meeting of the NERC Finance and Audit Committee ("FAC"). The unaudited report was accepted by the NERC Board of Trustees at its meeting on August 11, 2016.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications with respect to this filing may be addressed to:

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Commission's official service list

## **III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2016 BUDGET AND PROJECTED ACTUAL 2016 RESULTS**

The attached second quarter 2016 variance report compares actual (unaudited) financial results to NERC's budgeted expenditures as of June 30, 2016, and projected year-end 2016 financial results to NERC's total 2016 budgeted expenditures. NERC is providing additional discussion of significant variances between the projected actual (unaudited) year-end 2016 results and NERC's 2016 budget, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between projected year end 2016 results and the 2016 budget. For purposes of this discussion, NERC has focused on projected year end variances in excess of budget of \$500,000 or more, because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend

\$500,000 or more from Operating Reserves designated for “unforeseen contingencies” (as defined in NERC’s Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area. In addition, although not required by the Settlement Agreement, NERC is providing, for completeness, information in the attached report on actual cost variances less than budget of \$500,000 or more by department, program area or major activity. The explanations of variances provided herein are consistent with information previously provided to the Commission in NERC’s “Response to September 15, 2015 Letter” filed September 29, 2015, in NERC’s 2016 Business Plan and Budget case, Docket No. RR15-16-000,<sup>4</sup> and in 2015 quarterly variance reports filed with the Commission. While NERC makes every effort to accurately project year end balances and annual expenditures, unforeseen events and changing circumstances could significantly impact the amounts included herein. Furthermore, the risk of these adverse events is much greater when projections are made early in the reporting period.

**A. Compliance Assurance Program<sup>5</sup>**

Actual 2016 direct expenses plus net fixed asset expenditures for the Compliance Assurance Program are projected at year end to be \$839k less than budgeted. This under budget variance is primarily due to lower than expected Personnel Expenses related to staff vacancies and the prior transfer of two open budgeted positions in this Program to the Reliability Assessments and Performance Analysis Program where additional near term resources are needed. As the

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<sup>4</sup> *North American Electric Reliability Corporation’s Response to September 15, 2015 Letter*, filed September 29, 2015, in Docket No. RR15-16-000 (“September 29, 2015 Response”).

<sup>5</sup> The Compliance Assurance Program includes the Compliance Analysis, Certification and Registration Program and the Regional Entity Assurance and Oversight Program. These two operational programs were combined for reporting purposes in 2015.

Compliance Assurance Program has stabilized, implemented risk-based monitoring, and gained efficiencies in the administration of the Program, the positions were no longer necessary and were allocated to a more critical area.

**B. Reliability Assessments and Performance Analysis**

Actual 2016 direct expenses plus net fixed asset expenditures for the Reliability Assessments and Performance Analysis Program are projected to be \$1.1M more than budgeted, primarily due to the transfer of two open positions from the Compliance Assurance Program, as noted above. The primary activities supported by these additional resources include coordination of data for the state of reliability reports, assistance with the BES exception resolution, and historical event data analysis. Additionally, NERC authorized the use of reserves to purchase analysis software necessary to collect and analyze system inertia data.

**IV. CONCLUSION**

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission's January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric  
Reliability Corporation*

Dated: August 15, 2016

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 15<sup>th</sup> day of August, 2016.

*/s/ Meredith M. Jolivert*

Meredith M. Jolivert  
*Counsel for North American Electric  
Reliability Corporation*

# **ATTACHMENT**

## North American Electric Reliability Corporation Summary of Unaudited Results June 30, 2016

Through June 30, 2016, NERC was \$1.5M, 4.4%, under its expense and fixed asset budget, including costs related to the Cyber Risk Information Sharing Program (CRISP). NERC is projecting to be approximately on budget for total expenses and fixed assets at year end, with the exception of additional CRISP expenses resulting from an increase in CRISP participation (the cost of which is entirely funded by CRISP participants) and certain authorized reserve expenditures for the E-ISAC and other items discussed further below.

### Actual vs Budget (YTD) and Projection vs Total Budget

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 39,752,227</b>	<b>\$ 34,463,085</b>	<b>\$ 5,289,142</b>	<b>15.3%</b>	<b>\$ 68,079,475</b>	<b>\$ 67,502,155</b>	<b>\$ 577,320</b>	<b>0.9%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 19,373,800	\$ 18,904,062	\$ 469,739	2.5%	\$ 37,288,967	\$ 37,283,807	\$ 5,161	0.0%
MEETINGS, TRAVEL and CONFERENCE CALLS	1,729,418	1,812,000	(82,582)	-4.6%	3,646,564	3,620,286	26,278	0.7%
CONSULTANTS and CONTRACTS	5,364,014	6,432,966	(1,068,952)	-16.6%	13,972,958	12,865,914	1,107,044	8.6%
RENT	1,600,393	1,527,144	73,249	4.8%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	2,734,667	3,120,590	(385,922)	-12.4%	6,192,088	6,341,372	(149,284)	-2.4%
Other Non-Operating Expenses	24,898	30,000	(5,102)	-17.0%	100,668	110,000	(9,332)	-8.5%
FIXED ASSET PURCHASES (excluding depreciation)	1,479,085	1,955,500	(476,415)	-24.4%	3,908,199	3,911,000	(2,801)	-0.1%
<b>TOTAL EXPENSES and FIXED ASSETS</b>	<b>\$ 32,306,275</b>	<b>\$ 33,782,261</b>	<b>\$ (1,475,986)</b>	<b>-4.4%</b>	<b>\$ 68,333,732</b>	<b>\$ 67,186,665</b>	<b>\$ 1,147,066</b>	<b>1.7%</b>
FTEs	197.58	192.49	5.09	2.6%	188.58	192.48	(3.90)	-2.0%

### NERC VARIANCES - excluding CRISP

NERC was \$1.1M, 3.6%, under budget and is currently projecting to be approximately on budget at year end with the exception of authorized reserve expenditures. The projected year-end variance of \$638k set forth in the table below is due to the following, including approximately \$410k in reserve expenditures to support E-ISAC projects:

- (1) Anticipated use of reserves for E-ISAC projects (portal improvements, machine to machine communications (STIX/TAXII) pilot, analysis tools) in support of ESCC/MEC recommendations. At the time the budget was prepared, additional reserves were budgeted in the Operating Contingency Reserve in anticipation of the need to make additional one-time expenditures in connection with the ESCC/MEC recommendations, but insufficient information was available at that time to specifically budget for these expenditures;
- (2) Approved use of reserves for data analysis software to collect and analyze system inertia data;
- (3) Approved use of reserves for webTADS to enhance the user interface and improve data import capabilities;



- (4) Approved use of reserves for IT contract support during periods of staff vacancies (offset by lower personnel expenses in the department); and
- (5) Increase in DC and Atlanta building operating expenses, primarily related to unanticipated increases in both building maintenance costs and real estate taxes.

The following table and summary of variances by category reflect year-to-date (YTD) actual and 2016 projected results, without CRISP. A summary of results for CRISP is provided on page 5.

**Actual vs Budget (YTD) and Projection vs Total Budget  
(Excluding CRISP)**

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 30,408,670</b>	<b>\$ 30,459,788</b>	<b>\$ (51,118)</b>	<b>-0.2%</b>	<b>\$ 59,600,205</b>	<b>\$ 59,529,136</b>	<b>\$ 71,069</b>	<b>0.1%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 19,048,319	\$ 18,527,622	\$ 520,697	2.8%	\$ 36,547,878	\$ 36,542,135	\$ 5,742	0.0%
MEETINGS, TRAVEL and CONFERENCE CALLS	1,712,688	1,777,272	(64,584)	-3.6%	3,577,109	3,550,831	26,278	0.7%
CONSULTANTS and CONTRACTS	2,579,370	3,488,670	(909,300)	-26.1%	7,467,634	6,977,320	490,314	7.0%
RENT	1,600,393	1,527,144	73,249	4.8%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	2,660,300	2,881,072	(220,771)	-7.7%	5,820,304	5,862,095	(41,791)	-0.7%
Other Non-Operating Expenses	24,898	30,000	(5,102)	-17.0%	100,668	110,000	(9,332)	-8.5%
FIXED ASSET PURCHASES (excluding depreciation)	1,421,043	1,905,500	(484,457)	-25.4%	3,808,199	3,811,000	(2,801)	-0.1%
<b>TOTAL</b>	<b>\$ 29,047,010</b>	<b>\$ 30,137,280</b>	<b>\$ (1,090,270)</b>	<b>-3.6%</b>	<b>\$ 60,546,078</b>	<b>\$ 59,907,668</b>	<b>\$ 638,411</b>	<b>1.1%</b>
FTEs	195.14	189.72	5.42	2.9%	185.82	189.71	(3.89)	-2.0%

Following is a brief summary of significant variances by major categories:

- Personnel expenses were over budget \$521k, 2.8%, through June 30<sup>th</sup> due to having 5.42, 2.9%, more FTEs than budgeted. The 2016 personnel budget is based on 213 positions, reduced by a vacancy rate of 7.8% (accounting for attrition and timing of new hires). Personnel expenses are projected to be \$6k over budget at year-end based on current staffing assumptions, reflecting a stabilizing work force and associated lower vacancy rate of 5.0%.
- Consultant and Contract expenses were under budget \$909k, 26.1%, and are projected to be \$490k, 7.0%, over budget at year-end. In addition to smaller variances in other departments, the projected over budget variance is primarily due to the anticipated use of approximately \$410k in reserves for a number of important E-ISAC projects, including priority projects in the 2016 work plan developed with the ESCC Members Executive Committee.

## SUMMARY OF CONSULTANT AND CONTRACT EXPENSES BY DEPARTMENT

CONSULTANTS and CONTRACTS	Actual	Budget	Variance Over (Under)	Annual Projection	Annual Budget	Variance Over (Under)
COMPLIANCE ASSURANCE	\$ 3,072	\$ 100,002	\$ (96,930)	\$ 115,000	\$ 200,000	\$ (85,000)
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	408,344	542,022	(133,678)	1,064,274	1,084,039	(19,765)
RELIABILITY RISK MANAGEMENT	969,836	633,738	336,098	1,324,777	1,267,475	57,302
E-ISAC	101,159	331,668	(230,509)	1,073,835	663,335	410,500
TRAINING, EDUC and OP CERT	241,458	337,902	(96,444)	731,460	675,800	55,660
GEN & ADMIN	13,340	40,002	(26,662)	80,000	80,000	-
POLICY and EXTERNAL AFFAIRS	500	7,500	(7,000)	15,000	15,000	-
INFORMATION TECHNOLOGY	556,997	1,047,336	(490,339)	2,102,511	2,094,671	7,840
HUMAN RESOURCES	171,236	274,998	(103,762)	545,000	550,000	(5,000)
FINANCE and ACCOUNTING	113,428	148,500	(35,072)	365,777	297,000	68,777
<b>TOTAL (excluding CRISP)</b>	<b>\$ 2,579,370</b>	<b>\$ 3,488,670</b>	<b>\$ (909,300)</b>	<b>\$ 7,467,634</b>	<b>\$ 6,977,320</b>	<b>\$ 490,314</b>

- Rent expense was over budget \$73k, 4.8%, and projected to be \$170k, 5.6%, over budget at year-end due to higher than budgeted building maintenance and real estate taxes expense.
- Fixed Asset Purchases (excluding depreciation) were under budget YTD due to timing of expenses compared to budget allocation. This category is projected to be on budget at year-end.

**SUMMARY OF VARIANCES BY PROGRAM**

The following table reflects variances by department as of June 30, 2016.

DIRECT EXPENSES and NET FIXED ASSETS	2016 YTD Actual	2016 YTD Budget	Variance Over/(Under)	2016 Projection	2016 Budget	Variance Over/(Under)
RELIABILITY STANDARDS	1,725,025	1,867,386	(142,361)	3,654,536	3,678,708	(24,172)
COMPLIANCE ANALYSIS, CERTIFICATION and REGISTRATION	1,000,650	1,060,480	(59,830)	1,852,007	2,086,784	(234,777)
COMPLIANCE ASSURANCE	1,994,974	2,324,118	(329,144)	3,719,847	4,559,234	(839,386)
ENFORCEMENT	1,297,848	1,131,982	165,867	2,424,525	2,225,816	198,708
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2,938,197	2,644,136	294,062	6,302,905	5,230,815	1,072,090
RELIABILITY RISK MANAGEMENT	2,840,076	2,489,815	350,260	4,925,313	4,880,846	44,466
E-ISAC	2,281,005	2,367,740	(86,735)	5,009,937	4,742,862	267,074
TRAINING, EDUCATION and OPERATOR CERTIFICATION	927,308	1,041,924	(114,617)	2,074,606	2,060,167	14,440
GENERAL and ADMINISTRATIVE and EXECUTIVE	4,071,818	3,924,672	147,145	8,187,572	8,024,564	163,008
POLICY and EXTERNAL AFFAIRS	1,030,012	936,865	93,147	1,990,309	1,856,747	133,562
LEGAL and REGULATORY	1,579,527	1,749,071	(169,544)	3,336,936	3,465,966	(129,030)
INFORMATION TECHNOLOGY	5,014,655	6,114,461	(1,099,806)	11,979,692	12,156,674	(176,983)
HUMAN RESOURCES	563,394	759,799	(196,405)	1,485,294	1,510,177	(24,883)
FINANCE and ACCOUNTING	1,782,522	1,724,831	57,691	3,602,600	3,428,307	174,293
<b>TOTAL (excluding CRISP)</b>	<b>29,047,010</b>	<b>30,137,280</b>	<b>(1,090,270)</b>	<b>60,546,078</b>	<b>59,907,668</b>	<b>638,411</b>

Following is a brief summary of significant variances:

- Reliability Standards; Compliance Analysis, Certification and Registration; Compliance Assurance – Under budget YTD and projected to be under budget at year-end primarily due to expected personnel vacancies and the reallocation of resources to other areas.
- Enforcement – Over budget YTD and projected to be over budget at year-end due to lower personnel attrition and enhancements to the current CRATS database that was budgeted in 2015, but not completed. Funding for this project was reserved in the Future Obligations Reserve at the end of 2015.
- Reliability Assessments and Performance Analysis - Over budget YTD and projected to be over budget at year-end due to the allocation of additional resources to support ongoing program activities in specific departments within this program area. Certain resources were allocated to support (1) the coordination of data for the state of reliability reports, (2) assistance with the BES exception resolution, and (3) historical event data analysis. Additionally, the approved use of reserves were allocated to fund the purchase of data analysis software to collect and analyze system inertia data.
- Reliability Risk Management – includes Event Analysis and Situation Awareness departments - Over budget YTD due to timing of expenses incurred compared to the allocated budget, but expected to be approximately on budget at year-end.
- E-ISAC – Projected to be over budget at year-end due to the planned use of reserves as detailed above.

**BOARD OF TRUSTEES EXPENSES**

Board of Trustee expenses were under budget by \$29k, 3.8% through June 30<sup>th</sup>.

Board of Trustee Expenses	Actual	Budget	Variance Over (Under)	%
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings and Conference Calls	122,028	121,848	180	0.1%
Trustee Travel	55,391	78,666	(23,275)	-29.6%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>177,419</b>	<b>200,514</b>	<b>(23,095)</b>	<b>-11.5%</b>
<b>Professional Services</b>				
Independent Trustee Fees	556,772	563,178	(6,406)	-1.1%
Trustee Search Fees	428	-	428	0.0%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>557,200</b>	<b>563,178</b>	<b>(5,978)</b>	<b>-1.1%</b>
<b>Total Board of Trustee Expenses</b>	<b>734,619</b>	<b>763,692</b>	<b>(29,073)</b>	<b>-3.8%</b>

**CRISP VARIANCES**

CRISP expenses and fixed assets were \$287k, 7.5% under budget YTD and are projected to be \$509k, 6.4%, over budget at year-end primarily due to the additional costs associated with start-up expenses for new participants not originally included in the budget. These over budget variances are funded entirely through additional billings to CRISP participants. The calculation of 2015 actual versus budgeted CRISP costs has been completed and credits due to CRISP participants pursuant to the terms of the CRISP participant agreements were recently issued.

	Actual	Budget	Over (Under)	%	Annual Projection	Annual Budget	Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 9,343,556</b>	<b>\$ 4,003,297</b>	<b>\$ 5,340,259</b>	<b>133.4%</b>	<b>\$ 8,479,270</b>	<b>\$ 7,973,019</b>	<b>\$ 506,251</b>	<b>6.3%</b>
<b>EXPENSES and FIXED ASSETS</b>								
PERSONNEL EXPENSES	\$ 325,481	\$ 376,439	\$ (50,958)		\$ 741,090	\$ 741,671	\$ (582)	
MEETINGS, TRAVEL and CONFERENCE CALLS	16,730	34,728	(17,998)		69,455	69,455	-	
CONSULTANTS and CONTRACTS	2,784,644	2,944,296	(159,652)		6,505,324	5,888,594	616,730	
RENT	-	-	-		-	-	-	
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	74,367	239,518	(165,151)		371,784	479,277	(107,493)	
Other Non-Operating Expenses	-	-	-		-	-	-	
FIXED ASSET PURCHASES (excluding depreciation)	58,042	50,000	8,042		100,000	100,000	-	
Indirect Expenses and Allocation of Fixed Assets	272,226	173,505	98,720		694,022	694,022	(0)	
<b>TOTAL EXPENSES and FIXED ASSETS</b>	<b>\$ 3,531,490</b>	<b>\$ 3,818,487</b>	<b>\$ (286,997)</b>	<b>-7.5%</b>	<b>\$ 8,481,675</b>	<b>\$ 7,973,020</b>	<b>\$ 508,655</b>	<b>6.4%</b>

**OPERATING RESERVES – Current Balances**

As of June 30, 2016, the balance in working capital and operating reserves was \$16M, which was \$6.5M higher than budget. The increase was primarily due to higher CRISP reserves, which increased \$5.8M due to timing differences between receipt of third-party funding for CRISP, which occurs at the beginning of the year, and expenses incurred throughout the year.

				June 30, 2016 Reserve Balances				
	Actual	Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)	\$ 3,431,795	\$ 1,213,419	\$ 930,568	\$ 500,000	
<b>Change in Reserves from Current Year Operations</b>								
Change in Reserves from budgeted operations	7,736,115	680,824	7,055,291	-	1,949,037	(24,988)	5,812,066	
Approved use of reserves	(290,163)	-	(290,163)	(238,323)	(51,840)			
<b>Capital Financing</b>								
Proceeds from Financing Activities (non-current only)	589,375		589,375		589,375			
Debt Service	(372,126)	(87,917)	(284,210)		(372,126)			
<b>Other adjustments to reserves**</b>	1,981,833	2,271,000	(289,167)	(289,167)	-			2,271,000
<b>Reserve Balance</b>	<b>\$15,720,815</b>	<b>\$ 9,177,430</b>	<b>\$ 6,543,386</b>	<b>\$ 2,904,305</b>	<b>\$ 3,327,863</b>	<b>\$ 905,580</b>	<b>\$ 6,312,066</b>	<b>\$ 2,271,000</b>

\*\* Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization of future obligations and funding the 457f plan.

\*\*\* Represents \$500k of insurance reserves, plus 2016 CRISP funding billed, net of 2016 actual YTD expenses.

**OPERATING RESERVES – Year-End Projection**

The current year-end projection in total operating reserves is \$8.0M, including \$2.3M in the Assessment Stabilization Reserve and \$1.7M in the Operating Contingency Reserve (OCR). The 2017 Business Plan and Budget includes an additional \$500k in OCR funding and a projected 1/1/17 balance of \$2.2M.

The OCR balance projected in the 2016 budget was \$2.5M. The projected year-end balance of \$1.7M is primarily due to the following factors:

- 2016 beginning balance was \$134k lower than originally budgeted;
- NERC anticipated the use of up to \$500k for E-ISAC projects not yet defined as of the 2016 budget approval (currently projecting \$410k in E-ISAC reserve expenditures as noted earlier in this report);
- Approved use of reserves for software to collect and analyze system data (\$172k);

- Approved use of reserves for enhancements to webTADS related to interface and data support (\$113k);
- Approved use of reserves for IT contract support during periods of staff vacancies.
- Increase in DC and Atlanta building operating expenses, primarily related to unanticipated increases in both building maintenance and real estate taxes.

				2016 Projected Year End Reserve Balances				
	2016 Projection	2016 Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)	\$ 3,431,796	\$ 1,213,419	\$ 930,568	\$ 500,000	\$ -
<b>Change in Reserves from Current Year Operations</b>								
Change in Reserves from budgeted operations	862,799	315,490	547,309		1,109,651	(246,852)		
Approved use of reserves	(1,117,056)	-	(1,117,056)	(320,218)	(796,838)			
<b>Capital Financing</b>								
Proceeds from Financing Activities (non-current only)	1,256,042	1,000,000	256,042		1,256,042			
Debt Service	(1,055,000)	(1,055,000)	-		(1,055,000)			
<b>Other adjustments to reserves**</b>	1,806,132	2,170,614	(364,482)	(464,868)	-			2,271,000
<b>Reserve Balance</b>	<b>\$ 7,828,699</b>	<b>\$ 8,744,627</b>	<b>\$ (915,927)</b>	<b>\$ 2,646,709</b>	<b>\$ 1,727,275</b>	<b>\$ 683,716</b>	<b>\$ 500,000</b>	<b>\$ 2,271,000</b>

\*\* Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization of future obligations and funding the 457f plan.

\*\*\* Represents \$500k of insurance reserves.

The Future Obligation Reserve is being reduced primarily by two factors:

- A transfer of \$320k from the OCR was reflected at the end of 2015 to fund certain projects that were still underway. These projects were budgeted, but the timing of their completion extended into 2016. So funds available from the 2015 budget were transferred into this Future Obligation Reserve and then released in 2016 to fund the completion of these projects.
- The majority of the remaining \$465k in reductions from this reserve relate to the amortization of NERC’s facilities lease arrangements. The lease expense has been recognized on a straight-line basis over the term of the lease and assessments were calculated accordingly. But the underlying lease payments have fluctuated under the terms of the lease, beginning much lower and escalating over time. As the actual lease payment escalates above the straight-line amortization (and above the amount included in expenses and assessments), the additional lease funding comes from this reserve account.

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities and Fixed Assets Budget**  
**(Unaudited)**  
**For the period ended 06/30/2016**

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
<b>Funding</b>								
Assessments	\$ 28,540,728	\$ 28,540,728	-		\$ 57,081,445	\$ 57,081,445	\$ -	
Assessment Stabilization Reserves - Penalties	1,439,000	1,439,000	-		1,439,000	1,439,000	-	
Assessment Stabilization Reserves - Non-Penalties	-	-	-		-	-	-	
Third-Party Funding (CRISP)	8,755,012	3,415,369	5,339,643		7,335,757	6,830,738	505,019	
Testing	882,828	933,984	(51,156)		1,867,972	1,867,972	-	
Services & Software	36,000	25,004	10,996		50,000	50,000	-	
Workshop Fees	80,508	107,500	(26,992)		269,201	230,000	39,201	
Interest	17,948	1,500	16,448		35,898	3,000	32,898	
Miscellaneous	202	-	202		202	-	202	
<b>Total Funding</b>	<b>\$ 39,752,227</b>	<b>\$ 34,463,085</b>	<b>\$ 5,289,142</b>	<b>15.3%</b>	<b>\$ 68,079,475</b>	<b>\$ 67,502,155</b>	<b>\$ 577,320</b>	<b>0.9%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 14,908,247	\$ 14,357,874	\$ 550,373		\$ 29,052,918	\$ 28,842,336	\$ 210,581	
Payroll Taxes	1,214,485	1,244,194	(29,709)		1,830,724	1,871,367	(40,643)	
Employee Benefits	1,810,136	1,789,680	20,456		3,390,190	3,579,280	(189,090)	
Savings & Retirement	1,440,932	1,512,314	(71,381)		3,015,135	2,990,823	24,312	
<b>Total Personnel Expenses</b>	<b>\$ 19,373,800</b>	<b>\$ 18,904,062</b>	<b>\$ 469,739</b>	<b>2.5%</b>	<b>\$ 37,288,967</b>	<b>\$ 37,283,807</b>	<b>\$ 5,161</b>	<b>0.0%</b>
<b>Meeting Expenses</b>								
Meetings	\$ 473,723	\$ 550,110	\$ (76,388)		\$ 1,194,500	\$ 1,096,500	\$ 98,000	
Travel	1,153,289	1,101,888	51,401		2,190,184	2,203,786	(13,602)	
Conference Calls	102,406	160,002	(57,596)		261,880	320,000	(58,120)	
<b>Total Meeting Expenses</b>	<b>\$ 1,729,418</b>	<b>\$ 1,812,000</b>	<b>\$ (82,582)</b>	<b>-4.6%</b>	<b>\$ 3,646,564</b>	<b>\$ 3,620,286</b>	<b>\$ 26,278</b>	<b>0.7%</b>
<b>Operating Expenses</b>								
Consultants and Contracts	\$ 5,364,014	\$ 6,432,966	\$ (1,068,952)		\$ 13,972,958	\$ 12,865,914	\$ 1,107,044	
Rent & Improvements	1,600,393	1,527,144	73,249		3,224,287	3,054,287	170,000	
Office Costs	1,702,807	1,897,815	(195,007)		3,740,288	3,795,572	(55,284)	
Professional Services	1,025,177	1,204,650	(179,473)		2,414,300	2,509,300	(95,000)	
Miscellaneous	6,683	18,125	(11,442)		37,500	36,500	1,000	
Depreciation	1,232,143	1,321,103	(88,960)		2,558,606	2,641,943	(83,337)	
<b>Total Operating Expenses</b>	<b>\$ 10,931,217</b>	<b>\$ 12,401,803</b>	<b>\$ (1,470,586)</b>	<b>-11.9%</b>	<b>\$ 25,947,939</b>	<b>\$ 24,903,515</b>	<b>\$ 1,044,424</b>	<b>4.2%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 24,898</b>	<b>\$ 30,000</b>	<b>\$ (5,102)</b>	<b>-17.0%</b>	<b>\$ 100,668</b>	<b>\$ 110,000</b>	<b>\$ (9,332)</b>	<b>-8.5%</b>
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
<b>Total Expenses</b>	<b>\$ 32,059,333</b>	<b>\$ 33,147,864</b>	<b>\$ (1,088,532)</b>	<b>-3.3%</b>	<b>\$ 66,984,139</b>	<b>\$ 65,917,608</b>	<b>\$ 1,066,530</b>	<b>1.6%</b>
<b>Net Change in Assets</b>	<b>\$ 7,692,894</b>	<b>\$ 1,315,221</b>	<b>\$ 6,377,673</b>	<b>484.9%</b>	<b>\$ 1,095,337</b>	<b>\$ 1,584,547</b>	<b>\$ (489,210)</b>	<b>-30.9%</b>
<b>Fixed Assets</b>								
Depreciation	\$ (1,232,143)	\$ (1,321,103)	\$ 88,960		\$ (2,558,606)	\$ (2,641,943)	\$ 83,337	
Computer & Software	1,112,985	1,173,500	(60,515)		2,362,402	2,347,000	15,402	
Furniture & Fixtures	-	-	-		-	-	-	
Equipment	366,099	782,000	(415,901)		1,545,797	1,564,000	(18,203)	
Leasehold Improvements	-	-	-		-	-	-	
Allocation of Fixed Assets	-	-	-		-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 246,942</b>	<b>\$ 634,397</b>	<b>\$ (387,455)</b>	<b>\$ -</b>	<b>\$ 1,349,593</b>	<b>\$ 1,269,057</b>	<b>\$ 80,536</b>	<b>\$ -</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>\$ 32,306,275</b>	<b>\$ 33,782,261</b>	<b>\$ (1,475,986)</b>	<b>-4.4%</b>	<b>\$ 68,333,732</b>	<b>\$ 67,186,665</b>	<b>\$ 1,147,066</b>	<b>1.7%</b>
<b>Change in Operating Reserves (Total Funding less Total Budget)</b>	<b>7,445,952</b>	<b>680,824</b>	<b>6,765,128</b>	<b>993.7%</b>	<b>(254,256)</b>	<b>315,490</b>	<b>(569,746)</b>	
<b>FTE's</b>	<b>197.58</b>	<b>192.49</b>	<b>5.09</b>	<b>2.6%</b>	<b>188.58</b>	<b>192.48</b>	<b>(3.90)</b>	<b>-2.0%</b>

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
STATEMENT OF FINANCIAL POSITION  
(Unaudited)**

	Unaudited		Working Capital and Operating Reserves	
	6/30/2016	12/31/2015	6/30/2016	12/31/2015
<b>ASSETS</b>				
Cash	\$ 45,500,405	\$ 40,308,955	\$ 45,500,405	\$ 40,308,955
Accounts receivable, net of allowance for uncollectible accounts of \$0	16,528,136	3,986,346	16,528,136	3,986,346
Prepaid expenses and other current assets	1,220,894	1,291,805	1,220,894	1,291,805
Security deposit	125,416	125,416		
457(b) – Non-Qualified Deferred Compensation	744,439	744,439		
457(f) - Non-Qualified Def Comp	473,741	271,200		
Property and equipment	8,504,420	8,301,731		
<b>Total Assets</b>	<b>\$ 73,097,451</b>	<b>\$ 55,029,892</b>		
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
<b>Current Portion</b>				
Accounts payable and accrued expenses (includes vacation accrual)	\$ 4,104,048	\$ 5,326,723	\$ (4,104,048)	\$ (5,326,723)
Accrued incentive compensation	2,450,205	4,721,278	(2,450,205)	(4,721,278)
Deferred rent-current	359,067	322,016	(359,067)	(322,016)
Deferred compensation - current	8,414	-	(8,414)	-
Capital lease obligations - current	64,728	64,728	(64,728)	(64,728)
Accrued retirement liabilities	1,120,420	1,878,830	(1,120,420)	(1,878,830)
Debt service - current portion	1,038,940	744,253	(1,038,940)	(744,253)
Deferred income	17,096,123	7,961,316	(17,096,123)	(7,961,316)
Deferred revenue - CRISP	-	2,508,514	-	(2,508,514)
Regional assessments	20,786,675	12,273,666	(20,786,675)	(12,273,666)
<b>Total Current Portion</b>	<b>\$ 47,028,620</b>	<b>\$ 35,801,324</b>		
<b>Long-Term Portion</b>				
Deferred compensation <sup>1</sup>	1,097,029	1,038,350		
Long-Term Debt	897,560	680,311		
Penalties-Assessments stabilization	2,271,000	-		
Deferred Rent-non-current	3,222,741	3,412,298		
CRISP Insurance Reserve	500,000	500,000		
Capital lease obligations - non-current	151,752	151,752		
<b>Total Long-Term Portion</b>	<b>\$ 8,140,082</b>	<b>\$ 5,782,711</b>		
<b>Total Liabilities</b>	<b>\$ 55,168,702</b>	<b>\$ 41,584,035</b>		
Net Assets - unrestricted	\$ 17,428,750	\$ 9,735,856		
Net Assets - restricted	500,000	3,710,000	(500,000)	(3,710,000)
<b>Total Liabilities and Net Assets</b>	<b>\$ 73,097,451</b>	<b>\$ 55,029,891</b>	<b>\$ 15,720,815</b>	<b>\$ 6,075,782</b>
<sup>1</sup> Includes 457b and 457f liabilities, life insurance for former executive, and retiree medical				
<b>Working Capital and Operating Reserves</b>	<b>\$ 15,720,815</b>	<b>\$ 6,075,782</b>		

**Financial Covenants**

1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (Working Capital / Debt Service)	15.13
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0* (= Cash - Regional Assessments - Restricted Net Assets)	23.31