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May 30, 2018

**VIA ELECTRONIC FILING**

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation**
**Docket No. RR18-_-000**
**Report of Comparisons of Budgeted to Actual Costs for 2017**
**for NERC and the Regional Entities**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2017 for NERC and the Regional Entities."

This filing consists of: (1) this transmittal letter, (2) the narrative text of the filing, which follows this transmittal letter, and (3) Attachments 1 through 10. The Table of Contents to the narrative text list the 10 attachments.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric Reliability Corporation

**UNITED STATES OF AMERICA**
**Before the**
**FEDERAL ENERGY REGULATORY COMMISSION**

| | | |
|---|---|---|
| **NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION** | )<br>)<br>) | **Docket No. RR18-__-000** |

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2017 FOR NERC AND THE REGIONAL ENTITIES**


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May 30, 2018

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**ATTACHMENTS:**

# I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2017 for NERC and the eight Regional Entities.[1] The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.[2] In several subsequent orders, the Commission has clarified and modified the information to be included in the annual actual-to-budgeted cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2017, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.

- Audited financial statements of NERC and each Regional Entity for the year ended December 31, 2017.

- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2017 budgets and actual results.

This filing includes the following attachments:

**Attachment 1:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

**Attachment 2:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

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[1] The eight Regional Entities are the Florida Reliability Coordinating Council, Inc. ("FRCC"), Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council, Inc. ("NPCC"), ReliabilityFirst Corporation ("ReliabilityFirst"), SERC Reliability Corporation ("SERC"), Southwest Power Pool, Inc. Regional Entity ("SPP RE"), Texas Reliability Entity, Inc. ("Texas RE"), and Western Electricity Coordinating Council ("WECC").

[2] *North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 121 FERC ¶ 61,057 (2007) ("*2008 ERO Budget Order*").

**Attachment 3:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

**Attachment 4:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

**Attachment 5:** 2017 Actual Cost-to-Budget Comparison and Audited Financial 6tatements for ReliabilityFirst.

**Attachment 6:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

**Attachment 7:** 2017 Actual Cost-to-Budget Comparison for SPP RE and Audited Financial Statements for Southwest Power Pool, Inc.

**Attachment 8:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

**Attachment 9:** 2017 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

**Attachment 10:** Metrics Concerning Administrative Costs in 2017 NERC and Regional Entity Budgets and Actual Costs

## II. NOTICES AND COMMUNICATIONS

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

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## III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2017 – NERC AND REGIONAL ENTITIES

As noted above, in the *2008 ERO Budget Order*, the Commission directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, "in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations."[3] In its June 19, 2008 Order addressing NERC's April 1, 2008 compliance filing to the *2008 ERO Budget Order*, the Commission provided additional direction concerning the presentation of the annual filings comparing NERC's and the Regional Entities' actual to budgeted expenditures:

> 37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity's statutory programs in the aggregate. Regional Entities should also follow NERC's template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.
>
> 38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.[4]

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[3] *2008 ERO Budget Order* at P 23.

[4] *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) ("*June 19, 2008 Budget Compliance Order*"), PP 37-38.

In addition, although the following directive in the *2008 ERO Budget Order* was expressly applicable to NERC's compliance filing comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

> 66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the . . . compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

The comparisons of 2017 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

- **Attachment 1:** NERC
- **Attachment 2:** FRCC
- **Attachment 3:** MRO
- **Attachment 4:** NPCC
- **Attachment 5:** ReliabilityFirst
- **Attachment 6:** SERC
- **Attachment 7:** SPP RE
- **Attachment 8:** Texas RE
- **Attachment 9:** WECC

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2017, as prepared by its independent public accounting firm.

The comparisons provided in **Attachments 1** through **9** conform to the Commission's directives as quoted above:

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2017 budget, 2017 actual amounts, and the variance, for major line-item categories of Funding and Expenses.
- For those entities that engaged in both statutory and non-statutory activities in 2017, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2017 budget, 2017 actual amounts, and the variance, for major line-item categories of Funding and Expenses.[5]
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2017 budget, 2017 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs[6] (direct costs) and for the administrative functions[7] (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, either below the table or on the immediately following page(s).[8]

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2017 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2017); (ii) the impact of the entity's 2017 results on its working cash reserve for statutory

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[5] FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2017 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2017 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

[6] Statutory programs encompass Reliability Standards, Compliance Operations and Enforcement, Reliability Assessment and Performance (or System) Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection).

[7] The administrative functions are Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. Some of the Regional Entities report budget and actual expenditure information for some or all of the overhead functions on a combined basis, in particular to protect the confidentiality of compensation information for departments that have a limited number of staff members.

[8] Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount <u>and</u> greater than $10,000 over or under the budgeted amount.

programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2017)[9]; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2017.

NERC has provided additional information in its 2017 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, by department, and (2) an analysis of the major sources of changes in its working capital and operating reserves for 2017. The table on page 3 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2017 by NERC program area, and is accompanied by a discussion of the principal reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area. The analysis of changes in working capital and operating reserves is provided on page 8 of **Attachment 1**, including a table which shows the changes in working capital and operating reserves due to 2017 budgeted operations (differences in actual funding or expenditures from amounts budgeted) and due to approved uses of reserves, for (as applicable) the Operating Contingency Reserve, the Future Obligations Reserve, the Assessment Stabilization Reserve, the System Operator Reserve, and the Cyber Risk Information Sharing Program Reserve. In addition, in its report, NERC has provided an actual cost-to budget comparison for 2017 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). *See* page 6 of **Attachment 1**.

[9] The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" (or in "Operating Reserves") for the 2017 Actual Funding and Expenditures. A positive "Change in Working Capital" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2017; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2016 to fund 2017 expenditures.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2017 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and the Regional Entities in 2017, as identified by NERC's review of the comparisons.

- A number of entities[10] experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget.[11]
- Having fewer (or in some cases, more) personnel on staff than budgeted was a factor tending to reduce (or increase) Meetings, Travel Expense, and/or Office Costs (each of which is related, to some extent, to staffing levels) below (or above) the budgeted amounts.
- The inability to fill budgeted positions as planned resulted, in some instances, in higher-than budgeted Consultants and Contracts or Professional Services expense, due to the need to use consultants or contractors to perform work that would have been performed by employees in unfilled positions. Additionally, for some entities, the need to use outside recruiting services to fill vacant positions resulted in higher Consultants and Contracts or Professional Services expenses for those services.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. Employee Benefits expense was also lower than budgeted for some entities due to

[10] The term "entities" is used in this discussion to include NERC as well as Regional Entities.

[11] In the development of their annual budgets, NERC and some of the Regional Entities attempt to address this "vacant position" variance issue by including an "attrition factor," "vacancy factor" or "labor float factor" into their budget calculations. The use of these factors recognizes that, as in any organization, a portion of the budgeted positions will be vacant during a part of the year due to delays in filling new or vacant positions and unexpected/unbudgeted departures of existing employees. Nonetheless, variances between the projected and actual attrition factor, vacancy factor or labor float factor can result in variances between budgeted and actual Personnel Expenses.

employees not using educational or training program benefits to the full extent assumed in the budget.

- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget.
- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2017, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- Some entities experienced lower than budgeted expenses in their Compliance Monitoring and Enforcement Programs ("CMEP") for Personnel Expenses, Travel, Consultants and Contracts, and/or Professional Services, in connection with compliance audits and other CMEP functions, due to the continuing implementation of risk-based compliance monitoring and other changes to CMEP processes that resulted in less time being required at registered entities' sites for audits and produced other efficiencies.
- Some entities were able to spend less on Consultants and Contracts than budgeted as a result of having work that was budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, thereby increasing in-house capabilities, entities have seen less need to use outside services. Further, increased experience and expertise gained by entity staffs, and implementation of process efficiencies based on experience, has enabled entity staffs to perform and complete work for which consultants or contractors were previously used.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continued efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings; (ii) scheduling meetings at NERC or Regional Entity facilities or facilities of stakeholders (*e.g.* at the offices of Regional Entity members) rather than in rented, third-party meeting spaces; and/or (iii) overall increased corporate attention to controlling travel and meeting costs.
- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in recent years, have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.
- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects, while other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration of projects requiring consultant or contractor assistance, or the need to conduct unplanned, emergent projects requiring consultant or contractor assistance.

- Some entities experienced higher or lower Office Rent or Office Costs expense than budgeted due to higher or lower property taxes, maintenance costs, or utilities costs than assumed in preparing their budgets.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in the program area responsible for incurring, or benefitting from, the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services; or budgeting costs for information technology projects in the Information Technology budget but recording the actual costs in the program areas that require or utilize the particular projects or programs).
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2017 budget were either (i) completed, or at least initiated, in late 2016, (ii) not carried out in 2017 (*i.e.*, delayed/deferred to 2018 or later), or (iii) initiated later in 2017 than assumed in the budget and therefore not completed in 2017. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2016 were not fully completed in 2016, resulting in unbudgeted or over-budget expenditures in 2017.
- Some entities budgeted certain expenditures as expenses (*e.g.*, budgeting computer or software purchases as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures), based on the entity's capitalization policy or the capitalization requirements of GAAP. In other instances, the reverse occurred. Capitalizing rather than expensing these expenditures (or vice versa) also impacted actual versus budgeted Depreciation expense.
- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due either to (i) higher or lower total Indirect Expenses than budgeted, or (ii) differences in actual versus budgeted FTEs during the year in individual statutory programs, or both, entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than were planned in the budget, making a determination not to charge fees for some programs for which fees had been budgeted, or charging lower fees than budgeted because the costs to hold the event were less than budgeted (*e.g.*, due to obtaining meeting space at a lower cost than anticipated).
- Additionally (as noted earlier in this list), some entities held one or more workshops or similar programs at their offices, rather than at third-party facilities as assumed in

the budget, resulting in lower Meeting expense and thus lower Workshop revenue where the attendance fees charged are based on the costs of presenting the event.

- Several entities realized higher funding from Interest or Investment Income than budgeted due to higher-than-projected interests rates or returns earned on cash balances or investments.

In addition to the above-described causes of actual-to-budget variances, NERC and the Regional Entities experienced other above- or below-budget variances in actual Funding, Expenses and Fixed Asset Additions in individual line items due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1** through **9**.

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2017, as well as year-to-date actual cost-to-budget experience for 2018, into account in developing their business plans and budgets for 2019, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2018.

## IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2017 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics analyzing its administrative services expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings. NERC has provided administrative cost metrics for NERC and the Regional Entities in its annual actual cost-to-budget reports for the ensuing years. In accordance with the *June 19, 2008 Budget Compliance Order*, the costs incurred by NERC and the Regional Entities in the following functions are considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. *See June 19, 2008 Budget Compliance Order*, footnote 13.

**Attachment 10** provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2017 budgets and 2017 actual costs. In addition, **Attachment 10** provides a comparison of these metrics values for 2015, 2016 and 2017 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on page 1 of **Attachment 10**). (The term "expenditures" as used here means expenses plus capital expenditures (fixed asset additions net of depreciation).)

- Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on page 1 of **Attachment 10**).

- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on page 1 of **Attachment 10**).

These are the same administrative cost metrics that NERC has provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for the years 2008 through 2016.

## V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission's requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2017.

Respectfully submitted,

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# ATTACHMENT 1

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

# North American Electric Reliability Corporation 2017 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2017, NERC was $1.4M (2.1%) under budget for total expenses and fixed asset (capital) purchases, inclusive of expenses associated with the Cyber Risk Information Sharing Program (CRISP).

**2017 Actual vs Budget - Including CRISP**

| | Actual | Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| **TOTAL FUNDING** | **$ 69,938,400** | **$ 70,151,660** | **$ (213,260)** | **-0.3%** |
| **EXPENDITURES** | | | | |
| Personnel | $ 38,789,532 | $ 38,641,331 | $ 148,201 | 0.4% |
| Meetings, Travel & Conference Calls | 3,450,867 | 3,372,886 | 77,981 | 2.3% |
| Consultants & Contracts | 13,065,499 | 13,127,749 | (62,249) | -0.5% |
| Rent & Facilities | 2,903,371 | 3,117,009 | (213,638) | -6.9% |
| Office Costs, Professional and Misc. | 6,913,579 | 6,864,475 | 49,104 | 0.7% |
| Other Non-Operating Expense (Income) | 174,372 | 106,725 | 67,647 | 63.4% |
| Fixed Asset Additions | 2,859,723 | 4,372,000 | (1,512,277) | -34.6% |
| **TOTAL EXPENDITURES** | **$ 68,156,944** | **$ 69,602,175** | **$ (1,445,232)** | **-2.1%** |
| **RESERVE INCREASE (DECREASE)** | **$ 1,781,457** | **$ 549,485** | **$ 1,231,972** | **224.2%** |
| **FTEs** | **190.8** | **189.9** | **0.9** | **0.5%** |

**NERC VARIANCES - excluding CRISP**

Excluding CRISP, NERC was $1.3M (2.2%) under its expense and fixed assets budget at year-end. NERC utilized reserves for various expenditures during 2017 (see page 8 for details) and all were appropriately authorized under NERC's reserve policy. Those reserve expenditures, representing specific over budget items, were more than offset by reduced spending in others areas. Reserves were primarily utilized for projects in the operator certification department and IT department. NERC was under budget in contracts and consultants, rent, and fixed assets, offset by increased spending in personnel, meetings and office costs.

**2017 Actual vs Budget – Excluding CRISP**

| | Actual | Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| **TOTAL FUNDING** | **$ 61,758,880** | **$ 61,859,220** | **$ (100,340)** | **-0.2%** |
| **EXPENSES and FIXED ASSETS** | | | | |
| PERSONNEL EXPENSES | $ 38,064,019 | $ 37,872,960 | $ 191,059 | 0.5% |
| MEETINGS, TRAVEL and CONFERENCE CALLS | 3,412,339 | 3,303,194 | 109,145 | 3.3% |
| CONSULTANTS and CONTRACTS | 6,557,496 | 7,239,155 | (681,659) | -9.4% |
| RENT | 2,903,371 | 3,117,009 | (213,638) | -6.9% |
| OFFICE COSTS, PROFESSIONAL SERVICES and MISC. | 6,735,355 | 6,383,542 | 351,813 | 5.5% |
| OTHER NON-OPERATING EXPENSES | 174,372 | 106,725 | 67,647 | 63.4% |
| FIXED ASSET PURCHASES (excluding depreciation) | 2,756,020 | 4,022,000 | (1,265,980) | -31.5% |
| INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS | (625,547) | (734,850) | 109,303 | -14.9% |
| **TOTAL** | **$ 59,977,424** | **$ 61,309,735** | **$ (1,332,311)** | **-2.2%** |
| **FTEs** | **188.2** | **187.1** | **1.1** | **0.6%** |

Following is a brief summary of variances by major categories (excluding CRISP):

- Personnel expenses were over budget $191k (0.5%). Personnel expenses were over budget due primarily to actual staff attrition being lower than budget.

  Under appropriate accounting guidance, certain labor costs were capitalized and reflected as costs associated with applicable IT projects. For 2017, $526k was capitalized toward these projects and reflected in fixed assets. Before recognizing the capitalization of labor, the personnel expense category was over budget $717k (excluding CRISP).

- Meeting, travel and conferencing expenses were collectively over budget $109k (3.3%). Meetings and conferencing expenses were collectively $156k over budget, offset by travel expenses $47k under budget.
- Consultant and Contract expenses were under budget $682k (9.4%). The following is a brief summary of variances by department:
  - Standards was over budget due to contract support work to develop a reliability standard for mitigating geomagnetic disturbance risks.
  - Compliance Analysis and Certification, and Compliance Assurance were over budget due to discovery work on ERO software projects that were budgeted in Information Technology but transferred to the relevant program area.
  - Several departments, including Reliability Assessments and System Analysis, Reliability Risk Management, E-ISAC, Policy and External Affairs, Human Resources, and Finance were under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
  - Information Technology was under budget due the transfer of discovery work costs (costs incurred in the initial information gathering phase of software development projects) on ERO software projects that were budgeted in Information Technology but recorded in the relevant program area, and a lower than anticipated use of consulting support on general projects.

**2017 Consultant and Contract Expenses**
**By Department**

| CONSULTANTS and CONTRACTS | YTD Actual | YTD Budget | YTD Variance Over (Under) |
|---|---|---|---|
| STANDARDS | $ 58,829 | $ - | $ 58,829 |
| COMPLIANCE ANALYSIS and CERTIFICATION | 36,622 | - | 36,622 |
| COMPLIANCE ASSURANCE | 221,102 | 50,000 | 171,102 |
| COMPLIANCE ENFORCEMENT | - | - | - |
| RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS | 397,495 | 525,000 | (127,505) |
| RELIABILITY RISK MANAGEMENT | 1,594,236 | 1,823,932 | (229,696) |
| E-ISAC | 863,464 | 899,835 | (36,371) |
| TRAINING, EDUCATION & OPERATOR CERTIFICATION | 783,121 | 580,600 | 202,521 |
| POLICY and EXTERNAL AFFAIRS | 7,373 | 15,000 | (7,627) |
| INFORMATION TECHNOLOGY | 1,838,358 | 2,312,787 | (474,429) |
| HUMAN RESOURCES | 464,021 | 575,000 | (110,979) |
| FINANCE and ACCOUNTING | 292,875 | 457,000 | (164,125) |
| **TOTAL (excluding CRISP)** | **$ 6,557,496** | **$ 7,239,155** | **$ (681,659)** |

- Rent expense was under budget $214k (6.9%) due to lower than budgeted building maintenance and real estate taxes expense.

- Office Costs, Professional Services and Miscellaneous expenses were $352k (5.5%) over budget primarily due to higher actual costs for software license, subscription and support, which were partially offset by lower professional fees.
- Fixed Asset Purchases (excluding depreciation) were $1.3M (31.5%) under budget primarily due to lower than expected cost on the E-ISAC Portal, audio visual and computer equipment that was budgeted in fixed assets but acquired through a lease, and lower than expected spending on IT equipment.

**Summary of Variances by Program**

The following table reflects variances for direct expenses and fixed asset purchases by department as of December 31, 2017.

| DIRECT EXPENSES and NET FIXED ASSETS | 2017 Actual | 2017 Budget | Variance Over/(Under) |
|---|---|---|---|
| RELIABILITY STANDARDS | $ 3,153,342 | $ 3,629,945 | $ (476,603) |
| COMPLIANCE ANALYSIS, CERTIFICATION and REGISTRATION | 2,759,734 | 1,686,689 | 1,073,045 |
| COMPLIANCE ASSURANCE | 4,378,348 | 3,816,924 | 561,424 |
| ENFORCEMENT | 2,427,876 | 2,371,347 | 56,529 |
| RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS | 3,864,679 | 3,861,344 | 3,335 |
| RELIABILITY RISK MANAGEMENT | 8,047,116 | 7,529,324 | 517,792 |
| E-ISAC | 5,413,553 | 5,813,801 | (400,248) |
| TRAINIING, EDUCATION and OPERATOR CERTIFICATION | 1,953,554 | 1,920,376 | 33,178 |
| GENERAL and ADMINISTRATIVE and EXECUTIVE | 7,562,343 | 8,171,444 | (609,101) |
| POLICY and EXTERNAL AFFAIRS | 2,373,827 | 2,034,533 | 339,294 |
| LEGAL and REGULATORY | 2,774,108 | 3,292,379 | (518,271) |
| INFORMATION TECHNOLOGY | 10,325,561 | 12,480,846 | (2,155,285) |
| HUMAN RESOURCES | 1,431,944 | 1,608,583 | (176,639) |
| FINANCE and ACCOUNTING | 4,136,986 | 3,827,050 | 309,936 |
| **TOTAL (excluding CRISP)** | **$ 60,602,971** | **$ 62,044,585** | **$(1,441,614)** |
| CRISP | 7,553,973 | 7,557,591 | (3,617) |
| **TOTAL EXPENSES and FIXED ASSETS** | **$ 68,156,944** | **$ 69,602,175** | **$(1,445,232)** |

- Reliability Standards – Under budget primarily related to lower personnel costs (actual FTE's under budget), and lower actual meetings, travel expense and conference calls.
- Compliance Analysis, Certification and Registration- Over budget due to: (1) Entity Registration software project costs ($558k) being recorded here but originally budgeted and managed through IT, and (2) additional personnel resources ($477k) allocated to support ongoing program activities, including the Southwest Power Pool Regional Entity (SPP RE) dissolution.

- Compliance Assurance – Over budget primarily due to discovery work on the CMEP software project being recorded here, but originally budgeted and managed through IT ($215k), and additional resources added to support ongoing program activities.
- Reliability Risk Management (RRM) (includes Event Analysis, Performance Analysis, and Situation Awareness departments) – Over budget primarily due to IT projects (ERO Portal MIDAS, Enterprise Reporting MIDAS and FERC Order No. 824 data sharing) being budgeted in IT but the costs were recorded in RRM, totaling $545k.
- E-ISAC – Under budget primarily due to lower than budgeted expenditures on the E-ISAC Portal project.
- General and Administrative and Executive – Under budget in rent expense ($214k), personnel ($210k) and travel expense ($78k).
- Legal and Regulatory – Under budget due primarily to fewer personnel resources during the year ($202k), and lower than budgeted use of outside legal counsel ($250k).
- Information Technology – The under budget variance of $2.2M was primarily related to ERO application discovery and development costs that are budgeted and managed in IT but eventually recorded in the programs utilizing the applications. Approximately $1.5M of capital and contract costs were budgeted in the IT department but recorded in other operating programs for these ERO application projects. Before the impacts of these software project allocations to other departments, the IT department was $577k under budget in total primarily due to lower consultant and contract expenses and fixed asset spending, which were partially offset by higher office costs.

  The following table shows the detail of IT project costs budgeted in the IT department but recorded in other departments.

| Information Technology | 2017 |
|---|---|
| Actual | $10,325,561 |
| Budget | 12,480,846 |
| Variance Over (Under) | $ (2,155,285) |

| Transferred Projects - 2017 Costs | |
|---|---|
| Entity Registration (Registration) | $ 558,383 |
| Entity Registration JRO (Registration) | 36,622 |
| ERO Portal MIDAS (Reliability Risk Management) | 232,469 |
| Enterprise Reporting - MIDAS (Reliability Risk Management) | 198,301 |
| FERC 824 (Reliability Risk Management) | 113,742 |
| GADS Wind (Reliability Risk Management) | 22,885 |
| CMEP (Compliance Assurance) | 215,000 |
| BESnet (Reliability Assessment & System Analysis) | 34,932 |
| Standards Balloting System R4 (Standards) | 68,114 |
| E-ISAC Portal (E-ISAC) - IT Labor | 97,908 |
| Total Transferrred | $ 1,578,356 |
| **Adjusted Variance Over (Under)** | **$ (576,929)** |

## Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were under budget $193k (11.2%). Independent trustee fees and trustee travel were under budget due to vacancies of two trustee positions for the second half of the year.

| **Board of Trustee Expenses** | **Actual** | **Budget** | **Variance Over (Under)** | **%** |
|---|---|---|---|---|
| **Meetings and Travel Expenses** | | | | |
| Quarterly Board Meetings | $ 212,287 | $ 244,000 | $ (31,713) | -13.0% |
| Trustee Travel | 130,562 | 157,329 | (26,767) | -17.0% |
| **Total Board of Trustees Meetings and Travel Expenses** | **$ 342,849** | **$ 401,329** | **$ (58,480)** | **-14.6%** |
| **Professional Services** | | | | |
| Independent Trustee Fees | $ 1,084,587 | $ 1,226,000 | (141,413) | -11.5% |
| Trustee Search Fees | 106,418 | 100,000 | 6,418 | 6.4% |
| **Total Board of Trustee Professional Services Expenses** | **$ 1,191,005** | **$ 1,326,000** | **$ (134,995)** | **-10.2%** |
| **Total Board of Trustee Expenses** | **$ 1,533,854** | **$ 1,727,329** | **$ (193,475)** | **-11.2%** |

**<u>CRISP Variances</u>** (including indirect expenses and allocation of fixed assets)

CRISP was $113k (1.4%) under budget. The under runs in actual versus budgeted CRISP costs, which are funded by CRISP participants, will be credited to CRISP participants pursuant to the terms of the CRISP participant agreements.

| | Actual | Budget | Over (Under) |
|---|---|---|---|
| **TOTAL FUNDING** | **$ 8,179,520** | **$ 8,292,441** | **$ (112,920)** |
| | | | |
| **EXPENSES and FIXED ASSETS** | | | |
| PERSONNEL EXPENSES | $ 725,513 | $ 768,371 | $ (42,858) |
| MEETINGS, TRAVEL and CONFERENCE CALLS | 38,528 | 69,692 | (31,164) |
| CONSULTANTS and CONTRACTS | 6,508,004 | 5,888,594 | 619,410 |
| RENT | - | - | - |
| OFFICE COSTS, PROFESSIONAL SERVICES and MISC. | 178,225 | 480,933 | (302,708) |
| OTHER NON-OPERATING EXPENSES | - | - | - |
| FIXED ASSET PURCHASES (excluding depreciation) | 103,703 | 350,000 | (246,297) |
| INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS | 625,547 | 734,850 | (109,303) |
| **TOTAL EXPENSES and FIXED ASSETS** | **$8,179,520** | **$8,292,440** | **$ (112,919)** |

**Allocation of Indirect Expenses and Fixed Assets to Program Areas**

Total expenses (excluding fixed asset purchases) of the administrative programs were $29.6M, which was $205k (0.7%) over budget. The actual allocation of indirect expenses (excluding fixed asset purchases) per program area FTE (i.e. direct FTE) was $241k, which was under budget by $3k (1.0%) per FTE. Indirect expenses (excluding fixed asset purchases) were marginally higher than budget, while actual FTE's in program areas receiving the allocation were slightly higher.

Total fixed asset purchases for the administrative programs were $1.3M, which was $2.0M under budget. As explained above, fixed assets in the administrative programs were under budget due to capital projects that were budgeted and managed in IT, but eventually recorded in the direct function program area utilizing the product to properly align costs. Also, fixed asset spending in the IT department was under budget and depreciation expense was higher than budget, which both contributed to a lower than expected allocation of fixed assets. The actual allocation of fixed assets per program area FTE (i.e. direct FTE) was $(8k), $25k below budget.

## Use of Statutory Funds for Non-Statutory Activities

NERC does not have non-statutory activities and, therefore, did not use statutory funds for non-statutory activities.

## Operating Reserves Analysis

As of December 31, 2017, the balance in working capital and operating reserves was $10.3M, $2.3M (29%) more than budget, including $3.7M in the Operating Contingency Reserve (OCR) and $2.7M in the Assessment Stabilization Reserve (ASR).

The following items reflect the authorized use of reserves during 2017:

- Operating Contingency reserve usage for the following items
  - ERO conference ($43k)
  - Change order to Transmission Availability Data System (TADS) project contract ($43k)
- Future Obligation reserve usage for software projects carried over from 2016. These projects were underway at the end of the previous year, and funds were set aside to finish the projects in early 2017.
  - Standards Balloting System ($65k)
  - BESnet ($31k)
  - Document Management ($18k)
- System Operator reserves usage (approved by the PCGC committee) of $351k for additional enhancements and development of the new operator certification and administrative database application, and to fund planned revenue shortfall for the year.

**Reserves**
**2017 Year-end Actual**
**As of December 31, 2017**

| | Beginning Balance | Budgeted Funding | Budgeted Uses | Other Funding (Uses)* | Net Financing Activity ** | Expected Ending Balance |
|---|---|---|---|---|---|---|
| Operating Contingency Reserve (OCR) | $ 2,307,531 | $ 519,083 | $ - | $ 1,868,489 | $ (1,015,009) | $ 3,680,094 |
| Future Obligations Reserve (FOR) | 2,875,467 | - | (396,119) | 536,439 | - | 3,015,787 |
| Assessment Stabilization Reserve (ASR) | 2,271,000 | - | (1,100,000) | 1,500,000 | - | 2,671,000 |
| System Operator Reserves (SOCCED) | 828,013 | - | - | (350,529) | - | 477,484 |
| CRISP | 500,000 | - | - | - | - | 500,000 |
| **Total Reserves** | $ 8,782,011 | $ 519,083 | $ (1,496,119) | $ 3,554,400 | $ (1,015,009) | $ 10,344,366 |

**NOTES**:

** The column Other Funding (Uses) primarily reflects the net impact of normal operations. For example, under normal circumstances, if NERC was tracking well under budget in actual expenditures, this would reflect additional funds into the reserve account.*

*** No borrowing in 2017 for ERO Software Development projects, principal debt repayment only*

NERC

## NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
## Statement of Activities and Fixed Assets Budget
## For the period ended 12/31/2017 (Including CRISP)

| | 2017 Actual * | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| Assessments | $ 59,856,314 | $ 59,856,314 | $ - | |
| Assessment Stabilization Reserves - Penalties | 1,100,000 | 1,100,000 | - | |
| Third-Party Funding (CRISP) | 6,840,470 | 6,990,447 | (149,977) | |
| Testing | 1,631,765 | 1,921,900 | (290,135) | |
| Services & Software | 33,764 | 50,000 | (16,236) | |
| Workshop Fees | 293,559 | 230,000 | 63,559 | |
| Interest | 163,528 | 3,000 | 160,528 | |
| Miscellaneous | 19,001 | - | 19,001 | |
| **Total Funding** | **$ 69,938,401** | **$ 70,151,661** | **$ (213,260)** | **-0.3%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 30,154,916 | $ 30,073,438 | $ 81,478 | |
| Payroll Taxes | 1,838,973 | 1,847,130 | (8,157) | |
| Employee Benefits | 3,798,182 | 3,643,806 | 154,376 | |
| Savings & Retirement | 2,997,461 | 3,076,956 | (79,495) | |
| **Total Personnel Expenses** | $ 38,789,532 | $ 38,641,330 | $ 148,202 | 0.4% |
| **Meeting Expenses** | | | | |
| Meetings | $ 1,124,871 | $ 1,071,500 | $ 53,371 | |
| Travel | 2,145,481 | 2,203,786 | (58,305) | |
| Conference Calls | 180,515 | 97,600 | 82,915 | |
| **Total Meeting Expenses** | $ 3,450,867 | $ 3,372,886 | $ 77,981 | 2.3% |
| **Operating Expenses** | | | | |
| Consultants and Contracts | $ 13,065,499 | $ 13,127,749 | $ (62,250) | |
| Rent & Improvements | 2,903,371 | 3,117,009 | (213,638) | |
| Office Costs | 4,661,188 | 4,359,340 | 301,848 | |
| Professional Services | 2,203,643 | 2,468,135 | (264,492) | |
| Miscellaneous | 48,749 | 37,000 | 11,749 | |
| Depreciation | 3,159,341 | 1,691,457 | 1,467,884 | |
| **Total Operating Expenses** | $ 26,041,791 | $ 24,800,690 | $ 1,241,101 | 5.0% |
| **Other Non-Operating Expenses** | $ 174,372 | $ 106,725 | $ 67,647 | 63.4% |
| Indirect Expenses | $ (0) | $ - | $ (0) | |
| **Total Expenses** | **$ 68,456,562** | **$ 66,921,631** | **$ 1,534,931** | **2.3%** |
| **Net Change in Assets** | **$ 1,481,839** | **$ 3,230,030** | **$ (1,748,191)** | **-54.1%** |
| **Fixed Assets** | | | | |
| Depreciation | $ (3,159,341) | $ (1,691,457) | $ (1,467,884) | |
| Computer & Software | 2,247,041 | 2,572,000 | (324,959) | |
| Furniture & Fixtures | - | - | - | |
| Equipment | 585,954 | 1,800,000 | (1,214,046) | |
| Leasehold Improvements | 26,728 | - | 26,728 | |
| Allocation of Fixed Assets | 0 | 0 | (0) | |
| **Incr(Dec) in Fixed Assets** | **$ (299,618)** | **$ 2,680,543** | **$ (2,980,161)** | **-111.2%** |
| **Total Budget (Expenses plus Incr(Dec) in Fixed Assets)** | **$ 68,156,944** | **$ 69,602,174** | **$ (1,445,230)** | **-2.1%** |
| **Change in Operating Reserves (Total Funding less Total Budget)** | **$ 1,781,457** | **$ 549,487** | **$ 1,231,970** | **224.2%** |
| **FTE's** | **190.8** | **189.9** | **0.9** | **0.5%** |

** - 12/31/17 Actual - $ amounts based on Audited Financial Statements*

## Reliability Standards

### Statement of Activities and Fixed Asset Budget

| Standards | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 7,835,213 | 7,835,213 | 0 | |
| Assessment Stabilization Reserves - Penalties | 159,642 | 159,642 | 0 | |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 63,481 | 105,000 | (41,519) | -40% |
| Interest | 16,429 | 427 | 16,002 | 3748% |
| Misc. | 2,470 | - | 2,470 | |
| Total Funding | 8,077,235 | 8,100,282 | (23,047) | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 2,066,609 | 2,340,405 | (273,797) | -12% |
| Payroll Taxes | 136,002 | 151,658 | (15,656) | -10% |
| Employee Benefits | 277,927 | 307,085 | (29,158) | -9% |
| Savings & Retirement | 224,432 | 259,407 | (34,975) | -13% |
| Total Personnel Expenses | 2,704,969 | 3,058,556 | (353,586) | -12% |
| Meeting Expenses | | | | |
| Meetings | 83,732 | 207,000 | (123,268) | -60% |
| Travel | 184,792 | 271,988 | (87,196) | -32% |
| Conference Calls | 17,978 | 40,565 | (22,587) | -56% |
| Total Meeting Expenses | 286,503 | 519,553 | (233,051) | -45% |
| Operating Expenses | | | | |
| Consultants and Contracts | 58,829 | - | 58,829 | |
| Rent & Improvements | - | - | - | |
| Office Costs | 34,983 | 51,336 | (16,353) | -32% |
| Professional Services | - | - | - | |
| Miscellaneous | (56) | 500 | (556) | -111% |
| Depreciation | 253,432 | 231,721 | 21,711 | 9% |
| Total Operating Expenses | 347,188 | 283,556 | 63,632 | 22% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | 0% |
| Indirect Expenses | 3,760,717 | 4,180,279 | (419,563) | -10% |
| Total Expenses | 7,099,377 | 8,041,945 | (942,568) | -12% |
| Net Change in Assets | 977,858 | 58,337 | 919,521 | 1576% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (253,432) | (231,721) | (21,711) | 9% |
| Computer & Software | 68,114 | - | 68,114 | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (124,141) | 290,058 | (414,199) | -143% |
| Incr(Dec) in Fixed Assets | (309,459) | 58,337 | (367,796) | -630% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 6,789,918 | 8,100,282 | (1,310,364) | -16% |
| Change in Working Capital | 1,287,317 | 0 | 1,287,317 | |
| FTE's on 12/31/17 | 15.58 | 17.16 | (1.58) | -9% |

**Explanation of Variances by Category – Reliability Standards**

- **Funding –**
  - Workshop fees were $42k (40%) under budget due to a reduction in the number Standards and Compliance workshops, reduced from two budgeted to one held.
  - Interest Income over budget due to higher interest rates.
- **Personnel Expenses –** Total personnel expenses were $354k (12%) under budget due to having fewer FTEs (9%) on staff.
- **Meetings, Travel and Conferencing Expenses**
  - Meetings – Meeting expenses, which includes catering, room rental and audio visual expenses was $123k (60%) lower than budget due to a reduction in the number of budgeted workshops and fewer meetings.
  - Travel – Under budget $87k (32%) primarily due to having fewer FTEs than budgeted.
  - Conference Calls – Under budget $23k (56%) due to a change in service providers during the year and costs are now invoiced to the IT department in aggregate and allocated to program areas through the indirect cost allocation.
- **Consultants and Contracts -** Over budget $59k due to contract support work to develop a reliability standard for mitigating geomagnetic disturbance risks.
- **Office Costs** – under budget by $16k (32%), primarily due to telephone expense being lower than budget, partially because of a lower than expected headcount in the department.
- **Indirect Expenses** – Under budget $420k (10%) primarily due to having fewer FTEs on staff than budgeted, therefore fewer Indirect Expenses were allocated to this program area than budgeted.
- **Fixed Assets –** The over budget variance of $68k for Computer and Software is related to Standards Balloting and Commenting System (SBS) release 4 which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs were recorded in Standards to match expenditures with the statutory program served.
- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Compliance Assurance Program

### Statement of Activities and Fixed Asset Budget

| Compliance Assurance | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 7,713,879 | 7,713,879 | 0 | 0% |
| Assessment Stabilization Reserves - Penalt | 144,334 | 144,334 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 18,738 | 386 | 18,352 | 4755% |
| Miscellaneous | 2,817 | - | 2,817 | |
| Total Funding | 7,879,768 | 7,858,599 | 21,169 | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 2,842,270 | 2,509,618 | 332,651 | 13% |
| Payroll Taxes | 177,756 | 163,335 | 14,421 | 9% |
| Employee Benefits | 361,513 | 333,557 | 27,957 | 8% |
| Savings & Retirement | 302,069 | 276,273 | 25,796 | 9% |
| Total Personnel Expenses | 3,683,608 | 3,282,783 | 400,825 | 12% |
| Meeting Expenses | | | | |
| Meetings | 156,492 | 60,000 | 96,492 | 161% |
| Travel | 261,499 | 276,343 | (14,844) | -5% |
| Conference Calls | 8,177 | 6,100 | 2,077 | 34% |
| Total Meeting Expenses | 426,168 | 342,443 | 83,725 | 24% |
| Operating Expenses | | | | |
| Consultants and Contracts | 221,102 | 50,000 | 171,102 | 342% |
| Rent & Improvements | - | - | - | |
| Office Costs | 45,658 | 141,198 | (95,540) | -68% |
| Professional Services | - | - | - | |
| Miscellaneous | 1,812 | 500 | 1,312 | 262% |
| Depreciation | - | - | - | |
| Total Operating Expenses | 268,572 | 191,698 | 76,874 | 40% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| | | | | |
| Indirect Expenses | 4,289,341 | 3,779,431 | 509,911 | 13% |
| | | | | |
| Total Expenses | 8,667,690 | 7,596,355 | 1,071,335 | 14% |
| | | | | |
| Net Change in Assets | (787,922) | 262,244 | (1,050,166) | -400% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | - | - | - | |
| Computer & Software | - | - | - | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (141,591) | 262,244 | (403,835) | -154% |
| | | | | |
| Incr(Dec) in Fixed Assets | (141,591) | 262,244 | (403,835) | -154% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 8,526,098 | 7,858,599 | 667,500 | 8% |
| | | | | |
| Change in Working Capital | (646,331) | 0 | (646,331) | |
| | | | | |
| FTE's on 12/31/17 | 17.77 | 15.51 | 2.26 | 15% |

**Explanation of Variances by Category – Compliance Assurance**

- **Funding –** Interest income is over budget due to higher interest rates than expected.

- **Personnel** – Over budget $401k (12%) due to a higher number of FTE's than budgeted, which is primarily related to an allocation of additional resources to the department and a lower attrition rate than budgeted.

- **Meetings, Travel and Conferencing Expenses**
  - Meetings – Over budget $96k (161%) due to higher than budgeted costs for the Spring ERO Enterprise Compliance meeting; and costs for relevant standing committee meetings were originally budgeted in E-ISAC but are being charged to Compliance Assurance to better reflect the program area responsible. Over budget meeting expenses were partially offset by lower travel expenses.

- **Operating Expenses**
  - Consultant and Contract expenses were $171k over budget due to the reclassification of discovery work on the CMEP tool project – originally budgeted in IT but costs were recorded in Compliance Assurance.
  - Office Costs were $96k primarily due to lower maintenance and support costs on software.

- **Indirect Expenses** – Over budget $510k (13%) primarily as a result of having more FTEs on staff than budgeted, resulting in a higher allocation of Indirect Expenses to this program area than budgeted**.**

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Compliance Analysis, Certification and Registration

### Statement of Activities and Fixed Asset Budget

| COMPLIANCE ANALYSIS, CERTICATION AND REGISTRATION | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 3,576,122 | 3,576,122 | (0) | 0% |
| Assessment Stabilization Reserves - Penalt | 69,980 | 69,980 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 9,933 | 187 | 9,746 | 5208% |
| Miscellaneous | 1,493 | - | 1,493 | |
| Total Funding | 3,657,528 | 3,646,289 | 11,239 | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 1,519,229 | 1,125,154 | 394,074 | 35% |
| Payroll Taxes | 94,666 | 76,383 | 18,283 | 24% |
| Employee Benefits | 201,915 | 174,014 | 27,901 | 16% |
| Savings & Retirement | 163,017 | 126,651 | 36,366 | 29% |
| Total Personnel Expenses | 1,978,827 | 1,502,203 | 476,624 | 32% |
| Meeting Expenses | | | | |
| Meetings | 4,202 | 4,000 | 202 | 5% |
| Travel | 161,021 | 155,146 | 5,875 | 4% |
| Conference Calls | 2,772 | 610 | 2,162 | 354% |
| Total Meeting Expenses | 167,994 | 159,756 | 8,238 | 5% |
| Operating Expenses | | | | |
| Consultants and Contracts | 36,622 | - | 36,622 | |
| Rent & Improvements | - | - | - | |
| Office Costs | 17,908 | 24,231 | (6,324) | -26% |
| Professional Services | - | - | - | |
| Miscellaneous | 1 | 500 | (499) | -100% |
| Depreciation | 18,613 | - | 18,613 | |
| Total Operating Expenses | 73,143 | 24,731 | 48,412 | 196% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | 0% |
| | | | | |
| Indirect Expenses | 2,273,810 | 1,832,451 | 441,358 | 24% |
| | | | | |
| Total Expenses | 4,493,773 | 3,519,141 | 974,633 | 28% |
| | | | | |
| Net Change in Assets | (836,245) | 127,149 | (963,393) | -758% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (18,613) | - | (18,613) | |
| Computer & Software | 558,383 | - | 558,383 | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (75,059) | 127,149 | (202,207) | -159% |
| | | | | |
| Incr(Dec) in Fixed Assets | 464,712 | 127,149 | 337,563 | 265% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 4,958,485 | 3,646,289 | 1,312,196 | 36% |
| | | | | |
| Change in Working Capital | (1,300,957) | (0) | (1,300,957) | |
| | | | | |
| FTE's on 12/31/17 | 9.42 | 7.52 | 1.90 | 25% |

**Explanation of Variances by Category – Compliance Analysis, Certification and Registration**

- **Funding –** Interest income is over budget due to higher interest rates than expected.

- **Personnel** – Personnel expenses were $477k (32%) over budget due to having 1.9 (25%) more FTEs on staff than budgeted and because compensation for additional resources was higher than budgeted.

- **Operating Expenses**
  - Consultant and Contract expenses were $37k over budget due to the recording in this program area of costs for discovery work for the Entity Registration JRO project that were budgeted in the IT department.

- **Indirect Expenses** – Over budget $441k (24%) primarily as a result of more FTEs on staff than budgeted, resulting in more Indirect Expenses being allocated to this program area than budgeted.

- **Fixed Assets –** Computer & Software over budget by $558k due to the Entity Registration software project, which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs are recorded in Entity Registration to match expenditures with the statutory program served.

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Compliance Enforcement

### Statement of Activities and Fixed Asset Budget

| COMPLIANCE ENFORCEMENT | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 5,677,854 | 5,677,854 | 0 | 0% |
| Assessment Stabilization Reserves - Penalt | 122,465 | 122,465 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 13,613 | 327 | 13,286 | 4057% |
| Miscellaneous | 2,046 | - | 2,046 | |
| Total Funding | 5,815,979 | 5,800,647 | 15,332 | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 1,853,996 | 1,790,859 | 63,137 | 4% |
| Payroll Taxes | 115,777 | 117,205 | (1,428) | -1% |
| Employee Benefits | 196,013 | 184,106 | 11,907 | 6% |
| Savings & Retirement | 199,441 | 198,694 | 746 | 0% |
| Total Personnel Expenses | 2,365,227 | 2,290,865 | 74,362 | 3% |
| Meeting Expenses | | | | |
| Meetings | 1,056 | 2,500 | (1,444) | -58% |
| Travel | 40,473 | 56,737 | (16,263) | -29% |
| Conference Calls | 2,832 | 366 | 2,466 | 674% |
| Total Meeting Expenses | 44,361 | 59,603 | (15,241) | -26% |
| Operating Expenses | | | | |
| Consultants and Contracts | - | - | | |
| Rent & Improvements | - | - | | |
| Office Costs | 16,891 | 20,379 | (3,489) | -17% |
| Professional Services | - | - | - | |
| Miscellaneous | 1,397 | 500 | 897 | 179% |
| Depreciation | 105,014 | - | 105,014 | |
| Total Operating Expenses | 123,302 | 20,879 | 102,422 | 491% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| | | | | |
| Indirect Expenses | 3,116,229 | 3,206,790 | (90,560) | -3% |
| | | | | |
| Total Expenses | 5,649,120 | 5,578,137 | 70,983 | 1% |
| | | | | |
| Net Change in Assets | 166,860 | 222,510 | (55,650) | -25% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (105,014) | - | (105,014) | |
| Computer & Software | - | - | - | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (102,867) | 222,510 | (325,377) | -146% |
| | | | | |
| Incr(Dec) in Fixed Assets | (207,881) | 222,510 | (430,391) | -193% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 5,441,238 | 5,800,647 | (359,409) | -6% |
| | | | | |
| Change in Working Capital | 374,741 | (0) | 374,741 | |
| | | | | |
| FTE's on 12/31/17 | 12.91 | 13.16 | (0.25) | -2% |

**Explanation of Variances by Category – Compliance Enforcement**

- **Funding –** Interest income is over budget due to higher interest rates than expected.

- **Personnel -** Personnel expenses were $74k (3%) over budget due to slightly higher than budgeted compensation in the department, and benefit costs (primarily medical insurance) that exceeded budget.

- **Travel Expenses** were under budget $16k (29%) as a result of ongoing focus on travel expense management.

- **Indirect Expenses** – Under budget $90k (3%) primarily as a result of slightly fewer FTEs on staff than budgeted, resulting in a lower allocation of Indirect Expenses to this program area than budgeted.

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Reliability Assessments and System Analysis (RASA)

### Statement of Activities and Fixed Asset Budget

| Reliability Assessments | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 7,339,030 | 7,339,030 | 0 | 0% |
| Assessment Stabilization Reserves - Penalties | 131,213 | 131,213 | (0) | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | 50,000 | (50,000) | -100% |
| Workshop Fees | - | 15,000 | (15,000) | -100% |
| Interest | 14,214 | 351 | 13,864 | 3951% |
| Miscellaneous | 2,137 | - | 2,137 | |
| Total Funding | 7,486,594 | 7,535,594 | (49,000) | -1% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 2,235,224 | 2,247,826 | (12,602) | -1% |
| Payroll Taxes | 136,832 | 142,919 | (6,087) | -4% |
| Employee Benefits | 265,054 | 263,230 | 1,824 | 1% |
| Savings & Retirement | 236,123 | 246,609 | (10,486) | -4% |
| Total Personnel Expenses | 2,873,233 | 2,900,585 | (27,351) | -1% |
| Meeting Expenses | | | | |
| Meetings | 100,327 | 74,000 | 26,327 | 36% |
| Travel | 295,040 | 208,338 | 86,702 | 42% |
| Conference Calls | 6,300 | 5,270 | 1,030 | 20% |
| Total Meeting Expenses | 401,666 | 287,608 | 114,058 | 40% |
| Operating Expenses | | | | |
| Consultants and Contracts | 397,495 | 525,000 | (127,505) | -24% |
| Rent & Improvements | - | - | - | |
| Office Costs | 152,805 | 147,652 | 5,154 | 3% |
| Professional Services | - | - | - | |
| Miscellaneous | 248 | 500 | (252) | -50% |
| Depreciation | 169,523 | 125,621 | 43,902 | 35% |
| Total Operating Expenses | 720,071 | 798,773 | (78,702) | -10% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 3,253,817 | 3,435,846 | (182,030) | -5% |
| Total Expenses | 7,248,787 | 7,422,812 | (174,025) | -2.34% |
| | | | | |
| Net Change in Assets | 237,807 | 112,782 | 125,025 | 111% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (169,523) | (125,621) | (43,902) | 35% |
| | | | | |
| Computer & Software | 39,232 | - | 39,232 | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (107,409) | 238,403 | (345,812) | -145% |
| Incr(Dec) in Fixed Assets | (237,700) | 112,782 | (350,482) | -311% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 7,011,087 | 7,535,594 | (524,507) | -7% |
| | | | | |
| Change in Working Capital | 475,507 | 0 | 475,507 | |
| | | | | |
| FTE's on 12/31/17 | 13.48 | 14.10 | (0.62) | -4% |

**Explanation of Variances by Category – RASA**

- **Funding**
  - Services and Software revenues were budgeted in the RASA department but were correctly recorded in the Performance Analysis (PA) department.
  - Workshop fees were under budget due to no workshops held during the year.
  - Interest Income over budget due to higher interest rates than expected.

- **Personnel –** Personnel expenses were slightly under budget due to having 0.62 (4%) less FTEs on staff than budgeted.

- **Meetings, Travel and Conferencing Expenses**
  - Meetings expenses were over budget $26k (36%) due to higher than budgeted costs, primarily for quarterly standing committee meetings.
  - Travel expenses were over budget $87k (42%) due to additional trips to support ongoing activities.

- **Operating Expenses**
  - Consultants and Contracts were under budget $128k (24%) primarily due to the use of certain analytical tools that allowed for more efficient work by NERC staff and lessened the need for external contractors.

- **Fixed Assets –** The over budget variance of $39k for Computer and Software was related to software purchases of analytical tools noted above, and the development of a Bulk Electric System (BES) Notification and Exceptions Tool (BESNet), which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs are recorded in RASA to match expenditures with the statutory program served.

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Performance Analysis (PA)

### Statement of Activities and Fixed Asset Budget

| Performance Analysis | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 4,821,146 | 4,821,146 | 0 | 0% |
| Assessment Stabilization Reserves - Penalties | 87,475 | 87,475 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | - | |
| Testing | - | - | - | |
| Services & Software | 33,764 | - | 33,764 | |
| Workshop Fees | - | - | - | |
| Interest | 10,060 | 234 | 9,826 | 4201% |
| Miscellaneous | 1,512 | - | 1,512 | |
| Total Funding | 4,953,958 | 4,908,855 | 45,102 | 1% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 1,379,179 | 1,349,579 | 29,599 | 2% |
| Payroll Taxes | 90,144 | 92,093 | (1,948) | -2% |
| Employee Benefits | 146,551 | 143,104 | 3,447 | 2% |
| Savings & Retirement | 151,575 | 149,018 | 2,557 | 2% |
| Total Personnel Expenses | 1,767,448 | 1,733,794 | 33,655 | 2% |
| Meeting Expenses | | | | |
| Meetings | 32,850 | 1,000 | 31,850 | 3185% |
| Travel | 93,579 | 118,172 | (24,593) | -21% |
| Conference Calls | 2,190 | 2,965 | (775) | -26% |
| Total Meeting Expenses | 128,619 | 122,137 | 6,483 | 5% |
| Operating Expenses | | | | |
| Consultants and Contracts | 381,382 | 528,082 | (146,700) | -28% |
| Rent & Improvements | - | - | - | |
| Office Costs | 51,279 | 74,843 | (23,565) | -31% |
| Professional Services | - | - | - | |
| Miscellaneous | 65 | 500 | (435) | -87% |
| Depreciation | 200,526 | - | 200,526 | |
| Total Operating Expenses | 633,252 | 603,426 | 29,826 | 5% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 2,302,775 | 2,290,564 | 12,211 | 1% |
| Total Expenses | 4,832,095 | 4,749,920 | 82,175 | 1.73% |
| | | | | |
| Net Change in Assets | 121,863 | 158,936 | (37,073) | -23% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (200,526) | - | (200,526) | |
| Computer & Software | 567,397 | - | 567,397 | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (76,015) | 158,936 | (234,950) | |
| Incr(Dec) in Fixed Assets | 290,857 | 158,936 | 131,921 | |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 5,122,952 | 4,908,855 | 214,096 | 4% |
| Change in Working Capital | (168,994) | (0) | (168,994) | |
| FTE's on 12/31/17 | 9.54 | 9.40 | 0.14 | 1% |

**Explanation of Variances by Category – PA**

- **Funding**
  - Services and Software revenues were budgeted in the RASA department but were correctly recorded in PA department.
  - Interest Income over budget due to higher interest rates than expected.

- **Personnel –** Personnel expenses were slightly over budget due to having 0.14 (1%) more FTEs on staff than budgeted.

- **Meetings, Travel and Conferencing Expenses**
  - Meetings expenses were over budget due by $32k due to higher than budgeted costs associated with the TADS and Generation Availability Data System (GADS) Working Group meetings.
  - Travel expenses were under budget by $25k as a result of ongoing focus on travel expense management.

- **Operating Expenses**
  - Consultants and Contracts were under budget $147k (28%) due to lower costs related to GADS Wind support and other projects.
  - Office Costs were under budget $24k (31%) primarily due to lower than budgeted maintenance and service agreements, and lower than budgeted costs for software tools.

- **Fixed Assets** – The over budget variance of $567k for Computer and Software is related to the development of Enterprise Reporting MIDAS (ER MIDAS) ($198k), MIDAS UMR Portal ($232k), data sharing software to comply with FERC Order 824 ($114k), and GADS Wind ($23k) which were budgeted in Information Technology as part of the total budget for ERO Enterprise software application development, but recorded in PA to match expenditures with the statutory program served.

- **Indirect Expenses -** Over budget $12k (1%) as a result of having slightly more FTEs on staff than budgeted, resulting in a larger allocation of Indirect Expenses to PA than budgeted.

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Situation Awareness

### Statement of Activities and Fixed Asset Budget

| SITUATION AWARENESS | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 3,980,236 | 3,980,236 | (0) | 0% |
| Assessment Stabilization Reserves - Penalties | 52,485 | 52,485 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 5,800 | 140 | 5,659 | 4032% |
| Miscellaneous | 872 | - | 872 | |
| Total Funding | 4,039,393 | 4,032,862 | 6,531 | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 786,534 | 873,869 | (87,335) | -10% |
| Payroll Taxes | 56,061 | 58,749 | (2,688) | -5% |
| Employee Benefits | 144,216 | 156,328 | (12,113) | -8% |
| Savings & Retirement | 97,338 | 96,159 | 1,180 | 1% |
| Total Personnel Expenses | 1,084,149 | 1,185,105 | (100,956) | -9% |
| Meeting Expenses | | | | |
| Meetings | 4,539 | 6,500 | (1,961) | -30% |
| Travel | 35,065 | 33,005 | 2,060 | 6% |
| Conference Calls | 1,690 | 305 | 1,385 | 454% |
| Total Meeting Expenses | 41,293 | 39,810 | 1,483 | 4% |
| Operating Expenses | | | | |
| Consultants and Contracts | 1,212,854 | 1,295,850 | (82,996) | -6% |
| Rent & Improvements | - | - | - | |
| Office Costs | 62,428 | 41,897 | 20,531 | 49% |
| Professional Services | - | - | - | |
| Miscellaneous | - | 500 | (500) | -100% |
| Depreciation | 8,948 | 7,667 | 1,282 | 17% |
| Total Operating Expenses | 1,284,230 | 1,345,914 | (61,683) | -5% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 1,327,596 | 1,374,338 | (46,743) | -3% |
| Total Expenses | 3,737,268 | 3,945,167 | (207,899) | -5% |
| | | | | |
| Net Change in Assets | 302,125 | 87,695 | 214,430 | 245% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (8,948) | (7,667) | (1,282) | 17% |
| Computer & Software | 23,000 | - | 23,000 | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (43,824) | 95,361 | (139,185) | -146% |
| Incr(Dec) in Fixed Assets | (29,772) | 87,695 | (117,467) | -134% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 3,707,496 | 4,032,862 | (325,366) | -8% |
| | | | | |
| Change in Working Capital | 331,897 | (0) | 331,897 | |
| | | | | |
| FTE's on 12/31/17 | 5.50 | 5.64 | (0.14) | -2% |

**Explanation of Variances by Category – Situation Awareness**

- **Funding –** Interest income is over budget due to higher interest rates than expected.
- **Personnel –** Personnel expenses were under budget $101k (9%) due to slightly lower FTE's than budgeted, and lower than budget compensation for resources.
- **Consultants and Contracts** – Under budget $83k (6%) primarily due to lower spending than budgeted on reliability tools and the communication network.
- **Fixed Assets –** Computer & Software is over budget due by $23k to unbudgeted purchases of software.
- **Indirect Expenses -** Under budget $47k (3%) as a result of having slightly less FTEs on staff than budgeted, resulting in a lower allocation of Indirect Expenses to this program area than budgeted.
- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Event Analysis

### Statement of Activities and Fixed Asset Budget

| Event Analysis | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 5,300,955 | 5,300,955 | 0 | 0% |
| Assessment Stabilization Reserves - Penalties | 104,970 | 104,970 | 0 | 0% |
| Assessment Stabilization Reserves - Non-Penalties | | | - | |
| Third-Party Funding (CRISP) | - | - | | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 115,300 | 40,000 | 75,300 | 188% |
| Interest | 11,937 | 281 | 11,656 | 4152% |
| Miscellaneous | 1,794 | - | 1,794 | |
| Total Funding | 5,534,957 | 5,446,206 | 88,751 | 2% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 1,795,057 | 1,708,049 | 87,009 | 5% |
| Payroll Taxes | 114,236 | 108,739 | 5,497 | 5% |
| Employee Benefits | 253,438 | 212,232 | 41,206 | 19% |
| Savings & Retirement | 170,692 | 189,397 | (18,705) | -10% |
| Total Personnel Expenses | 2,333,423 | 2,218,416 | 115,007 | 5% |
| Meeting Expenses | | | | |
| Meetings | 196,294 | 81,500 | 114,794 | 141% |
| Travel | 150,435 | 152,487 | (2,051) | -1% |
| Conference Calls | 5,172 | 4,270 | 902 | 21% |
| Total Meeting Expenses | 351,901 | 238,257 | 113,644 | 48% |
| Operating Expenses | | | | |
| Consultants and Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 41,425 | 49,634 | (8,208) | -17% |
| Professional Services | - | - | - | |
| Miscellaneous | 451 | 500 | (49) | -10% |
| Depreciation | 85,582 | 85,582 | (0) | 0% |
| Total Operating Expenses | 127,458 | 135,715 | (8,257) | -6% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 2,732,433 | 2,748,677 | (16,243) | -1% |
| Total Expenses | 5,545,216 | 5,341,065 | 204,150 | 4% |
| | | | | |
| Net Change in Assets | (10,259) | 105,141 | (115,400) | -110% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (85,582) | (85,582) | 0 | 0% |
| Computer & Software | - | - | - | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (90,198) | 190,723 | (280,921) | |
| Incr(Dec) in Fixed Assets | (175,780) | 105,141 | (280,921) | -267% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 5,369,436 | 5,446,206 | (76,770) | -1% |
| | | | | |
| Change in Working Capital | 165,521 | 0 | 165,521 | |
| | | | | |
| FTE's on 12/31/17 | 11.32 | 11.28 | 0.04 | 0% |

**Explanation of Variances by Category – Event Analysis**

- **Funding**
  - Workshop fees were $75k (188%) over budget due to higher attendance than expected at the Human Performance Workshop.
- **Personnel** – Personnel expenses were over budget $115k (5%) due to having slightly more FTEs on staff, and higher compensation and benefit costs, than budgeted.
- **Meetings, Travel and Conferencing Expenses**
  - Meeting expenses were $115k (141%) over budget primarily due to higher costs related to the Human Performance Workshop as a result of higher attendance. The higher cost was partially offset by higher workshop fees, as noted above.
- **Operating Expenses**
  - Office costs were under budget $8k (17%) primarily due to lower than budgeted telephone expense.
- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## E-ISAC, including CRISP

### Statement of Activities and Fixed Asset Budget

| E-ISAC, including CRISP | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 11,270,705 | 11,270,705 | - | - |
| Assessment Stabilization Reserves - Penalties | 183,698 | 183,698 | - | - |
| Assessment Stabilization Reserves - Non-Penalties | - | - | - | |
| Third-Party Funding (CRISP) | 6,840,470 | 6,990,447 | (149,977) | -2% |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 114,777 | 70,000 | 44,777 | 64% |
| Interest | 55,907 | 491 | 55,416 | 11281% |
| Miscellaneous | 2,823 | - | 2,823 | |
| Total Funding | 18,468,381 | 18,515,341 | (46,960) | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 3,484,143 | 3,417,398 | 66,745 | 2% |
| Payroll Taxes | 213,924 | 204,023 | 9,901 | 5% |
| Employee Benefits | 438,005 | 397,467 | 40,538 | 10% |
| Savings & Retirement | 307,254 | 363,482 | (56,227) | -15% |
| Total Personnel Expenses | 4,443,327 | 4,382,370 | 60,957 | 1% |
| Meeting Expenses | | | | |
| Meetings | 127,384 | 230,000 | (102,616) | -45% |
| Travel | 292,487 | 256,488 | 35,999 | 14% |
| Conference Calls | 16,564 | 6,710 | 9,854 | 147% |
| Total Meeting Expenses | 436,435 | 493,198 | (56,763) | -12% |
| Operating Expenses | | | | |
| Consultants and Contracts | 7,371,468 | 6,788,429 | 583,039 | 9% |
| Rent & Improvements | 5,474 | - | 5,474 | |
| Office Costs | 209,668 | 431,895 | (222,227) | -51% |
| Professional Services | 150,780 | 175,000 | (24,220) | -14% |
| Miscellaneous | (9) | 500 | (509) | -102% |
| Depreciation | 86,093 | 5,297 | 80,795 | 1525% |
| Total Operating Expenses | 7,823,473 | 7,401,121 | 422,351 | 6% |
| | | | | |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 4,945,898 | 4,810,185 | 135,713 | 3% |
| Total Expenses | 17,649,132 | 17,086,873 | 562,258 | 3% |
| Net Change in Assets | 819,249 | 1,428,467 | (609,219) | -43% |
| Fixed Assets | | | | |
| Depreciation | (86,093) | (5,297) | (80,795) | 1525% |
| Computer & Software | 328,908 | 1,100,000 | (771,092) | -70% |
| Furniture & Fixtures | - | - | - | |
| Equipment | 21,477 | - | 21,477 | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (163,264) | 333,765 | (497,029) | -149% |
| Incr(Dec) in Fixed Assets | 101,027 | 1,428,467 | (1,327,440) | -93% |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 17,750,159 | 18,515,341 | (765,182) | -4% |
| Change in Working Capital | 718,222 | (0) | 718,222 | |
| FTE's on 12/31/17 | 20.49 | 19.74 | 0.75 | 4% |

**Explanation of Variances by Category – E-ISAC, including CRISP**

- **Funding**
  - Third-Party Funding, which represents funding of CRISP expenses by CRISP participants, was under budget $150k (2%) due to the lower revenue requirement to fund actual program costs.
  - Workshop fees were $45k (64%) over budget due to higher attendance than expected at the Grid Security Conference.

- **Personnel –** Personnel expenses were collectively $61k (1%) over budget due to having 0.75 (4%) more FTEs on staff than budgeted. Employee Benefits expense was over budget due to higher than budgeted training expenses and medical insurance costs. Retirement costs were below budget due to lower plan participation than expected and the timing of employee hiring and terminations.

- **Meetings, Travel and Conferencing Expenses**
  - Meeting expenses were $103k (45%) under than budget due to lower than expected costs of the Grid Security Conference; and because relevant standing meetings that were originally budgeted in E-ISAC are being recorded in Compliance Assurance to better match the department related to the committee.
  - Travel expenses were $48k (22%) over budget due to a slightly higher FTE count than budgeted, and more travel related to conferences, training, and outreach efforts.

- **Operating Expenses**
  - Consultant and contract expenses were $583k (9%) over budget due to start-up costs of new CRISP participants, the cost classification for the new E-ISAC Portal (which is offset by the under budget variance in computer and software fixed assets), and higher than budgeted spending on a CRISP security review.
  - Office costs were $222k (65%) under budget primarily due to lower than budgeted third party data storage for CRISP.
  - Professional Services expenses were $24k (51%) under budget due to lower than budgeted legal expenses related to CRISP.

- **Indirect Expenses -** Over budget $135k (3%) as a result more FTE's than budgeted, resulting in a larger allocation of Indirect Expenses than budgeted to this program area.

- **Fixed Assets**
  - Computer and Software expenditures were under budget due to lower costs than budgeted associated with the E-ISAC Portal; also, a portion of the project was recorded in Consultants and Contracts rather than Fixed Assets Additions.

- Equipment expenditures were over budget due to the purchase of new routers for CRISP.

- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Training, Education and Operator Certification

### Statement of Activities and Fixed Asset Budget

| Training, Education and Operator Certification | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 1,822,089 | 1,822,089 | 0 | 0% |
| Assessment Stabilization Reserves - Penalties | 43,738 | 43,738 | (0) | 0% |
| Assessment Stabilization Reserves - Non-Penalties | - | - | - | |
| Third-Party Funding (CRISP) | - | - | - | |
| Testing | 1,631,765 | 1,921,900 | (290,136) | -15% |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 6,896 | 175 | 6,721 | 3831% |
| Miscellaneous | 1,038 | - | 1,038 | |
| Total Funding | 3,505,525 | 3,787,902 | (282,377) | -7% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 758,246 | 852,091 | (93,844) | -11% |
| Payroll Taxes | 53,862 | 62,727 | (8,865) | -14% |
| Employee Benefits | 99,704 | 139,239 | (39,535) | -28% |
| Savings & Retirement | 80,090 | 97,624 | (17,534) | -18% |
| Total Personnel Expenses | 991,903 | 1,151,681 | (159,778) | -14% |
| Meeting Expenses | | | | |
| Meetings | 34,814 | 55,000 | (20,186) | -37% |
| Travel | 18,637 | 21,139 | (2,502) | -12% |
| Conference Calls | 25,335 | 11,132 | 14,203 | 128% |
| Total Meeting Expenses | 78,786 | 87,272 | (8,486) | -10% |
| Operating Expenses | | | | |
| Consultants and Contracts | 783,121 | 580,600 | 202,521 | 35% |
| Rent & Improvements | - | - | - | |
| Office Costs | 99,744 | 100,323 | (579) | -1% |
| Professional Services | - | - | - | |
| Miscellaneous | - | 500 | (500) | -100% |
| Depreciation | 1,919 | 1,919 | 0 | 0% |
| Total Operating Expenses | 884,784 | 683,342 | 201,442 | 29% |
| Other Non-Operating Expenses | - | - | - | |
| Indirect Expenses | 1,578,632 | 1,717,923 | (139,291) | -8% |
| Total Expenses | 3,534,105 | 3,640,218 | (106,113) | -3% |
| Net Change in Assets | (28,579) | 147,684 | (176,264) | -119% |
| Fixed Assets | | | | |
| Depreciation | (1,919) | (1,919) | (0) | 0% |
| Computer & Software | - | - | - | |
| Furniture & Fixtures | - | - | - | |
| Equipment | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (52,111) | 119,202 | (171,312) | -144% |
| Incr(Dec) in Fixed Assets | (54,030) | 117,283 | (171,312) | -146% |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | 3,480,075 | 3,757,501 | (277,426) | -7% |
| Change in Working Capital | 25,450 | 30,402 | (4,951) | |
| FTE's on 12/31/17 | 6.54 | 7.05 | (0.51) | -7% |

**Explanation of Variances by Category – Training, Education and Operator Certification**

- **Funding** – Testing and training fees were below budget due to lower volume of testing than expected and the loss of a bulk testing fee arrangement with a utility.
- **Personnel –** Salaries, payroll taxes, benefits and retirement costs were collectively under budget $160k (14%), primarily due to having 0.51 (7%) fewer FTEs on staff than budgeted and lower compensation than budgeted for resources.
- **Meetings, Travel and Conferencing** expenses were collectively $8k (10%) under budget.
  - Meetings expense was $20k (37%) under budget due to reductions in the number of meetings held.
  - Conference call expense was higher than budget by $14k due to the use of two service providers during a transition period to a new provider.
- **Operating Expenses**
  - Consultant and contract expenses were over budget $203k (19%) primarily due to higher than budgeted costs related to improvement of the system operator and continuing education database.
- **Indirect Expenses -** Under budget $139k (8%) as a result of having fewer FTEs on staff than budgeted, resulting in a lower allocation of Indirect Expenses to this program area than budgeted.
- **Allocation of Fixed Assets** – Under budget due to lower than budgeted overall capital expenditures.

## Administrative Services

### Statement of Activities and Fixed Asset Budget

| | 2017 Actual | 2017 Budget | Variance Over (Under) | % |
|---|---|---|---|---|
| Funding | | | | |
| Assessments | 519,083 | 519,083 | (0) | 0% |
| Assessment Stabilization Reserves - Penalties | - | - | - | |
| Assessment Stabilization Reserves - Non-Penaltie | - | - | - | |
| Third-Party Funding (CRISP) | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| Total Funding | 519,083 | 519,083 | (0) | 0% |
| | | | | |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 11,434,428 | 11,858,590 | (424,162) | -4% |
| Payroll Taxes | 649,712 | 669,299 | (19,587) | -3% |
| Employee Benefits | 1,413,848 | 1,333,443 | 80,404 | 6% |
| Savings & Retirement | 1,065,430 | 1,073,642 | (8,212) | -1% |
| Total Personnel Expenses | 14,563,418 | 14,934,974 | (371,557) | -2% |
| Meeting Expenses | | | | |
| Meetings | 383,182 | 350,000 | 33,182 | 9% |
| Travel | 612,453 | 653,945 | (41,491) | -6% |
| Conference Calls | 91,506 | 19,307 | 72,199 | 374% |
| Total Meeting Expenses | 1,087,140 | 1,023,251 | 63,889 | 6% |
| Operating Expenses | | | | |
| Consultants and Contracts | 2,602,627 | 3,359,787 | (757,160) | -23% |
| Rent & Improvements | 2,897,897 | 3,117,009 | (219,112) | -7% |
| Office Costs | 3,928,400 | 3,275,952 | 652,448 | 20% |
| Professional Services | 2,052,863 | 2,293,135 | (240,272) | -10% |
| Miscellaneous | 44,839 | 32,000 | 12,839 | 40% |
| Depreciation | 2,229,691 | 1,233,650 | 996,041 | 81% |
| Total Operating Expenses | 13,756,318 | 13,311,534 | 444,784 | 3% |
| | | | | |
| Other Non-Operating Expenses | 174,372 | 106,725 | 67,647 | |
| | | | | |
| Indirect Expenses | (29,581,248) | (29,376,484) | (204,764) | 1% |
| | | | | |
| Total Expenses | - | - | (0) | |
| | | | | |
| Net Change in Assets | 519,083 | 519,083 | (0) | 0% |
| | | | | |
| Fixed Assets | | | | |
| Depreciation | (2,229,691) | (1,233,650) | (996,041) | 81% |
| Computer & Software | 662,007 | 1,472,000 | (809,993) | -55% |
| Furniture & Fixtures | - | - | - | |
| Equipment | 564,477 | 1,800,000 | (1,235,523) | -69% |
| Leasehold Improvements | 26,728 | - | 26,728 | |
| | - | - | - | |
| Allocation of Fixed Assets | 976,479 | (2,038,350) | 3,014,829 | -148% |
| | | | | |
| Incr(Dec) in Fixed Assets | - | - | - | |
| | | | | |
| Total Budget (Expenses plus Incr(Dec) in Fixed Assets) | - | - | (0) | |
| | | | | |
| Change in Working Capital | 519,083 | 519,083 | (0) | 0% |
| | | | | |
| FTE's on 12/31/17 | 68.28 | 69.33 | (1.05) | -2% |

**Summary of Direct Expenses and Fixed Assets by Administrative Program**

| Administrative Services (in whole dollars) | Direct Expenses and Fixed Assets | | | FTEs | | |
|---|---|---|---|---|---|---|
| | 2017 Actual | 2017 Budget | Over (Under) Budget | 2017 Actual | 2017 Budget | Over (Under) Budget |
| General and Administrative | $ 9,936,170 | $ 10,205,977 | $ (269,807) | 16.85 | 16.92 | (0.07) |
| Legal and Regulatory | 2,774,108 | 3,292,379 | $ (518,271) | 9.61 | 11.28 | (1.67) |
| Information Technology | 10,325,561 | 12,480,846 | $ (2,155,285) | 22.68 | 23.27 | (0.59) |
| Human Resources | 1,431,944 | 1,608,583 | $ (176,639) | 3.00 | 2.82 | 0.18 |
| Finance and Accounting | 4,136,986 | 3,827,050 | $ 309,936 | 16.14 | 15.04 | 1.10 |
| Total Administrative Services | $ 28,604,769 | $ 31,414,834 | $ (2,810,065) | 68.28 | 69.33 | (1.05) |

**Explanation of Variances by Category – All Administrative Services Programs**

- **Personnel –** Total personnel expenses and total FTEs in the combined Administrative Services programs were slightly under budget. The IT department is under budget in personnel expense by $533k due to labor costs capitalized for software development projects.

- **Meeting, Travel and Conferencing Expenses** were collectively $64k (6%) over budget primarily due to redundant costs in conference calls due to the transition to a new service provider. Meeting costs were slightly higher than budget, but offset by lower travel costs.

- **Operating Expenses**
  - Consultant and Contract expense was under budget $757k (23%) primarily due to lower costs in Information Technology, Human Resources, and Finance and Accounting.
    - Information Technology was under budget by $474k due to: (1) $215k in discovery costs for the CMEP tool budgeted in IT but recorded in the Compliance Assurance department; (2) $37k for discovery costs of Entity Registration JRO project budgeted in IT but recorded in the Entity Registration department; and (3) less than anticipated contractor usage on other IT projects.
    - Human Resources, and Finance and Accounting were collectively $275k under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
  - Rent expense in General and Administrative was under budget $219k (7%) due to lower building maintenance and real estate tax expense than budgeted.
  - Office costs were over budget by $652K (20%), primarily due to higher than budgeted software licenses and subscription fees, and hardware and software maintenance and

support costs.  This variance was offset by lower than budgeted spending on capitalized software.

- Professional services were under budget $240k (10%) due to lower outside counsel costs than budgeted, primarily budgeted in Legal and Regulatory.
- Depreciation expense was $996k (81%) over budget due the capitalization of some major software projects during 2017.

- **Fixed Asset purchases,** were collectively under budget by $2.0M, primarily related to:
  - ERO Application development costs that are budgeted in IT but recorded in the programs utilizing the applications.  Approximately $1.3M of capital costs (excluding CMEP and Entity Registration JRO discovery work) were budgeted in the IT department but recorded in other operating programs, as detailed on page 6.
  - Lower than expected spending on computer equipment, and the acquisition of audio visual equipment and other hardware through a lease versus purchase of the equipment.

Financial Statements and Report of
Independent Certified Public Accountants

# North American Electric Reliability Corporation

December 31, 2017 and 2016

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
North American Electric Reliability Corporation

We have audited the accompanying financial statements of **North American Electric Reliability Corporation** (a New Jersey non-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 North American Electric Reliability Corporation as of December 31, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of selected expenses shown on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as whole.

Grant Thornton LLP

Columbia, South Carolina
May 8, 2018

# Statements of financial position

| December 31 | 2017 | 2016 |
|---|---|---|
| | **$** | **$** |
| Assets | | |
| **Current assets** | | |
| Cash and cash equivalents | **41,426,560** | 54,023,917 |
| Restricted cash | **500,000** | 500,000 |
| Accounts receivable, net of allowance for doubtful accounts of $0 for 2017 and 2016, respectively | **6,181,877** | 3,784,074 |
| Prepaid expenses | **1,927,970** | 2,046,006 |
| Total current assets | **50,036,407** | 60,353,997 |
| **Long-term assets** | | |
| Property and equipment, net | **12,380,292** | 10,791,214 |
| Security deposits | **125,585** | 125,585 |
| Non-qualified deferred compensation plan assets | **1,934,378** | 1,583,624 |
| Total long-term assets | **14,440,255** | 12,500,423 |
| Total assets | **64,476,662** | 72,854,420 |
| Liabilities and net assets | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | **10,142,461** | 9,267,555 |
| Accrued retirement liabilities | **1,850,821** | 1,903,342 |
| Current portion of long-term debt | **717,274** | 1,238,940 |
| Deferred revenue | **10,673,020** | 14,720,664 |
| Deferred rent - current | **480,457** | 396,121 |
| Capital lease obligations - current | **464,281** | 74,212 |
| Regional assessments collected in advance | **16,035,768** | 23,471,153 |
| Total current liabilities | **40,364,082** | 51,071,987 |
| **Long-term liabilities** | | |
| Deferred rent - non-current | **2,535,330** | 3,015,784 |
| Deferred compensation - non-current | **2,024,226** | 1,527,437 |
| Insurance reserve | **500,000** | 500,000 |
| Long-term debt | **427,578** | 625,433 |
| Capital lease obligations - non-current | **1,207,368** | 77,541 |
| Total long-term liabilities | **6,694,502** | 5,746,195 |
| Total liabilities | **47,058,584** | 56,818,182 |
| **Net assets** | | |
| Unrestricted | **14,747,078** | 13,265,238 |
| Temporarily restricted | **2,671,000** | 2,771,000 |
| Total net assets | **17,418,078** | 16,036,238 |
| Total liabilities and net assets | **64,476,662** | 72,854,420 |

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

# Statements of activities

| | For the Year Ended December 31, 2017 | | | For the Year Ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| | $ | $ | $ | $ | $ | $ |
| **Revenues:** | | | | | | |
| NERC assessments | **59,856,314** | **-** | **59,856,314** | 57,081,445 | - | 57,081,445 |
| Penalty income | **-** | **1,000,000** | **1,000,000** | - | 500,000 | 500,000 |
| Third-party funding | **6,840,470** | **-** | **6,840,470** | 6,917,790 | - | 6,917,790 |
| Testing / fees | **1,631,765** | **-** | **1,631,765** | 1,738,043 | - | 1,738,043 |
| Services and software | **33,764** | **-** | **33,764** | 43,000 | - | 43,000 |
| Workshops | **293,559** | **-** | **293,559** | 240,837 | - | 240,837 |
| Rental income | **31,447** | **-** | **31,447** | 188,684 | - | 188,684 |
| Interest | **163,528** | **-** | **163,528** | 38,851 | - | 38,851 |
| Miscellaneous revenues | **19,001** | **-** | **19,001** | 202 | - | 202 |
| Net assets (penalties) released from restrictions | **1,100,000** | **(1,100,000)** | **-** | 1,439,000 | (1,439,000) | - |
| Total revenues | **69,969,848** | **(100,000)** | **69,869,848** | 67,687,852 | (939,000) | 66,748,852 |
| **Expenses:** | | | | | | |
| Salaries and other compensation | **30,154,916** | **-** | **30,154,916** | 29,012,522 | - | 29,012,522 |
| Employee benefit costs | **5,637,155** | **-** | **5,637,155** | 5,309,731 | - | 5,309,731 |
| Retirement and savings plans | **2,997,461** | **-** | **2,997,461** | 2,880,369 | - | 2,880,369 |
| Travel and meetings | **3,450,867** | **-** | **3,450,867** | 3,472,637 | - | 3,472,637 |
| Services | **15,269,142** | **-** | **15,269,142** | 13,930,542 | - | 13,930,542 |
| Rent | **2,934,818** | **-** | **2,934,818** | 3,437,796 | - | 3,437,796 |
| Office costs | **1,565,727** | **-** | **1,565,727** | 1,587,514 | - | 1,587,514 |
| Computer software and supplies | **3,095,461** | **-** | **3,095,461** | 1,854,172 | - | 1,854,172 |
| Depreciation and amortization | **3,159,341** | **-** | **3,159,341** | 2,472,276 | - | 2,472,276 |
| Property and other tax expense | **61,420** | **-** | **61,420** | 45,604 | - | 45,604 |
| Provision for bad debts | **-** | **-** | **-** | 10,017 | - | 10,017 |
| (Gain) Loss on disposal of fixed assets | **(500)** | **-** | **(500)** | 39,507 | - | 39,507 |
| Miscellaneous expenses | **48,749** | **-** | **48,749** | 26,812 | - | 26,812 |
| Interest | **113,451** | **-** | **113,451** | 78,971 | - | 78,971 |
| Total expenses | **68,488,008** | **-** | **68,488,008** | 64,158,470 | - | 64,158,470 |
| Change in net assets | **1,481,840** | **(100,000)** | **1,381,840** | 3,529,382 | (939,000) | 2,590,382 |
| **Net assets, beginning of year** | **13,265,238** | **2,771,000** | **16,036,238** | 9,735,856 | 3,710,000 | 13,445,856 |
| **Net assets, end of year** | **14,747,078** | **2,671,000** | **17,418,078** | 13,265,238 | 2,771,000 | 16,036,238 |

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

# Statements of cash flows

| For the Years Ended December 31: | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Cash flows from operating activities** | | |
| Change in net assets | **1,381,840** | 2,590,382 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | **3,159,341** | 2,472,276 |
| Straight-line rent accrual | **(396,118)** | (322,409) |
| (Gain) Loss on disposal of fixed assets | **(500)** | 39,507 |
| Provision for bad debts | **-** | 10,107 |
| Non-qualified deferred compensation | **(350,754)** | (202,541) |
| Change in cash attributable to changes in operating assets and liabilities: | | |
| Accounts receivable | **(2,397,803)** | 192,165 |
| Prepaid expenses | **118,036** | (754,201) |
| Security deposits | **-** | (169) |
| Receipt of funds for regional entities | **112,379,939** | 120,569,235 |
| Disbursements of funds to regional entities | **(112,379,939)** | (120,569,235) |
| Accounts payable and accrued expenses | **425,836** | (1,854,627) |
| Deferred revenue | **(4,047,644)** | 4,250,834 |
| Regional assessments collected in advance | **(7,435,385)** | 11,197,487 |
| Deferred compensation | **549,714** | 123,642 |
| Accrued retirement liabilities | **(52,521)** | 24,512 |
| Net cash (used in) provided by operating activities | **(9,045,958)** | 17,766,965 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | **(4,352,274)** | (3,927,185) |
| Proceeds from sales of property and equipment | **500** | 100 |
| Net cash used in investing activities | **(4,351,774)** | (3,927,085) |
| **Cash flows from financing activities** | | |
| Proceeds from non-revolving credit facility & capital leases | **1,889,596** | 1,484,062 |
| Debt service | **(719,521)** | (1,044,253) |
| Capital lease payments | **(369,700)** | (64,727) |
| Net cash provided by financing activities | **800,375** | 375,082 |
| Net (decrease) increase in cash and cash equivalents | **(12,597,357)** | 14,214,962 |
| **Cash and cash equivalents, beginning of year** | **54,523,917** | 40,308,955 |
| **Cash and cash equivalents, end of year** | **41,926,560** | 54,523,917 |
| | | |
| **Supplemental disclosure of non-cash information** | | |
| Fixed asset purchases within accounts payable | **396,145** | 1,074,181 |
| **Supplemental disclosure of cash paid** | | |
| Interest | **110,360** | 78,971 |
| | | |
| **Reconciliation of cash** | | |
| Cash and cash equivalents | **41,426,560** | 54,023,917 |
| Restricted cash | **500,000** | 500,000 |
| **Cash and cash equivalents, end of year** | **41,926,560** | 54,523,917 |

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

# Notes to financial statements

## 1 Organization and Nature of Business

North American Electric Reliability Corporation (the "Corporation" or "NERC") is an international, independent, not-for-profit organization, whose mission is to assure the reliability of the bulk power system in North America. NERC relies on the diverse and collective expertise of electricity industry participants, subject to government oversight and audit. The Corporation is certified by the United States Federal Energy Regulatory Commission ("FERC") as the Electric Reliability Organization ("ERO") within the United States. In the United States, the Corporation has the authority to levy fines and penalties against any of the individual users, owners and operators of the bulk power system for non-compliance with the reliability standards that govern the bulk power system. The Corporation has also been recognized as the ERO by governmental authorities in Canada.

To achieve the Corporation's mission, it develops and enforces reliability standards; monitors the bulk power system; assesses future adequacy; and educates, trains and certifies industry personnel. Entities subject to the Corporation's reliability standards account for virtually all the electricity supplied in the United States, Canada and a portion of Baja California, Norte, Mexico.

The Corporation is the successor to the North American Electric Reliability Council (the "Council") which was formed in 1968 in the aftermath of the November 1965 blackout that affected the northeastern United States and Ontario, Canada. On October 31, 2006, the Council entered into an agreement and plan of merger with the Corporation, a New Jersey non-profit corporation. At the effective date of the merger, January 1, 2007, the separate corporate existence of the Council ceased, and the Corporation became the surviving entity. All of the property, assets, rights, privileges, powers, franchises and immunities of the Council became the property of the Corporation. All debts, liabilities and obligations of the Council were also assumed by the Corporation. The Corporation is organized and operates as a business league under Internal Revenue Code Section 501(c)(6). The activities of the Corporation are directed by an independent Board of Trustees.

The membership of the Corporation is unique. It is a not-for-profit corporation whose members include users, owners and operators of the bulk power system, eight regional entities, large and small end-use customers, state and provincial governmental authorities and other interested parties.

Annually, the Board of Trustees approves an operating budget for the Corporation that includes a provision for working capital and operating reserves, which are recovered through assessments to Load-Serving Entities ("LSE"). The determination of the annual working capital and operating reserve requirements and the authorization of management to access these funds is governed by the Corporation's "Working Capital and Operating Reserve Policy." The Corporation assesses each LSE a proportional share of its annual operating budget based on "net energy for load." During 2017, the assessments to LSEs made up approximately 85.5% of the total funding for the Corporation. Assessments to U.S. entities in 2017 were offset by $1,100,000 in penalties received in prior years, but restricted from use until 2017 per the Corporation's policy on the "Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards" and approved release of penalties for the "Assessment Stabilization Reserve" (see Note 5). The Corporation also generates funding from the collection of fees charged for various services. These services include management of some contracts associated with the Electricity Information Sharing and Analysis Center (E-ISAC), the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters.

The Corporation has entered into separate delegation agreements, which have been approved by FERC, with eight regional entities: Florida Reliability Coordinating Council ("FRCC"), Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council ("NPCC"), Reliability First Corporation ("RFC"), SERC Reliability Corporation ("SERC"), Southwest Power Pool Regional Entity ("SPP"), Texas Reliability Entity ("TRE") and Western Electricity Coordinating Council ("WECC") (collectively the “Regional Entities”). Through these agreements, the Corporation has delegated certain ERO responsibilities and functions to the Regional Entities.

The Corporation must annually approve the eight Regional Entities' budgets and submit them, along with its budget and schedule of LSE assessments, to FERC for final approval of the budgets and the U.S. portion of the assessments. The Corporation has the sole responsibility to invoice, collect and disburse the monies approved in the Regional Entities' budgets. These pass-through amounts are not included as revenue and expense in the statements of activities (see Note 6).

## 2 Summary of Significant Accounting Policies

### Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2017 or 2016.

### Cash and Cash Equivalents

The Corporation considers all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Corporation maintains its cash balances with one bank. The accounts at the bank are insured up to certain limits by the Federal Deposit Insurance Corporation. Balances in these accounts may exceed Federally-insured limits from time to time. A total of $500,000 has been set aside for the insurance reserve in current assets and non-current liabilities and is restricted from use for any other purpose.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Revenue Recognition

The Corporation recognizes assessment revenue billed to the LSEs on a pro-rata basis over the calendar year. Fees generated for contract management, testing, certifications, services and software, workshops and other services are recognized when the test is taken, service rendered and/or workshops are completed.

Penalty income is derived from FERC's approval of assessment of penalties to registered entities regarding enforcement of NERC's Reliability Standards. The penalty income from a registered entity is recorded following closure of the enforcement matter including exhaustion of appeals. The funds are temporarily restricted due to FERC's requirement that the funds be used to reduce future NERC assessments.

### Deferred Revenue

Deferred revenue represents assessments and fees billed and received in advance of the period in which it is earned. Deferred revenue is recognized as revenue in the period in which it is earned.

### Accounts Receivable

Accounts receivable are recorded at the original invoice amount, less an estimated allowance for uncollectible accounts. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past experience and an analysis of current accounts receivable collectability. Changes in the estimated collectability of accounts receivable are recorded in the results of operations for the period in which the estimate is revised. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

### Property and Equipment

Purchased property and equipment are capitalized at cost. The Corporation's minimum capitalization policy is for additions greater than $2,000.

Depreciation and amortization is provided by the straight-line method over the estimated useful lives of the related assets as follows:

| | Years |
|---|---|
| Software development | 3-5 years |
| Furniture and equipment | 3-7 years |
| Leasehold improvements | Term of lease or estimated useful life of the asset, whichever is shorter |

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized.

### Compensated Absences

Employees of the Corporation are entitled to paid time off depending on length of service. At December 31, 2017 and 2016, the Corporation has recorded accrued compensated absences of approximately $566,000 related to days earned, which is included with accounts payable and accrued expenses on the statements of financial position.

### Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Corporation is subject to income taxes on revenues from unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2017 or 2016.

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2014. Tax years 2014 through 2017 remain subject to examination by major tax jurisdictions.

### Subsequent Events

The Corporation discloses material events that occur after the statement of financial position date but before financial statements are issued. In general, these events are recognized in the financial statements if the condition existed at the date of the statement of financial position, but are not recognized if the condition did not exist at the statement of financial position date. The Corporation discloses non-recognized events if required to keep the financial statements from being misleading. Management evaluated events occurring subsequent to December 31, 2017 through May 8, 2018, the date the financial statements were available for issuance, noting none requiring disclosure.

## 3 Property and Equipment

Property and equipment consist of the following at December 31:

| December 31 | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Software development | **11,359,266** | 9,117,286 |
| Furniture and equipment | **9,999,986** | 7,949,637 |
| Leasehold improvements | **1,407,403** | 1,380,675 |
| | **22,766,655** | 18,447,598 |
| Accumulated depreciation and amortization | **(10,386,363)** | (7,656,384) |
| Property and equipment, net | **12,380,292** | 10,791,214 |

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was $3,159,341 and $2,472,276, respectively.

## 4 Non-Revolving Credit Facility and Line of Credit

On January 13, 2014, the company secured a non-revolving credit facility under the Capital Financing Program that was approved by the Board of Trustees and FERC as part of the Corporation's 2014 Business Plan and Budget. The interest rate is floating and equal to LIBOR plus 275 basis points, which yielded a rate of 2.91% at closing and 4.30% as of December 31, 2017. The total size of this facility is $7,500,000, with the total authorized borrowings each year limited to the amount approved by the Board of Trustees and FERC in that year's business plan and budget, for capital expenditures made through December 31, 2016. This facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. Borrowings outstanding as of December 31, 2017 and 2016 were $1,144,852 and $1,864,373, respectively, and no further draws will be made under this facility. Principal payments on the credit facility are as follows:

| Years ending December 31: | $ |
|---|---|
| 2018 | 717,274 |
| 2019 | 394,687 |
| 2020 | 32,891 |
| Total | 1,144,852 |

The company secured a similar non-revolving credit facility on November 1, 2016 to finance certain capital expenditures approved and authorized by the Board of Trustees and FERC under the Capital Financing Program, for annual expenditures made from January 1, 2017 through December 31, 2019. The size of this credit facility is $5,000,000 and the interest rate is floating and equal to LIBOR plus 275 basis points. This facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. As of December 31, 2017, there were no borrowings outstanding on this facility.

The Corporation has a line of credit with a bank that renews annually and currently expires in September 2018. The line of credit provides for up to $4,000,000 of availability to be used for working capital needs. In connection with the non-revolving credit facility secured on January 13, 2014, the line of credit was amended and restated. The line of credit accrues interest at a rate per annum equal to LIBOR plus 275 basis points. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. There were no borrowings outstanding at December 31, 2017 or 2016. At December 31, 2017 and 2016, the available amount under the line of credit was reduced by open letters of credit totaling $109,798 and $142,708, which represent security deposits for the Corporation's office lease agreements

Both loan agreements contain various positive and negative covenants, and the Corporation was in compliance with these covenants as of December 31, 2017.

## 5 Assessment Stabilization Reserve and Penalty Income and Temporarily Restricted Net Assets

In 2015, NERC amended its Working Capital and Operating Reserve Policy to include the establishment of a separate Assessment Stabilization Reserve. The purpose of the Assessment Stabilization Reserve is to spread the use of available penalty funds, together with any operating surpluses, over a number of years in order to avoid wide swings in annual member assessments that could otherwise result from applying all of these funds as an offset to assessments in a single year. At December 31, 2017, $1,671,000 is designated in the Assessment Stabilization Reserve, as approved by NERC's Board of Trustees and FERC, and is available to offset future assessments. Net assets totaling $2,671,000 and $2,771,000 were temporarily restricted as of December 31, 2017 and 2016, respectively, to offset future assessments.

The Corporation received $1,000,000 and $500,000 of penalty income in 2017 and 2016, respectively, which is temporarily restricted. The penalty income will be utilized to reduce future assessments, in accordance with the timing of the receipt of the income under FERC requirements and in coordination with NERC's assessment stabilization reserve policy. In 2017 and 2016, NERC transferred $1,100,000 and $1,439,000, respectively, of penalty income from temporarily restricted net assets to unrestricted net assets, which was used to offset Corporation assessments from U.S. entities.

## 6 Regional Assessments Collected in Advance

In addition to the Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the Regional Entities. The regional assessment is based on approved budgets of the eight Regional Entities and remitted to the Regional Entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the Regional Entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for 2017 and 2016 were as follows:

| For the Year Ended December 31 | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Total regional assessments billed to WECC, ERCOT, individual LSE's and designees | **111,055,350** | 109,426,742 |
| Total regional assessments remitted to regional entities | **(110,088,473)** | (109,416,385) |
| Billings over remittances | **966,877** | 10,357 |

As of December 31, 2017 and 2016, regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements totaled $16,035,768 and $23,471,153, respectively.

## 7 Deferred Compensation

### Deferred Compensation Plan

The Corporation established a deferred compensation plan for certain employees in 2012 in accordance with Internal Revenue Code Section 457(b). The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In 2014, the plan was amended to allow the company to make discretionary, non-elective contributions to the plan on behalf of the employee. While the Company has the discretion to make contributions to this plan, the balances are primarily comprised of funds contributed by the employees. The liability for this deferred compensation plan is $1,608,039 and $1,109,883 at December 31, 2017 and 2016, respectively, and is included in deferred compensation non-current liabilities on the statements of financial position.

In 2015, the Corporation established a 457(f) nonqualified deferred compensation plan for certain key employees. The plan allows the company to make discretionary, annual awards that vest over time. The vesting period of each award for each participant is specified in writing. When the award is made, the Corporation makes a contribution to the 457(f) plan and records the contribution as non-qualified deferred compensation plan assets on the statements of financial position. The company records the expense of the award over time, based on the vesting schedule, on the statements of activities. The accrued expense liability is recorded in deferred compensation non-current liabilities on the statements of financial position. As of December 31, 2017 and 2016 the accrued liability for this deferred compensation plan is $198,175 and $195,673 respectively.

At December 31, 2017 and 2016, the Corporation holds investments to fund future liabilities of the 457(b) and 457(f) non-qualified deferred compensation plans totaling $1,934,378 and $1,583,624, respectively. These investments are reported at fair market value and are included the non-qualified deferred compensation plan assets on the statements of financial position. Realized and unrealized gains on non-qualified deferred compensation plan assets totaling $345,845 and $0 in 2017 and 2016, respectively, are offset against deferred compensation expense, which is included in salaries and other compensation expense on the statements of activities.

### Retiree Medical Benefits

Effective September 1, 2007, the Board of Trustees approved and adopted a policy to provide medical coverage for a limited number of current and transitional retirees and their dependents up to a maximum monthly benefit of $550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2014 Social Security Administration Actuarial Period Life Table, annual inflation rate of 1.5% and discount rate of 4.0%. At December 31, 2017 and 2016, the accrued retiree medical benefits liability was $218,012 and $221,881, respectively, and is included in non-current deferred compensation on the statements of financial position. The retiree medical expense related to this policy was $17,092 and $11,960, respectively, for the years ended December 31, 2017 and 2016.

## 8 Commitments

### Operating Leases

The Corporation leases office space in Atlanta, Georgia and Washington, D.C. under non-cancellable lease agreements, with expiration dates in 2025 and 2022, respectively. In 2017, the Corporation entered into an agreement to expand the amount of leased space in Atlanta, Georgia and extend the term on existing and newly leased space until 2025. In 2015, the Corporation entered into an agreement to expand the amount of leased space in Washington, D.C. with an expiration date in 2022, which is coterminous with the term of the lease for the original premises.

In 2011, the Corporation entered into a separate sub-lease agreement for one of the two locations in Washington D.C., which expired in February 2017and coincided with NERC's lease expiration on the office space.

Approximate future minimum payments on office lease space at December 31, 2017 are as follows:

| | Leased Space |
|---|---|
| **Years ending December 31:** | **$** |
| 2018 | 3,380,000 |
| 2019 | 3,579,000 |
| 2020 | 3,745,000 |
| 2021 | 3,911,000 |
| 2022 | 3,121,000 |
| Thereafter | 6,796,000 |
| Future obligation | 24,532,000 |

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The difference between rent expense calculated ratably over the lease term and actual payments under the agreements are recorded as a deferred rent obligation on the statements of financial position in the amount of $3,015,787 and $3,411,905 at December 31, 2017 and 2016, respectively.

Office rent expense, net of sub-lease income of $31,447 and $188,684, was $2,877,763 and $2,931,334 for the years ended December 31, 2017 and 2016, respectively.

### Capital Leases

The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was $525,797 and $70,120 for the years ended December 31, 2017 and 2016, respectively.

Assets leased by the Corporation under capital leases are included in fixed assets and capital lease obligation on the statements of financial position and consisted of the following:

| December 31, 2017 | $ |
|---|---|
| Office equipment leases (audio visual, computers, copiers, etc.) | 2,170,077 |
| Accumulated depreciation | (525,797) |
| Net book value | 1,644,280 |

The following is a schedule of future minimum lease payments under these capital leases, together with the future obligation net of interest as of December 31, 2017:

| Years ending December 31: | Future Minimum Payments $ |
|---|---|
| 2018 | 510,656 |
| 2019 | 427,683 |
| 2020 | 427,683 |
| 2021 | 383,850 |
| 2022 | 23,364 |
| Total minimum lease payment | 1,773,236 |
| Less: Amounts representing interest | (101,587) |
| Future obligation net of interest | 1,671,649 |

### Contractual Commitments

The Corporation has software license, maintenance support and data management service agreements with varying expiration dates through 2022. The following table is a schedule of future commitments under the terms of the agreements:

| Years ending December 31: | Future Minimum Payments $ |
|---|---|
| 2018 | 303,000 |
| 2019 | 253,000 |
| 2020 | 218,000 |
| 2021 | 132,000 |
| 2022 | 31,000 |
| Total service agreements | 937,000 |

## 9 Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible employees may elect to contribute up to the Internal Revenue Service Code 402(g)(1) limit. The Corporation contributes a 75% match of the first 6% of a participant's elective contribution, which vests immediately to the employee. The Corporation also makes a discretionary contribution equal to a percentage of the eligible compensation of all qualifying participants, which vests to the employee over a five year period. The additional discretionary contributions are determined annually by the Board of Trustees and are subject to the limitation imposed by the Internal Revenue Service Code 401(a)(17). The Corporation's expenses related to the Plan for the years ended December 31, 2017 and 2016 were $2,997,461 and $2,880,369, respectively. The contributions accrued as of December 31, 2017 and 2016 amounted to $1,850,821 and $1,903,342, respectively, and are included in accrued retirement liabilities in the statements of financial position.

## 10 Concentration of Credit Risk

The Corporation receives a significant portion of its income from assessments, based upon "net energy for load," to LSEs within the eight regions located throughout the United States, Canada and a portion of Baja California, Norte, Mexico. LSEs are assessed a proportional share of the Corporation's operating budget as well as a proportional share of the operating budget of the regional entity in whose territory the LSE is located. The Corporation issues quarterly invoices directly to LSEs or, in some circumstances, designees. With respect to LSEs located within TRE, the Corporation issues a quarterly invoice to Electric Reliability Council of Texas ("ERCOT") which then issues invoices to the LSEs in its region, collects the assessments and remits the funds to the Corporation. The Corporation then remits the regional assessments to TRE. A similar arrangement exists with respect to LSEs located within the WECC. For LSEs located within the PJM Interconnection ("PJM"), the Corporation issues invoices to PJM which issues invoices to the LSEs, collects the assessments and remits the funds to the Corporation. The Corporation then forwards the regional assessment to RFC, the regional entity. The Corporation is extending credit to the LSEs and designees and is exposed to credit risk to the extent regional assessments are paid by the Corporation to the Regional Entities prior to collecting assessments from the LSEs or designees. Based on past history, the Corporation believes that the risk of its trade accounts receivable credit exposure is limited.

## 11 Functional Classification

The Corporation 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. The Corporation groups expenses by operational programs and by administrative programs as defined by FERC.

The following table shows the functional classification of expenses for the years ended December 31, 2017 and 2016:

| For the Years Ended December 31 | 2017 | 2016 |
|---|---|---|
| | **$** | **$** |
| **Operational programs:** | | |
| Reliability standards | **3,338,660** | 3,612,941 |
| Compliance analysis and certification | **2,219,964** | 1,919,464 |
| Compliance assurance | **4,378,348** | 3,955,190 |
| Compliance enforcement | **2,532,890** | 2,340,096 |
| Reliability assessment and performance analysis | **6,524,290** | 6,274,498 |
| Event analysis | **2,812,782** | 2,583,434 |
| Situation awareness | **2,409,672** | 2,561,584 |
| Training, education and operator certification | **1,955,472** | 1,830,426 |
| E-ISAC | **12,703,233** | 11,695,297 |
| Total operational programs | **38,875,311** | 36,772,930 |
| **Administrative programs:** | | |
| General and administrative | **10,451,717** | 10,991,742 |
| Legal and regulatory | **2,774,108** | 3,027,924 |
| Information technology | **10,817,941** | 8,694,255 |
| Human resources | **1,431,944** | 1,197,930 |
| Finance and accounting | **4,136,987** | 3,473,689 |
| Total administrative programs | **29,612,697** | 27,385,540 |
| Total expenses | **68,488,008** | 64,158,470 |

# Supplemental schedules of selected expenses

| For the Years Ended December 31, | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Employee benefit costs:** | | |
| Payroll taxes (FICA, SUI, FUI, Medicare) | **1,838,973** | 1,734,756 |
| Employee benefits - medical | **2,656,650** | 2,591,197 |
| Employee benefits - life / disability | **298,589** | 278,311 |
| Employee benefits - other | **325,570** | 314,764 |
| Insurance - workers' compensation | **59,017** | 62,902 |
| Relocation expenses | **93,551** | 46,664 |
| Educational | **364,805** | 281,137 |
| Total employee benefit costs | **5,637,155** | 5,309,731 |
| **Travel and meetings:** | | |
| Meetings | **942,308** | 726,877 |
| Workshops | **182,563** | 245,200 |
| Travel | **2,145,481** | 2,232,853 |
| On-line meetings | **180,515** | 267,707 |
| Total travel and meetings | **3,450,867** | 3,472,637 |
| **Services:** | | |
| Insurance - commercial | **216,780** | 224,502 |
| Contract and consultants | **13,065,499** | 11,696,805 |
| Independent trustee fees | **1,084,587** | 1,126,356 |
| Search fees | **106,418** | 106,334 |
| Outside services | **168,787** | 187,670 |
| Accounting and auditing fees | **119,739** | 137,080 |
| Legal fees | **507,332** | 451,795 |
| Total services | **15,269,142** | 13,930,542 |
| **Office costs:** | | |
| Publications and subscriptions | **196,303** | 193,569 |
| Dues | **51,001** | 75,651 |
| Postage | **9,098** | 11,360 |
| UPS, express mail, etc. | **23,836** | 19,326 |
| Telephone | **338,648** | 425,589 |
| Office and equipment repair/services | **113,445** | 113,847 |
| Copying | **30,076** | 21,609 |
| Audio visual and computer equipment | **211,437** | 50,969 |
| Office supplies | **181,509** | 182,048 |
| Bank charges | **22,157** | 69,136 |
| Credit card merchant fees | **80,472** | 84,071 |
| Sales & use tax | **-** | 592 |
| Internet expenses | **307,745** | 339,747 |
| Total office costs | **1,565,727** | 1,587,514 |

# ATTACHMENT 2

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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# FRCC
# 2017 True Up
# Actual to Budget Comparison as of December 31, 2017

## Regional Entity

### Statutory Summary

For the twelve months ending December 31, 2017, FRCC is $289K under budget (4%).

### Statutory Funding

- **Total Funding is flat to budget**

### Statutory Expenses

- **Personnel Expenses (Actual - $44K under budget)**
  - The favorable variance is primarily due to lower than anticipated medical premiums for the year, partially offset by a lower than anticipated attrition rate.

- **Meeting Expenses (Actual - $53K under budget)**
  - The favorable variance is mainly due to lower than budgeted System Operator Seminar costs and staff travel.

- **Operating Expenses (Actual - $161K under budget)**
  - The favorable variance is primarily due to contracts and consultants which is below budget by $183K due to lower than planned usage of CMEP contractors and lower Compliance software maintenance costs. These are partially offset by higher than budgeted office costs of $49K due to a change in the fixed asset capitalization policy.

- **Fixed Assets (Actual - $31K under budget)**
  - The favorable variance is mainly due to fewer enhancements being made to the Compliance software, partially offset by a new capital lease for audio equipment used for conference rooms.

# Member Services

## Non-Statutory Summary

For the twelve months ending December 31, 2016, FRCC is $193K over budget (1.9%).

## Non-Statutory Funding

- **Services & Software (Actual - $462K over budget)**
  - The favorable variance is due to delayed implementation of replacement Hotline service and hardware of $383K that are pass through items where revenues offset expenses, with no financial impact. In addition, there is a non-cash GAAP required item of $79K that represents a credit to record the post-retirement non-pension related expenses. The net effect of the post-retirement obligation is $5K.

## Non-Statutory Expenses

- **Personnel Expenses (Actual - $103K under budget)**
  - The favorable variance is primarily due to lower than anticipated medical premiums for the year and staff education expenses.
- **Meeting Expenses (Actual - $5K over budget)**
- **Operating Expenses (Actual - $278K over budget)**
  - The unfavorable variance is primarily due to delayed implementation of replacement Hotline service and hardware of $383K that are pass through items where revenues offset expenses, with no financial impact. In addition, the Reliability Coordinator Agent Infrastructure, video wall and desk upgrade expenses were higher than budgeted ($84K), partially offset by:
    - RC & Non-RC- FTMS Software Development (-$75K),
    - Planning- Timing of the Geo-Magnetic Disturbance Model & Study (-$42K), and
    - RC- Hotline Replacement Annual License Fee (-$32k).
- **Fixed Assets (Actual - $167K under budget)**
  - The favorable variance is mainly due to:
    - RC- TOP/IRO Standards Project tool (-$100K), partially offset by:
    - New Capital Lease for Conference Room Audio Equipment (split between RE and MS).

# Statements Concerning Work Completed in 2017:

Compliance Monitoring & Enforcement Program

Specifically, the Compliance Department verifies that:

1. Four (4) O&P Compliance Audits and three (3) Spot Checks were scheduled for 2017.
   a. Four (4) on-site Compliance Audits were completed as scheduled.
   b. Three (3) Spot Check was completed as scheduled.
   c. 11 entities were monitored via Self-Certification as a result of the risk-based compliance monitoring implementation.
2. Two (2) CIP Compliance Audits and three (3) Spot Checks were scheduled for 2017.
   a. Two (2) on-site Compliance Audits were completed as scheduled.
   b. Three (3) Spot Check were completed as scheduled.
   c. 35 entities were monitored via Self-Certification as a result of the risk-based compliance monitoring implementation.
3. The Technical Feasibility Exception (TFE) program related to the CIP standards completed its eighth year in 2017. FRCC processed three (3) TFEs, three (3) were approved and zero (0) were not approved.
4. Regional Compliance Evaluations were completed for one (1) entity reliability event during 2017.
5. Conducted Inherent Risk Assessment (IRA) refreshes for twenty-one (21) of the forty (40) Registered Entities in the FRCC region ensuring all forty (40) entities had a current IRA, including all those that were on the Audit schedule for 2017.
6. Completed review of twenty (20) Formal Mitigation Plans for acceptance or rejection; completed review for twenty-one (21) non-compliances with identified mitigating activities. Completed review of one (1) Formal Mitigation Plan Revision submitted by a registered entity.
7. Verified completion of six (6) Mitigation Plans; and fourteen (14) non-compliances with mitigating activities.

The Registration and Certification Departments completed the following activities in 2017:

Certification:

Two (2) Certification Reviews were scheduled and completed in 2017 for the following activities: Energy Management System (EMS) Replacement (BA/TOP)/Upgrade and a transition to a new Primary Control Center (BA/TOP).

Registration:

1. Registered one (1) entity for a single function.
2. Deregistered six (6) entities for a total of eleven (11) functions.
3. Established two (2) Joint Registration Organization (JRO) registrations for two (2) functions.
4. Terminated two (2) Joint Registration Organization (JRO) registrations for two (2) functions.
5. Terminated one (1) Coordinated Functional Registration (CFR) for a single function.
6. Processed two (2) updates to twelve (12) Coordinated Functional Registrations (CFRs) for a single function.
7. Completed the annual reconciliation of the FRCC's functional registrations as shown on the NERC and FRCC Compliance Registry. In addition, the reconciliation verified the accuracy of the identified functional relationships as shown on the FRCC Compliance Registry.

Reliability Assessment Program

NERC Reliability Assessments (Summer, Winter, Long Term Reliability, Special and Probabilistic Assessments) were all completed as scheduled.

FRCC continues to support the application of the new Bulk Electric System (BES) definition. FRCC processed five (5) Self-determined Notifications (SDN) using the *FRCC Regional Process for Implementation of the BES Definition with FRCC Functional Entities FRCC-RE-ISD-002* in 2017. FRCC Processed one (1) BES Exception Requests (ER) using the BESnet in 2017. In 2017, FRCC participated on one (1) Technical Review Panel rendering an opinion on one (1) ER originating in another Region in support of the BES Exception Process (Appendix 5C of the NERC Rules of Procedure) and the ERO Enterprise.

FRCC has actively participated in the ERO Events Analysis Process. FRCC continues to hold Event Analysis in high regard as it is one of the industry's best opportunities to learn, share and improve. FRCC continues to utilize peer review teams to provide high quality meaningful reports and Lessons Learned to industry through NERC.

FRCC continues to communicate and follow up with registered entities on NERC Alerts to ensure the proper attention is given to alerts and acknowledgements, responses, and approval are handled in the appropriate time frame.

## Method used to allocate indirect costs to the direct statutory program or functional areas:

The FRCC uses standard cost accounting procedures to allocate general expenses (that cannot be directly assigned) to a specific function. The system used consists of directly expensing as much as possible directly to the function (whether that function is Statutory or Member Services) that incurred the expense. This is accomplished by routing to the responsible departmental heads all invoices pertaining to their job responsibility. The departmental head assigns the functional category and returns the invoice to accounting who assigns the General Ledger Account Number (as specified in the FRCC Accounting Policy Manual – Coding of Invoices for Goods and Services). If the expense cannot be directly charged to a particular function (for example rent, payroll taxes, benefits, general office supplies, etc.), the expense is charged to holding accounts by chart of accounts line item to be allocated back to the program areas (to include General & Administrative) at the end of the month. This is done by using the monthly time accounting summarization of FTE by function. So, there are two ways expenses are charged to a particular function, either by direct expense or by allocation from the results of the monthly time accounting summarization of FTE by function (including General & Administrative).

The monthly time accounting summarization of FTE by function is calculated using the time sheets that each employee is required to turn in to Human Resources bi-weekly. Each employee allocates eight (8) hours per day to the functions they worked on that day. Their time sheet is reviewed by their departmental head and initialled bi-weekly.

Employees are categorized into 2 groups: Technical Employees – those employees who work directly on functions and have little or no administrative duties (examples would be the Compliance staff and the Engineers) and Non-Technical Staff – those employees who perform support functions that are 80% or greater nonspecific definable by function (examples would be the Accounting staff, the President, the receptionist, etc.). The time from the time sheets is entered into a macro (by employee and function worked on) for the corresponding month being accounted for. The FTE's by program are then calculated and used to allocate the total of the General & Administrative Department back to the program areas on the line "Miscellaneous".

### Cash Reserves Statement

FRCC maintains cash reserves of one month of budgeted expenses for both Statutory and Non-Statutory activities according to the policy approved by the FRCC Board of Directors.

### Statement concerning the use of Statutory Funds for Member Services Expenses:

No Statutory Funds were used to pay for Member Services Functions in 2017 and no Member Services Funds were used to pay for Statutory Functions.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**TOTAL COMPANY**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 6,163,895 | $ 6,163,895 | $ - | |
| Penalty Sanctions | 95,000 | 95,001 | $ (1) | |
| Total ERO Funding | $ 6,258,895 | $ 6,258,896 | $ (1) | 0.0% |
| | | | | |
| Membership Dues | $ 10,301,621 | $ 10,301,621 | - | |
| Testing Fees | - | - | - | |
| Services & Software | 587,499 | 203,700 | 383,799 | |
| Workshops | 92,450 | 92,000 | 450 | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | 77,858 | - | 77,858 | |
| **Total Funding** | **$ 17,318,323** | **$ 16,856,217** | **$ 462,106** | 2.7% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 6,900,249 | $ 6,831,246 | 69,003 | |
| Payroll Taxes | 419,140 | 404,857 | 14,283 | |
| Benefits | 992,713 | 1,170,534 | (177,821) | |
| Retirement Costs | 949,706 | 1,002,336 | (52,630) | |
| **Total Personnel Expenses** | **$ 9,261,808** | **$ 9,408,973** | **$ (147,165)** | -1.6% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 81,645 | $ 112,422 | (30,777) | |
| Travel | 233,957 | 259,059 | (25,102) | |
| Conference Calls | 53,469 | 45,994 | 7,475 | |
| **Total Meeting Expenses** | **$ 369,071** | **$ 417,475** | **$ (48,404)** | -11.6% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 5,674,882 | $ 5,785,441 | (110,559) | |
| Office Rent | 843,766 | 826,176 | 17,590 | |
| Office Costs | 773,364 | 463,279 | 310,085 | |
| Professional Services | 70,323 | 80,000 | (9,677) | |
| Miscellaneous | - | - | - | |
| Depreciation | 164,816 | 255,132 | (90,316) | |
| **Total Operating Expenses** | **$ 7,527,151** | **$ 7,410,028** | **$ 117,123** | 1.6% |
| | | | | |
| **Total Indirect Expenses** | $ - | $ - | $ - | 0.0% |
| | | | | |
| **Other Non-Operating Expenses** | **$ 72,000** | - | **$ 72,000** | |
| | | | | |
| **Total Expenses** | **$ 17,230,030** | **$ 17,236,476** | **$ (6,446)** | 0.0% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ 88,293** | **$ (380,259)** | **$ 468,552** | -123.2% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (164,816) | $ (255,132) | $ 90,316 | |
| Net Non Pension Post Retir. Oblig | 5,858 | - | 5,858 | |
| Software CapEx | 28,137 | 292,697 | (264,560) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 180,332 | 102,399 | 77,933 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 49,511** | **$ 139,964** | **$ (90,453)** | -64.6% |
| | | | | |
| **Total Budget** | **$ 17,279,541** | **$ 17,376,440** | **$ (96,899)** | -0.6% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ 38,782** | **$ (520,223)** | **$ 559,005** | -107.5% |
| | | | | |
| **FTEs** | 47.64 | 50.75 | (3.11) | |
| | | | | |
| Beginning Working Capital 1/1/2017 | 2,659,332 | 1,968,259 | 691,073 | |
| Change in Working Capital | 38,782 | (520,223) | 559,005 | |
| Working Capital at 3/31/2017 | 2,698,114 | 1,448,036 | 1,250,078 | |

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**TOTAL Statutory Only**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 6,163,895 | $ 6,163,895 | $ - | |
| Penalty Sanctions | 95,000 | 95,001 | $ (1) | |
| Total ERO Funding | $ 6,258,895 | $ 6,258,896 | $ (1) | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 92,450 | 92,000 | 450 | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **$ 6,351,345** | **$ 6,350,896** | **$ 449** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 4,022,614 | $ 3,958,699 | 63,915 | |
| Payroll Taxes | 243,846 | 233,832 | 10,014 | |
| Benefits | 604,748 | 687,962 | (83,214) | |
| Retirement Costs | 557,505 | 591,944 | (34,439) | |
| **Total Personnel Expenses** | **$ 5,428,713** | **$ 5,472,437** | **$ (43,724)** | -0.8% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 56,025 | $ 81,212 | (25,187) | |
| Travel | 139,504 | 170,086 | (30,582) | |
| Conference Calls | 15,560 | 13,281 | 2,279 | |
| **Total Meeting Expenses** | **$ 211,089** | **$ 264,579** | **$ (53,490)** | -20.2% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 346,836 | $ 530,330 | (183,494) | |
| Office Rent | 554,971 | 552,603 | 2,368 | |
| Office Costs | 181,624 | 132,513 | 49,111 | |
| Professional Services | 27,599 | 37,499 | (9,900) | |
| Miscellaneous | - | - | - | |
| Depreciation | 123,786 | 142,625 | (18,839) | |
| **Total Operating Expenses** | **$ 1,234,816** | **$ 1,395,570** | **$ (160,754)** | -11.5% |
| | | | | |
| **Total Indirect Expenses** | **$ -** | **$ -** | **$ -** | 0.0% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | |
| | | | | |
| **Total Expenses** | **$ 6,874,618** | **$ 7,132,586** | **$ (257,968)** | -3.6% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ (523,273)** | **$ (781,690)** | **$ 258,417** | -33.1% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (123,786) | $ (142,625) | $ 18,839 | |
| Software CapEx | 28,137 | 135,977 | (107,840) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 109,434 | 51,917 | 57,517 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 13,785** | **$ 45,269** | **$ (31,484)** | -69.5% |
| | | | | |
| **Total Budget** | **$ 6,888,403** | **$ 7,177,855** | **$ (289,452)** | -4.0% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ (537,058)** | **$ (826,959)** | **$ 289,901** | -35.1% |
| | | | | |
| **FTEs** | 27.60 | 29.99 | (2.39) | |
| | | | | |
| Beginning Working Capital 1/1/2017 | 1,858,526 | 1,425,113 | 433,413 | |
| Change in Working Capital | (537,058) | (826,959) | 289,901 | |
| Working Capital at 12/31/2017 | 1,321,468 | 598,154 | 723,314 | |

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**RELIABILITY STANDARDS**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 392,887 | $ 392,887 | $ - | 0.0% |
| Penalty Sanctions | 5,448 | 5,448 | $ - | 0.0% |
| Total ERO Funding | $ 398,335 | $ 398,335 | $ - | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | - | - | - | 0.0% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ 398,335** | **$ 398,335** | **$ -** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 107,799 | $ 212,820 | (105,021) | -49.3% |
| Payroll Taxes | 7,396 | 12,687 | (5,291) | -41.7% |
| Benefits | 20,133 | 37,965 | (17,832) | -47.0% |
| Retirement Costs | 15,778 | 31,264 | (15,486) | -49.5% |
| **Total Personnel Expenses** | **$ 151,106** | **$ 294,736** | **$ (143,630)** | -48.7% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 628 | $ 1,479 | (851) | -57.5% |
| Travel | 4,415 | 11,676 | (7,261) | -62.2% |
| Conference Calls | 2,283 | 1,997 | 286 | 14.3% |
| **Total Meeting Expenses** | **$ 7,326** | **$ 15,152** | **$ (7,826)** | -51.6% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 2,143 | $ 7,443 | (5,300) | -71.2% |
| Office Rent | 10,868 | 19,814 | (8,946) | -45.1% |
| Office Costs | 4,070 | 5,308 | (1,238) | -23.3% |
| Professional Services | 1,127 | 2,150 | (1,023) | -47.6% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | 3,070 | 2,489 | 581 | 23.3% |
| **Total Operating Expenses** | **$ 21,278** | **$ 37,204** | **$ (15,926)** | -42.8% |
| | | | | |
| **Total Indirect Expenses** | **$ 30,851** | **$ 49,657** | **$ (18,806)** | -37.9% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | **$ -** | 0.0% |
| | | | | |
| **Total Expenses** | **$ 210,561** | **$ 396,749** | **$ (186,188)** | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ 187,774** | **$ 1,586** | **$ 186,188** | 11739.5% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (3,070) | $ (2,489) | $ (581) | 23.3% |
| Software CapEx | - | - | - | 0.0% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | 13,498 | 4,066 | 9,432 | 232.0% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ 10,428** | **$ 1,577** | **$ 8,851** | 561.3% |
| | | | | |
| **Total Budget** | **$ 220,989** | **$ 398,326** | **$ (177,337)** | -44.5% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ 177,346** | **$ 9** | **$ 177,337** | 1970411.1% |
| | | | | |
| **Direct FTEs** | 0.73 | 1.48 | (0.75) | |
| **Indirect FTE's** | 0.15 | 0.24 | (0.09) | |
| **Total FTE's** | 0.88 | 1.72 | (0.84) | |

**Reliability Standards**
Variances > +/- $10,000 and 10%

- Personnel expenses including salaries, payroll taxes, benefits, and retirement costs were in total 48.7% under budget ($144K) due to the department FTE count being .84 under budget.
- Operating expenses were in total 42.8% under budget ($16K) mostly due to office rent ($9K) and consultants and contracts ($5K). The FTE count being lower than budget is the main reason both are under budget. The consultants and contracts expense is based in part on allocation of this expense to the programs based on relative FTEs. Also contributing to this is consultants and contracts expenses for ERO Alignment being under budget since NERC and RE staff assumed the projected activities.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**COMPLIANCE**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 5,263,317 | $ 5,263,317 | $ - | 0.0% |
| Penalty Sanctions | 72,105 | 72,106 | $ (1) | 0.0% |
| Total ERO Funding | $ 5,335,422 | $ 5,335,423 | $ (1) | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | - | - | - | 0.0% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ 5,335,422** | **$ 5,335,423** | **$ (1)** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 2,609,804 | $ 2,461,771 | 148,033 | 6.0% |
| Payroll Taxes | 158,197 | 144,595 | 13,602 | 9.4% |
| Benefits | 423,095 | 459,445 | (36,350) | -7.9% |
| Retirement Costs | 364,662 | 372,041 | (7,379) | -2.0% |
| **Total Personnel Expenses** | **$ 3,555,758** | **$ 3,437,852** | **$ 117,906** | 3.4% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 9,186 | $ 10,857 | (1,671) | -15.4% |
| Travel | 90,146 | 93,365 | (3,219) | -3.4% |
| Conference Calls | 10,940 | 9,286 | 1,654 | 17.8% |
| **Total Meeting Expenses** | **$ 110,272** | **$ 113,508** | **$ (3,236)** | -2.9% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 245,930 | $ 417,540 | (171,610) | -41.1% |
| Office Rent | 413,039 | 413,238 | (199) | 0.0% |
| Office Costs | 133,835 | 91,505 | 42,330 | 46.3% |
| Professional Services | 21,533 | 28,462 | (6,929) | -24.3% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | 112,040 | 130,006 | (17,966) | -13.8% |
| **Total Operating Expenses** | **$ 926,377** | **$ 1,080,751** | **$ (154,374)** | -14.3% |
| | | | | |
| **Total Indirect Expenses** | **$ 742,069** | **$ 657,384** | **$ 84,685** | 12.9% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | 0.0% |
| | | | | |
| **Total Expenses** | **$ 5,334,476** | **$ 5,289,495** | **$ 44,981** | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ 946** | **$ 45,928** | **$ (44,982)** | -97.9% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (112,040) | $ (130,006) | $ 17,966 | -13.8% |
| Software CapEx | 28,137 | 135,977 | (107,840) | -79.3% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | 81,732 | 39,950 | 41,782 | 104.6% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ (2,171)** | **$ 45,921** | **$ (48,092)** | -104.7% |
| | | | | |
| **Total Budget** | **$ 5,332,305** | **$ 5,335,416** | **$ (3,111)** | -0.1% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ 3,117** | **$ 7** | **$ 3,110** | 44428.6% |
| | | | | |
| **Direct FTEs** | 17.94 | 19.59 | (1.65) | |
| **Indirect FTE's** | 3.61 | 3.18 | 0.43 | |
| **Total FTE's** | 21.55 | 22.77 | (1.22) | |

**Compliance**

Variances > +/- $10,000 and 10%

- Consultants and Contracts expenses were 41.1% under budget ($172K) due to lower compliance maintenance costs, less utilization of contractors and specifically for ERO Alignment since NERC and RE staff assumed the projected activities.
- Office costs were 46.3% over budget ($42K) due to office supplies due to a change in the fixed asset capitalization policy.
- Depreciation expense was 13.8% under budget ($18K) due to fewer enhancements being made to the compliance software.
- Fixed asset expenses were 104.7% under budget ($48K) mainly due to fewer enhancements to the Compliance software ($108K). Partially offsetting this variance is lower depreciation than budgeted ($18K) and higher equipment CapEx than budget ($42K) due to the conference room upgrades capital lease.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**RELIABILITY ASSESSMENT**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 1,011,039 | $ 1,011,039 | $ - | 0.0% |
| Penalty Sanctions | 13,251 | 13,251 | $ - | 0.0% |
| Total ERO Funding | $ 1,024,290 | $ 1,024,290 | $ - | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | - | - | - | 0.0% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ 1,024,290** | **$ 1,024,290** | **$ -** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 471,643 | $ 517,669 | (46,026) | -8.9% |
| Payroll Taxes | 28,741 | 30,860 | (2,119) | -6.9% |
| Benefits | 62,935 | 85,720 | (22,785) | -26.6% |
| Retirement Costs | 64,501 | 76,047 | (11,546) | -15.2% |
| **Total Personnel Expenses** | **$ 627,820** | **$ 710,296** | **$ (82,476)** | -11.6% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 2,801 | $ 1,261 | 1,540 | 122.1% |
| Travel | 40,075 | 47,221 | (7,146) | -15.1% |
| Conference Calls | 318 | 275 | 43 | 15.6% |
| **Total Meeting Expenses** | **$ 43,194** | **$ 48,757** | **$ (5,563)** | -11.4% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 61,898 | $ 74,595 | (12,697) | -17.0% |
| Office Rent | 47,384 | 48,195 | (811) | -1.7% |
| Office Costs | 17,765 | 10,422 | 7,343 | 70.5% |
| Professional Services | 3,930 | 5,225 | (1,295) | -24.8% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | 7,300 | 8,379 | (1,079) | -12.9% |
| **Total Operating Expenses** | **$ 138,277** | **$ 146,816** | **$ (8,539)** | -5.8% |
| | | | | |
| **Total Indirect Expenses** | **$ 134,657** | **$ 120,679** | **$ 13,978** | 11.6% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | 0.0% |
| | | | | |
| **Total Expenses** | **$ 943,948** | **$ 1,026,548** | **$ (82,600)** | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ 80,342** | **$ (2,258)** | **$ 82,600** | -3658.1% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (7,300) | $ (8,379) | $ 1,079 | -12.9% |
| Software CapEx | - | - | - | 0.0% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | 12,261 | 5,994 | 6,267 | 104.6% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ 4,961** | **$ (2,385)** | **$ 7,346** | -308.0% |
| | | | | |
| **Total Budget** | **$ 948,909** | **$ 1,024,163** | **$ (75,254)** | -7.3% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ 75,381** | **$ 127** | **$ 75,254** | 59255.1% |
| | | | | |
| **Direct FTEs** | 3.23 | 3.60 | (0.37) | |
| **Indirect FTE's** | 0.65 | 0.58 | 0.07 | |
| **Total FTE's** | 3.88 | 4.18 | (0.30) | |

**Reliability Assessment**

Variances > +/- $10,000 and 10%

- Personnel expenses were 11.6% under budget. Benefits were under ($23K) and retirement costs were under ($12K) due to .3 less FTE's combined with the impact of lower than anticipated medical premiums for the year.
- Consultants and contract expenses were 17% under budget ($13K) due to lower indirect costs for the internal audit and consultant expenses related to the ERO Alignment, since NERC and RE staff assumed the projected activities.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**TRAINING AND EDUCATION**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 314,044 | $ 314,044 | $ - | 0.0% |
| Penalty Sanctions | 4,086 | 4,086 | $ - | 0.0% |
| Total ERO Funding | $ 318,130 | $ 318,130 | $ - | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | 92,450 | 92,000 | 450 | 0.5% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ 410,580** | **$ 410,130** | **$ 450** | 0.1% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 151,597 | $ 159,615 | (8,018) | -5.0% |
| Payroll Taxes | 9,036 | 9,515 | (479) | -5.0% |
| Benefits | 20,611 | 23,701 | (3,090) | -13.0% |
| Retirement Costs | 20,398 | 23,448 | (3,050) | -13.0% |
| **Total Personnel Expenses** | **$ 201,642** | **$ 216,279** | **$ (14,637)** | -6.8% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 43,393 | $ 67,603 | (24,210) | -35.8% |
| Travel | 4,767 | 17,786 | (13,019) | -73.2% |
| Conference Calls | 2,011 | 1,720 | 291 | 16.9% |
| **Total Meeting Expenses** | **$ 50,171** | **$ 87,109** | **$ (36,938)** | -42.4% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 36,778 | $ 30,583 | 6,195 | 20.3% |
| Office Rent | 15,277 | 14,860 | 417 | 2.8% |
| Office Costs | 21,204 | 20,588 | 616 | 3.0% |
| Professional Services | 963 | 1,612 | (649) | -40.3% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | 1,324 | 1,707 | (383) | -22.4% |
| **Total Operating Expenses** | **$ 75,546** | **$ 69,350** | **$ 6,196** | 8.9% |
| | | | | |
| **Total Indirect Expenses** | **$ 43,478** | **$ 37,243** | **$ 6,235** | 16.7% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | 0.0% |
| | | | | |
| **Total Expenses** | **$ 370,837** | **$ 409,981** | **$ (39,144)** | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ 39,743** | **$ 149** | **$ 39,594** | 26573.2% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (1,324) | $ (1,707) | $ 383 | -22.4% |
| Software CapEx | - | - | - | 0.0% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | 1,870 | 1,850 | 20 | 1.1% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ 546** | **$ 143** | **$ 403** | 281.8% |
| | | | | |
| **Total Budget** | **$ 371,383** | **$ 410,124** | **$ (38,741)** | -9.4% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ 39,197** | **$ 6** | **$ 39,191** | 653183.3% |
| | | | | |
| **Direct FTEs** | 1.02 | 1.11 | (0.09) | |
| **Indirect FTE's** | 0.21 | 0.18 | 0.03 | |
| **Total FTE's** | 1.23 | 1.29 | (0.06) | |

## Training and Education

Variances > +/- $10,000 and 10%

- Meeting Expenses were 42.4% under budget ($37K) mostly due to meetings and travel. Meeting expenses were under budget ($24K) due to SOS meeting expenses being less than anticipated and a portion of SOS supplies being charged to office supplies. Travel expenses were under budget ($13K) due to CMEP Risk Outreach expenses being lower than budgeted.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**SITUATIONAL AWARENESS**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 9,567 | $ 9,567 | $ - | 0.0% |
| Penalty Sanctions | 110 | 110 | $ - | 0.0% |
| Total ERO Funding | $ 9,677 | $ 9,677 | $ - | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | - | - | - | 0.0% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ 9,677** | **$ 9,677** | **$ -** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 7,531 | $ 4,314 | 3,217 | 74.6% |
| Payroll Taxes | 350 | 257 | 93 | 36.2% |
| Benefits | 965 | 649 | 316 | 48.7% |
| Retirement Costs | 1,033 | 634 | 399 | 62.9% |
| **Total Personnel Expenses** | **$ 9,879** | **$ 5,854** | **$ 4,025** | 68.8% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 17 | $ 12 | 5 | 41.7% |
| Travel | 102 | 38 | 64 | 168.4% |
| Conference Calls | 8 | 3 | 5 | 166.7% |
| **Total Meeting Expenses** | **$ 127** | **$ 53** | **$ 74** | 139.6% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 88 | $ 169 | (81) | -47.9% |
| Office Rent | 760 | 402 | 358 | 89.1% |
| Office Costs | 1,706 | 2,086 | (380) | -18.2% |
| Professional Services | 45 | 50 | (5) | -10.0% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | 53 | 44 | 9 | 20.5% |
| **Total Operating Expenses** | **$ 2,652** | **$ 2,751** | **$ (99)** | -3.6% |
| | | | | |
| **Total Indirect Expenses** | **$ 2,142** | **$ 1,155** | **$ 987** | 85.5% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | 0.0% |
| | | | | |
| **Total Expenses** | **$ 14,800** | **$ 9,813** | **$ 4,987** | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ (5,123)** | **$ (136)** | **$ (4,987)** | 3666.9% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (53) | $ (44) | $ (9) | 20.5% |
| Software CapEx | - | - | - | 0.0% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | 71 | 57 | 14 | 24.6% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ 18** | **$ 13** | **$ 5** | 38.5% |
| | | | | |
| **Total Budget** | **$ 14,818** | **$ 9,826** | **$ 4,992** | 50.8% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ (5,141)** | **$ (149)** | **$ (4,992)** | 3350.3% |
| | | | | |
| **Direct FTEs** | 0.05 | 0.03 | 0.02 | |
| **Indirect FTE's** | 0.01 | 0.01 | - | |
| **Total FTE's** | 0.06 | 0.04 | 0.02 | |

**Situational Awareness**
Variances > +/- $10,000 and 10%

No significant variances.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**GENERAL ADMINISTRATIVE**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ (826,959) | $ (826,959) | $ - | 0.0% |
| Penalty Sanctions | - | - | $ - | 0.0% |
| Total ERO Funding | $ (826,959) | $ (826,959) | $ - | 0.0% |
| | | | | |
| Membership Dues | $ - | $ - | - | 0.0% |
| Testing Fees | - | - | - | 0.0% |
| Services & Software | - | - | - | 0.0% |
| Workshops | - | - | - | 0.0% |
| Special Assessment | - | - | - | 0.0% |
| Non Cash Postretirement | - | - | - | 0.0% |
| **Total Funding** | **$ (826,959)** | **$ (826,959)** | **$ -** | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 674,240 | $ 602,510 | 71,730 | 11.9% |
| Payroll Taxes | 40,126 | 35,918 | 4,208 | 11.7% |
| Benefits | 77,010 | 80,482 | (3,472) | -4.3% |
| Retirement Costs | 91,132 | 88,510 | 2,622 | 3.0% |
| **Total Personnel Expenses** | **$ 882,508** | **$ 807,420** | **$ 75,088** | 9.3% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ - | $ - | - | 0.0% |
| Travel | - | - | - | 0.0% |
| Conference Calls | - | - | - | 0.0% |
| **Total Meeting Expenses** | **$ -** | **$ -** | **$ -** | 0.0% |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ - | $ - | - | 0.0% |
| Office Rent | 67,643 | 56,094 | 11,549 | 20.6% |
| Office Costs | 3,044 | 2,604 | 440 | 16.9% |
| Professional Services | - | - | - | 0.0% |
| Miscellaneous | - | - | - | 0.0% |
| Depreciation | - | - | - | 0.0% |
| **Total Operating Expenses** | **$ 70,687** | **$ 58,698** | **$ 11,989** | 20.4% |
| | | | | |
| **Total Indirect Expenses** | **$ (953,196)** | **$ (866,118)** | **$ (87,078)** | 10.1% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | $ - | 0.0% |
| | | | | |
| **Total Expenses** | $ (1) | $ - | $ (1) | -46.9% |
| | | | | |
| **Change in Assets/Additions (Use) of Reserves** | **$ (826,958)** | **$ (826,959)** | **$ 1** | 0.0% |
| | | | | |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ - | $ - | $ - | 0.0% |
| Software CapEx | - | - | - | 0.0% |
| Furniture & Fixtures CapEx | - | - | - | 0.0% |
| Equipment & Computers CapEx | - | - | - | 0.0% |
| Leasehold Improvements | - | - | - | 0.0% |
| **Increase/(Decrease) in Fixed Assets** | **$ -** | **$ -** | **$ -** | 0.0% |
| | | | | |
| **Total Budget** | $ (1) | $ - | $ (1) | 0.0% |
| | | | | |
| **CHANGE IN WORKING CAPITAL** | **$ (826,958)** | **$ (826,959)** | **$ 1** | 0.0% |
| | | | | |
| **FTEs** | 4.62 | 4.19 | 0.43 | |

**General Administrative**

Variances > +/- $10,000 and 10%

- Personnel expense were 9.3% over budget mostly caused by salaries expense being over budget ($72K) due to FTE's being over budget by .43.
- Office Rent expense was 20.6% over budget ($12K) due to increased common area maintenance charges and due to the FTE's being over budget by .43.

**Florida Reliability Coordinating Council, Inc.**
**Statement of Activities and Capital Expenditures Based on Audited Financials**
**TOTAL MEMBER SERVICES - NON STATUTORY**
**December 31, 2017**

| | | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance | % |
|---|---|---|---|---|---|
| | *(In Whole Dollars)* | | | | |
| **Funding** | | | | | |
| **ERO Funding** | | | | | |
| | ERO Assessments | $ - | $ - | $ - | |
| | Penalty Sanctions | - | - | $ - | |
| | Total ERO Funding | $ - | $ - | $ - | 0.0% |
| | Membership Dues | $ 10,301,621 | $ 10,301,621 | - | |
| | Testing Fees | - | - | - | |
| | Services & Software | 587,499 | 203,700 | 383,799 | |
| | Workshops | - | - | - | |
| | Special Assessment | - | - | - | |
| | Non Cash Postretirement | 77,858 | - | 77,858 | |
| **Total Funding** | | **$ 10,966,978** | **$ 10,505,321** | **$ 461,657** | 4.4% |
| **Expenses** | | | | | |
| **Personnel Expenses** | | | | | |
| | Salaries | $ 2,877,635 | $ 2,872,547 | 5,088 | |
| | Payroll Taxes | 175,294 | 171,025 | 4,269 | |
| | Benefits | 387,964 | 482,572 | (94,608) | |
| | Retirement Costs | 392,202 | 410,392 | (18,190) | |
| **Total Personnel Expenses** | | **$ 3,833,095** | **$ 3,936,536** | **$ (103,441)** | -2.6% |
| **Meeting Expenses** | | | | | |
| | Meetings | $ 25,619 | $ 31,210 | (5,591) | |
| | Travel | 94,452 | 88,973 | 5,479 | |
| | Conference Calls | 37,909 | 32,713 | 5,196 | |
| **Total Meeting Expenses** | | **$ 157,980** | **$ 152,896** | **$ 5,084** | 3.3% |
| **Operating Expenses** | | | | | |
| | Consultants & Contracts | $ 5,328,046 | $ 5,255,111 | 72,935 | |
| | Office Rent | 288,795 | 273,573 | 15,222 | |
| ..72055,712 | Office Costs | 591,739 | 330,766 | 260,973 | |
| | Professional Services | 42,724 | 42,501 | 223 | |
| | Miscellaneous | - | - | - | |
| | Depreciation | 41,030 | 112,507 | (71,477) | |
| **Total Operating Expenses** | | **$ 6,292,334** | **$ 6,014,458** | **$ 277,876** | 4.6% |
| **Total Indirect Expenses** | | **$ -** | **$ -** | **$ -** | 0.0% |
| **Other Non-Operating Expenses** | | **$ 72,000** | **-** | **$ 72,000** | |
| **Total Expenses** | | **$ 10,355,409** | **$ 10,103,890** | **$ 251,519** | 2.5% |
| **Change in Assets/Additions (Use) of Reserves** | | **$ 611,569** | **$ 401,431** | **$ 210,138** | 52.3% |
| **Fixed Asset Expenditures** | | | | | |
| | Depreciation | $ (41,030) | $ (112,507) | $ 71,477 | |
| | Net Non Pension Post Retir. Oblig | 5,858 | - | 5,858 | |
| | Software CapEx | - | 156,720 | (156,720) | |
| | Furniture & Fixtures CapEx | - | - | - | |
| | Equipment & Computers CapEx | 70,898 | 50,482 | 20,416 | |
| | Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | | **$ 35,726** | **$ 94,695** | **$ (58,969)** | -62.3% |
| **Total Budget** | | **$ 10,391,135** | **$ 10,198,585** | **$ 192,550** | 1.9% |
| **CHANGE IN WORKING CAPITAL** | | **$ 575,843** | **$ 306,736** | **$ 269,107** | 87.7% |
| **FTEs** | | 19.75 | 20.42 | (0.67) | |
| | Beginning Working Capital 1/1/2017 | 800,806 | 543,146 | 257,660 | |
| | Change in Working Capital | 575,843 | 306,736 | 269,107 | |
| | Working Capital at 12/31/2017 | 1,376,649 | 849,882 | 526,767 | |

# Florida Reliability Coordinating Council, Inc.

## FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

**December 31, 2017**

CRI CARR RIGGS & INGRAM

CPAs and Advisors

CRIcpa.com

## Florida Reliability Coordinating Council, Inc.
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## December 31, 2017

REPORT

Carr, Riggs & Ingram, LLC
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**INDEPENDENT AUDITORS' REPORT**

To the Corporate Compliance, Finance & Audit Committee
Florida Reliability Coordinating Council, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 these financial statements based on our audit. We conducted our audit 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Florida Reliability Coordinating Council, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statutory and non-statutory schedules on pages 20 to 28 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida
January 25, 2018

# FINANCIAL STATEMENTS

| | |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 7,096,891 |
| Compliance penalty cash | 253,145 |
| Member receivables | 4,012,899 |
| Related party receivable | 9,250 |
| Prepaid expenses | 146,351 |
| Total current assets | 11,518,536 |
| Property and equipment - at cost | |
| Equipment and computers | 848,844 |
| Software | 1,314,515 |
| Furniture and fixtures | 345,019 |
| Leashold improvements | 156,061 |
| Total | 2,664,439 |
| Less accumulated depreciation and amortization | (2,271,026) |
| Total property and equipment, net | 393,413 |
| Other assets | |
| Deposits | 50,000 |
| 457(b) and 457(f) plans | 340,068 |
| Total other assets | 390,068 |
| Total assets | $ 12,302,017 |
| **Liabilities and net assets** | |
| Current liabilities | |
| Accounts payable | 1,055,983 |
| Current portion of accrued postretirement benefit obligation | 23,020 |
| Current portion of capital lease | 16,239 |
| 457(b) and 457(f) plans | 340,068 |
| Deferred revenue | 4,564,945 |
| Compliance penalty assessment | 253,145 |
| Accrued expenses | 2,915,663 |
| Total current liabilities | 9,169,063 |
| Long-term liabilities | |
| Accrued postretirement benefit obligation | 302,729 |
| Capital lease, net of current portion | 75,772 |
| Total liabilities | 9,547,564 |
| Net assets | |
| Unrestricted statutory - FERC designated | 2,666,160 |
| Unrestricted member services - board designated | 88,293 |
| Total net assets | 2,754,453 |

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

# Florida Reliability Coordinating Council, Inc.
## Statement of Activities
## Year ended December 31, 2017

| | |
|---|---|
| **Revenue** | |
| Nonstatutory member services | $ 10,301,621 |
| Statutory member assessments | 6,163,895 |
| Services and software | 587,499 |
| Training and education fees | 92,450 |
| Postretirement benefit gain | 77,858 |
| Penalty and sanctions realized | 95,000 |
| Net investment income on deferred compensation plans | 49,748 |
| Total revenue | 17,368,071 |
| **Expenses** | |
| Salaries | 6,900,249 |
| Payroll taxes | 419,140 |
| Employee benefits | 992,713 |
| Retirement and deferred compensation plans | 949,706 |
| Meetings | 81,645 |
| Travel | 233,957 |
| Conference calls | 53,469 |
| Contracts and consultants | 5,674,882 |
| Facilities rental | 843,766 |
| Office costs | 773,364 |
| Professional services | 70,323 |
| Depreciation and amortization | 164,816 |
| Deferred compensation plans | 49,748 |
| Total expenses | 17,207,778 |
| **Increase in net assets before change in accumulated postretirement obligation** | 160,293 |
| **Net periodic change in postretirement obligation** | (72,000) |
| **Increase in net assets** | 88,293 |
| **Net assets, beginning of year** | 2,666,160 |
| **Net assets, end of year** | $ 2,754,453 |

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

## Florida Reliability Coordinating Council, Inc.
## Statement of Cash Flows
## Year ended December 31, 2017

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from members | $ | 16,814,984 |
| Cash paid to suppliers and employees | | (14,980,112) |
| Net cash and cash equivalents provided by operating activities | | 1,834,872 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | | (208,470) |
| Net cash and cash equivalents used by investing activities | | (208,470) |
| **Net increase in cash** | | 1,626,402 |
| **Cash and cash equivalents, at beginning of year** | $ | 5,723,634 |
| **Cash and cash equivalents, at end of year** | $ | 7,350,036 |
| **Reconciliation of increase in net assets to net cash and cash equivalentss, provided by operating activities** | | |
| Increase in net assets | $ | 88,293 |
| Depreciation and amortization | | 164,818 |
| Adjustments to reconcile increase in net assets to net cash and cash equivalents used by operating activities: | | |
| Increase in receivables, prepaid expenses, and other assets | | (442,003) |
| Increase in accounts payable and accrued expenses | | 1,492,795 |
| Decrease in postretirement benefit obligation | | (5,858) |
| Increase in capital lease | | 92,011 |
| Increase in deferred income | | 444,816 |
| **Net cash and cash equivalents provided by operating activities** | $ | 1,834,872 |

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***General***

Florida Reliability Coordinating Council, Inc. (the "Company") is a group of electric utilities and energy marketers primarily doing business in the State of Florida. The vision of the Company is to maintain a highly reliable and secure bulk power system in peninsular Florida. The Company serves as a Regional Entity with delegated authority from the North American Electric Reliability Corporation ("NERC") for the purpose of proposing and enforcing reliability standards within the FRCC region.

On May 2, 2007, the Company entered into a Delegation Agreement with North American Electric Reliability Corporation ("NERC"), an organization certified by the Federal Energy Regulatory Commission pursuant to Section 215(c) of the Federal Power Act. The Company is required by federal law to assess the reliability of the Bulk Power System. The Federal Energy Regulatory Commission ("FERC") empowered the Company through a Delegation Agreement with NERC to monitor, enforce and implement electric reliability standards under Section 215 of the Federal Power Act. The Company is responsible for establishing the process for development, revision, withdrawals and approval of the Company's Regional Reliability Standards for the region. The Company monitors and enforces compliance with NERC and FERC reliability standards through audits, self-certifications, periodic spot checks, self-reports, event investigation, periodic data submittal, exception reporting and through complaints. The initial term of the agreement is for three years and is renewable for five more years upon a successful compliance audit conducted by NERC. During 2017, the NERC Board advised FRCC that they do not intend to renew the Regional Entity delegation agreement when it expires unless FRCC splits the two divisions; member services and regional entity into two operating companies governed by separate Boards. The Board of Directors is currently reviewing their options and expects to make a decision before the end of 2018 as to how to address NERC's request. (See Note 14)

The Company's source of revenue is split into two parts. The statutory functions, defined as those functions being performed for Reliability Standards and Compliance, are funded by NERC. The member services functions are paid by its members who are assessed for costs and expenses of establishing, developing, operating and maintaining the Company.

A summary of the Company's significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

***Concentration of Credit Risk***

The Company places its cash with high credit quality institutions. At times, these balances may be in excess of the FDIC insurance limit.

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash and Cash Equivalents***

FRCC considers cash on hand and amounts on deposit with financial institutions that have original maturities of six months or less to be cash and cash equivalents.

***Penalties Cash***

The company is required to maintain a separate cash account for compliance penalty funds received, which is offset by a liability account. Funds received between July 1st and June 30th are held until the following January when they are released to the operating cash account. (See note 11)

***Use of Estimates***

Management 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.

***Income Taxes***

The Company has been approved for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. An entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed.

The Company follows Accounting Standards Codification ("ASC") 740, "Accounting for Income Taxes" with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Due to its tax-exempt status, the Company is not subject to U.S. federal income tax or state income tax. The Company's Form 990 has not been subject to examination by the Internal Revenue Service or the State of Florida for the last three years. The Company has not recognized liability for unrecognized tax benefits as it has no known tax positions that would subject the Company to any material income tax exposure. A reconciliation of the beginning and ending amount of unrecognized tax benefits and interest accrued related to unrecognized tax benefits are not included nor is there any interest accrued related to unrecognized tax benefits or interest expense and penalties in operating expenses as there are no unrecognized tax benefits.

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Member and Related Party Receivables***

Management evaluates all receivables annually for collectability. As of December 31, 2017 management considers all receivables to be fully collectible, therefore; no allowance for doubtful accounts is considered necessary and no late fees are assessed. If amounts are deemed to be uncollectible, they will be charged to an allowance for doubtful accounts when that determination is made.

***Property and Equipment***

Property and equipment with a cost over $1,000 are capitalized and are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, on a straight-line basis. The estimated lives used in determining depreciation and amortization are:

| | |
|---|---|
| Equipment and computers | 5 years |
| Software | 3 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 5 years |

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

***Line of Credit***

The Company renewed a line of credit from Bank of America, N.A. for two (2) years in the amount of $1,500,000. The line of credit is intended to be used for short term needs that arise between budget funding periods as a bridge between budget years. As of December 31, 2017, the Company has not drawn on the line of credit and is in full compliance with all covenants.

***Date of Management's Review***

Management has evaluated events and transactions for potential recognition or disclosure through January 25, 2018, which is the date the financial statements were available to be issued.

**NOTE 2: FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board ASC 820 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

*Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

*Level 2* Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive market;
- Inputs other than quoted prices that are observable for that asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for the Company's securities invested in the deferred compensation plans measured at fair value as of December 31, 2017:

*Cash and cash equivalents*: The carrying amounts reported in the Statements of Financial Position approximate the fair value because of the short maturities of those instruments.

*Mutual funds*: Measured at net asset value within the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**NOTE 2: FAIR VALUE MEASUREMENTS (Continued)**

The fair values of the Company's securities invested in the deferred compensation plans, classified by level, are as follows:

| **December 31,** | **2017** | | | |
|---|---|---|---|---|
| | **Fair Value** | Level 1 | Level 2 | Level 3 |
| Cash and equivalents | $ 12,433 | $ 12,433 | $ - | $ - |
| Mutual funds - fixed income | 24,849 | 24,849 | - | - |
| Mutual funds - equities | 302,786 | 302,786 | - | - |
| Total | $ 340,068 | $ 340,068 | $ - | $ - |

Net investment income is as follows:

| ***Year ended December 31,*** | **2017** |
|---|---|
| Interest and dividends | $ 13,735 |
| Other receipts | 3,000 |
| Trustee and other fees | (3,368) |
| Unrealized gains | 36,381 |
| Net investment income | $ 49,748 |

**NOTE 3: DEFERRED REVENUE**

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2018 budget, thus at December 31, 2017 it would be known whether all members are continuing with their membership.

**NOTE 4: COMMITMENTS**

In December 2006, the Company entered into an agreement with Open Access Technology International, Inc. to provide the Florida Transaction Management System ("FTMS") services for the Company's customers. The initial term of the agreement was 36 months at $3,750 per month and has been renewed for an additional 12-month period each year thereafter. In 2014, the Company renewed this contract for 36 months at an annual cost of $61,000. The contract was renewed in December 2017 for an additional 12-month period at $4,000 per month. The Company also has the option to purchase the system for $100,000; however, at this time, the Company has no intention of doing so.

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. In 2008, the Company entered into an agreement with several of the other regional entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. In June of 2011, the consortium broke up with certain member regions deciding to change software and vendors and go in a different direction for their Compliance Tracking System. The Company decided to remain with Guidance and has agreed to share costs of software enhancements with two other regions that remain with Guidance. The cost of enhancements added or in progress for 2017 was $28,137. The Company is obligated for enhancements in progress as of December 31, 2017 from this regional agreement of approximately $60,000 for enhancements to be completed in 2018.

In May of 2013 the Company entered into agreements with Flair Data Systems to provide WebEx online presentation and audio conferencing services. The initial term of the agreement is for 36 months and the agreement calls for the Company to make a total commitment of $130,500 over the 36 month term. In May of 2016 the Company renewed this contract for $130,000 over a 36 month term.

In September 2017, the Company entered into an agreement with Siemens Industry, Inc. for regional geomagnetic disturbance power system modeling and analysis services with base fee of $153,120 and incremental cost up to $68,100. The project is expected to be completed during 2018. Incurred costs as of December 31, 2017 were approximately $38,000.

**NOTE 5: OPERATING LEASES**

The Company leases its facilities and has operating leases that expire September 30, 2020 at its current location on Bayport Drive. The Bayport Plaza lease required an initial $150,000 deposit. Per the lease agreement, the Company was refunded $100,000 of the deposit in 2016. For all leases, rental payments escalate based on the schedules set forth in the lease agreement. Minimum future rental payments are:

| | | |
|---|---|---|
| Year Ended December 31, | | |
| 2018 | $ | 831,070 |
| 2019 | | 854,008 |
| 2020 | | 644,842 |
| | $ | 2,329,920 |

Rent expense charged to operations during the year ended December 31, 2017 was $843,765, including the effects of lease payment escalations over the term of the leases.

For all leases, the future expense to be recognized including the effects of rent abatements and rent escalations are as follows:

| | | |
|---|---|---|
| Year Ended December 31, | | |
| 2018 | $ | 750,602 |
| 2019 | | 750,602 |
| 2020 | | 562,952 |
| | $ | 2,064,156 |

**NOTE 6: CAPITAL LEASES**

The Company leases equipment from Audio Visual Innovations, Inc. under an agreement that is classified as a capital lease. The cost of equipment under the capital lease totaled $98,701 at October 1, 2017 and has been included in property and equipment. Amortization expense of the leased equipment for the year ended December 31, 2017 was $4,935 and has been included in depreciation expense.

The minimum future lease payments under the capital lease for the years ended December 31 are as follows:

| | | |
|---|---|---|
| *Fiscal year ending December 31,* | | |
| 2018 | $ | 24,834 |
| 2019 | | 24,834 |
| 2020 | | 24,834 |
| 2021 | | 24,834 |
| 2022 | | 16,554 |
| Total minimum lease payments | | 115,890 |
| Less: Amount representing interest | | (23,879) |
| Present value of net minimum lease payment | $ | 92,011 |

**NOTE 7: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

The Company adheres to ASC 715, *Defined Benefit Plans - Other Post Retirement,* which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan.

The Company agreed to provide postretirement health care benefits for employees hired before October 1, 2003 (plus the spouse of one retired employee) if the retiree meets certain conditions at the time of retirement as specified in their individual agreement. The current status of these postretirement health care benefits is as follows: effective November 1, 2014, one retiree opted to receive an annual deposit to a Health Retirement Account (HRA) in the amount of $4,200 per year, in lieu of coverage offered under her agreement. Effective January 1, 2015, the sole retiree spouse began receiving an annual amount funded to a Health Retirement Account, in the amount of $7,008 per year, in lieu of the coverage offered in her agreement. In 2014, three (3) current employees entered into new agreements under which FRCC will provide them with health care coverage if they retire at age 60 or later from active employment from FRCC until age 65 at which time they stop being provided with health care coverage and will then begin to receive an annual amount of $4,200 funded to an HRA. Effective June 10, 2016, one of the three (3) employees opted receive an annual deposit to a Health Retirement Account (HRA) in the amount of $4,200 per year through November 2017, when the employee turned 65. These plans cease upon the death of the retiree/retiree spouse/employee and all fund balances in each of the HRA accounts revert back to the Company. The individual plans are noncontributory for retirees.

**NOTE 7: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The following table sets forth the Plan's funded status reconciled with the amount shown in the Company's statement of financial position at December 31, 2017:

| | | |
|---|---|---|
| Accumulated postretirement benefit obligation: | | |
| Plan assets at fair value | $ | 0 |
| Funded status | $ | 0 |
| | | |
| Accrued postretirement benefit obligation: | | |
| Current portion | $ | 23,020 |
| Long-term portion | | 302,729 |
| | $ | 325,749 |

Since the plan is non-contributory, the entire balance of the accumulated benefit obligation is recorded as a liability in the statement of financial position as of December 31, 2017.

Benefits expected to be paid in each of the next five years and the following five years in aggregate are as follows:

| | | |
|---|---|---|
| Year Ended December 31, | | |
| 2018 | $ | 23,020 |
| 2019 | | 23,581 |
| 2020 | | 24,095 |
| 2021 | | 24,545 |
| 2022 | | 19,469 |
| Next 5 years | | 96,664 |
| | $ | 211,374 |

**NOTE 7: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2017.

| | | |
|---|---|---|
| Service cost | $ | (6,479) |
| Interest cost | | (12,637) |
| Amortization of unrecognized prior service cost | | 30,433 |
| Recognition of net actuarial loss | | 35,173 |
| Net periodic postretirement benefit cost | | 46,490 |
| Benefits paid during 2017 | | 31,368 |
| Net postretirement benefit loss | $ | 77,858 |
| Items not yet recognized as a component of net periodic postretirement benefit costs | | |
| Unrecognized net gain | $ | 318,952 |
| Net unrecognized prior service cost | | 253,481 |
| Transitional effect of ASC 715 | $ | 572,433 |
| Postretirement effect of ASC 715 as of December 31, 2016 | $ | 644,433 |
| Net periodic change in postretirement obligation | | (72,000) |
| Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2017 | $ | 572,433 |

**NOTE 7: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial loss of approximately ($30,000) and ($35,000), respectively. For measurement purposes, an 8% annual rate increase in the per capita cost of covered health care benefits was assumed for 2019; the rate was assumed to be 8% for 2019; 7% for 2020; 6% for 2021, and decrease to 5% thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at December 31, 2017 would be increased $15,747 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2017 would be increased by $464.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 4.0%. Mortality was based on the RP-2000 Combined Mortality Tables for Healthy Males and Females. The measurement date of the accumulated postretirement benefit obligation was December 31, 2017.

***Glossary***

*Accumulated postretirement benefit obligation* - The actuarial present value of benefits attributed to employee service rendered to a particular date.

*Net periodic postretirement benefit gain* - The amount recognized in the financial statements as the gain of the postretirement benefit plan for a period.

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law. The Act includes a special subsidy for employers that sponsor retiree health benefit plans with prescription drug benefits that are as favorable as the Medicare Part D benefit. The Company has not determined whether its plan is actuarially equivalent to the Medicare Part D benefit due to the cost of obtaining such an actuarial computation.

**NOTE 8: RETIREMENT PLAN**

Effective January 1, 2001, the Company adopted a 401(k) Plan (“Plan”) intended to benefit substantially all employees with 6 months of service and 21 years of age. On September 30, 2007, the Plan was amended to enable employees with one hour of service to be eligible to enter the Plan. Participants can contribute any amount of their compensation for the Plan year, not to exceed the limits determined by the Internal Revenue Code. The Company may make matching contributions with prescribed limits. The Company may also make additional non-elective discretionary contributions to the Plan. The Company made matching contributions to the Plan of $327,771 and a discretionary contribution to the Plan of $551,239 (net of forfeitures) for the year ending December 31, 2017.

**NOTE 8: RETIREMENT PLAN (Continued)**

*Deferred Compensation* – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2017, the Company contributed $8,492 to benefit the participant in this Plan.

In 2013, the Company adopted a Nonqualified 457(b) Retirement Plan ("Retirement Plan"), to be effective January 1, 2014, intended to benefit key managerial employees of the Company. The Company funded the account in 2017 $39,111 for the 2016 liability and expensed $41,786 in 2017 that will be funded in 2018.

The fair value and cost of the Company's securities invested in the deferred compensation plans, as of December 31, 2017 are as follows:

| | Cost Value | Market Value |
|---|---|---|
| Cash and equivalents | $ 12,433 | $ 12,433 |
| Mutual funds - fixed income | 26,576 | 24,849 |
| Mutual funds - equities | 226,450 | 302,786 |
| Total | $ 265,459 | $ 340,068 |

**NOTE 9: RELATED PARTIES**

Various members of the Company are founding members of Florida Electric Power Coordinating Group, Inc. ("FCG") and the organizations, excluding the Board of Directors, were under common management until November 30, 2014. Effective November 30, 2014, The President & CEO of FRCC resigned from management of the FCG. FCG is a nonprofit organization operating under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company has decided to continue providing FCG with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 0.62% of the Company's administrative expenses in 2017. The service agreement with FCG is a one-year agreement that will automatically renew unless canceled in advance by either party. At December 31, 2017, the Company had billed and collected a total of $61,096 from FCG relating to the service agreement and has a receivable from FCG in the amount of $9,250.

The Company is purchasing the services from Florida Power and Light ("FPL"), a member of the Company, to fulfill the responsibilities of reliability coordinator, operations planning coordinator, state capacity emergency coordinator as well as various other services. The Company paid FPL $3,990,244 for these services in 2017 and at December 31, 2017 had $1,058,809 of accrued expenses.

**NOTE 10: CONCENTRATIONS**

Two members make up approximately 55.8% of the member services assessments and dues. The same two members comprise 67% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory function.

**NOTE 11: CONTINGENCIES**

As part of the Company's Delegation Agreement with NERC, the Company has the authority to fine entities within its region for violation of reliability standards. During 2016, six (6) notices of penalty were filed and approved by FERC. During 2017, FRCC filed an additional penalty related to 2016 violations. There were no penalties assessed for 2017. The penalties totaling $114,145 were paid by the entities in 2017. The Delegation Agreement from NERC stipulates that any penalty monies collected by June 30 of each year, which is between budget submissions, are to be held until they can be accounted for in a budget submission. At year-end December 31, 2017, a total of $253,145 penalty assessment is being held for future use of which $253,145 was accounted for in the 2018 budget submission and will be taken into operating income at the beginning of 2018 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2018 will be held and accounted for in the 2019 budget submission.

**NOTE 12: FUNCTIONAL EXPENSES**

The detail of functional expenses for the year ended is as follows:

| | | |
|---|---|---|
| **Statutory expenses** | | |
| Reliability standards development | $ | 210,561 |
| Compliance & enforcement | | 5,334,476 |
| Reliability assessment & performance analysis | | 943,948 |
| Training & education | | 370,837 |
| Situational awareness & infrastructure | | 14,800 |
| Total statutory expenses | | 6,874,622 |
| **Member services expenses** | | |
| Operating committee | | 8,609,594 |
| Planning committee | | 1,673,814 |
| General & administrative | | 72,000 |
| Total member services expenses | | 10,355,408 |
| **Total expenses** | $ | 17,230,030 |

**NOTE 13: NET ASSETS**

Unrestricted net assets that are designated are FERC-approved for statutory expense or board-approved for member services expense segregations of unrestricted net assets for specific projects. Since designations are voluntary and may be reversed or redirected by the governing board at any time, designated portions of net assets are not considered restricted.

The detail of unrestricted FERC or board-designated net assets is as follows at year end:

| | | |
|---|---|---|
| Statutory | $ | 1,407,026 |
| Member services | | 1,347,427 |
| Total unrestricted board designated net assets | $ | 2,754,453 |

**NOTE 14: SUBSEQUENT EVENTS**

FRCC is comprised of two divisions: Member Services and Regional Entity. The NERC Board has advised FRCC they do not intend to renew the Regional Entity delegation agreement when it expires unless FRCC splits the two organizations. The FRCC Board of Directors is currently reviewing their options and expects to make a decision before the end of 2018 as to how to address NERC's request. Two of the possible options are to either create two Florida companies with separate governing Boards or to merge the Florida entities with SERC and keep Member Services at FRCC. Once a decision is made, FRCC management will put a plan together and then carry the plan out. No time table has been determined other than a decision will be made by the Board in 2018 and must be carried out and completed by the end of the delegation agreement on December 31, 2020. During this time of uncertainly, FRCC offered the Regional Entity employees and some corporate employees retention agreements that provide for varying levels of retention bonuses for employees who maintain their FRCC employment through December 31, 2019. The retention agreements were signed on December 1, 2017. Management has not recorded a retention bonus accrual for the month of December 2017 due to the uncertainty of the estimated deferred liability as of the date the financial statements were available to be issued.

# SUPPLEMENTAL INFORMATION

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**TOTAL COMPANY**
**December 31, 2017**

***(In Whole Dollars)***

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 6,163,895 | $ 6,163,895 | $ - | |
| Penalty Sanctions | 95,000 | 95,001 | (1) | |
| Total ERO Funding | 6,258,896 | 6,258,896 | - | 0.0% |
| Membership Dues | 10,301,621 | 10,301,621 | - | |
| Testing Fees | - | - | - | |
| Services & Software | 587,499 | 203,700 | 383,799 | |
| Workshops | 92,450 | 92,000 | 450 | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | 77,858 | - | 77,858 | |
| **Total Funding** | **17,318,324** | **16,856,217** | **462,107** | 2.7% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 6,900,249 | 6,831,246 | 69,003 | |
| Payroll Taxes | 419,140 | 404,857 | 14,283 | |
| Benefits | 992,713 | 1,170,534 | (177,821) | |
| Retirement Costs | 949,706 | 1,002,336 | (52,630) | |
| **Total Personnel Expenses** | **9,261,808** | **9,408,973** | **(147,165)** | -1.6% |
| **Meeting Expenses** | | | | |
| Meetings | 81,645 | 112,422 | (30,777) | |
| Travel | 233,957 | 259,059 | (25,102) | |
| Conference Calls | 53,469 | 45,994 | 7,475 | |
| **Total Meeting Expenses** | **369,071** | **417,475** | **(48,404)** | -11.6% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 5,674,882 | 5,785,441 | (110,559) | |
| Office Rent | 843,766 | 826,176 | 17,590 | |
| Office Costs | 773,364 | 463,279 | 310,085 | |
| Professional Services | 70,323 | 80,000 | (9,677) | |
| Miscellaneous | - | - | - | |
| Depreciation | 164,816 | 255,132 | (90,316) | |
| **Total Operating Expenses** | **7,527,151** | **7,410,028** | **117,123** | 1.6% |
| **Total Indirect Expenses** | **-** | **-** | **-** | 0.0% |
| **Other Non-Operating Expenses** | **72,000** | **-** | **72,000** | |
| **Total Expenses** | **17,230,030** | **17,236,476** | **(6,446)** | 0.0% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 88,294** | **$ (380,259)** | **$ 468,553** | -123.2% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (164,816) | $ (255,132) | $ 90,316 | |
| Net Non Pension Post Retir. Oblig | 5,858 | - | 5,858 | |
| Software CapEx | 28,137 | 292,697 | (264,560) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 180,332 | 102,399 | 77,933 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 49,511** | **$ 139,964** | **$ (90,453)** | -64.6% |
| **Total Budget** | **$ 17,279,541** | **$ 17,376,440** | **$ (96,899)** | -0.6% |
| **CHANGE IN WORKING CAPITAL** | **$ 38,783** | **$ (520,223)** | **$ 559,006** | -107.5% |
| **FTEs** | 47.64 | 50.75 | (3.11) | |
| Beginning Working Capital 1/1/2017 | 2,659,332 | 1,968,259 | 691,073 | 1/1/2017 |
| Change in Working Capital | 38,783 | (520,223) | 559,006 | |
| Working Capital at 12/31/2017 | 2,698,115 | 1,448,036 | 1,250,079 | 12/31/2017 |

**Quarterly Statement of Activities - Total Actual To Total Budget**
**TOTAL Statutory Only**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 6,163,895 | $ 6,163,895 | $ - | |
| Penalty Sanctions | 95,000 | 95,001 | (1) | |
| Total ERO Funding | 6,258,895 | 6,258,896 | (1) | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 92,450 | 92,000 | 450 | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **6,351,345** | **6,350,896** | **449** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 4,022,614 | 3,958,699 | 63,915 | |
| Payroll Taxes | 243,846 | 233,832 | 10,014 | |
| Benefits | 604,748 | 687,962 | (83,214) | |
| Retirement Costs | 557,505 | 591,944 | (34,439) | |
| **Total Personnel Expenses** | **5,428,713** | **5,472,437** | **(43,724)** | -0.8% |
| **Meeting Expenses** | | | | |
| Meetings | 56,025 | 81,212 | (25,187) | |
| Travel | 139,504 | 170,086 | (30,582) | |
| Conference Calls | 15,560 | 13,281 | 2,279 | |
| **Total Meeting Expenses** | **211,089** | **264,579** | **(53,490)** | -20.2% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 346,836 | 530,330 | (183,494) | |
| Office Rent | 554,971 | 552,603 | 2,368 | |
| Office Costs | 181,624 | 132,513 | 49,111 | |
| Professional Services | 27,599 | 37,499 | (9,900) | |
| Miscellaneous | - | - | - | |
| Depreciation | 123,786 | 142,625 | (18,839) | |
| **Total Operating Expenses** | **1,234,816** | **1,395,570** | **(160,754)** | -11.5% |
| **Total Indirect Expenses** | - | - | - | 0.0% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses** | **6,874,618** | **7,132,586** | **(257,968)** | -3.6% |
| **Change in Assets/Additions (Use) of Reserves** | **$ (523,273)** | **$ (781,690)** | **$ 258,417** | -33.1% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (123,786) | $ (142,625) | $ 18,839 | |
| Software CapEx | 28,137 | 135,977 | (107,840) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 109,434 | 51,917 | 57,517 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 13,785** | **$ 45,269** | **$ (31,484)** | -69.5% |
| **Total Budget** | **$ 6,888,403** | **$ 7,177,855** | **$ (289,452)** | -4.0% |
| **CHANGE IN WORKING CAPITAL** | **$ (537,058)** | **$ (826,959)** | **$ 289,901** | -35.1% |
| **FTEs** | 27.60 | 29.99 | (2.39) | |
| Beginning Working Capital 1/1/2017 | 1,858,526 | 1,425,113 | 433,413 | 1/1/2017 |
| Change in Working Capital | (537,058) | (826,959) | 289,901 | |
| Working Capital at 12/31/2017 | 1,321,468 | 598,154 | 723,314 | 12/31/2017 |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**RELIABILITY STANDARDS**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 392,887 | $ 392,887 | $ - | |
| Penalty Sanctions | 5,448 | 5,448 | - | |
| Total ERO Funding | 398,335 | 398,335 | - | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **398,335** | **398,335** | **-** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 107,799 | 212,820 | (105,021) | |
| Payroll Taxes | 7,396 | 12,687 | (5,291) | |
| Benefits | 20,133 | 37,965 | (17,832) | |
| Retirement Costs | 15,778 | 31,264 | (15,486) | |
| **Total Personnel Expenses** | **151,106** | **294,736** | **(143,630)** | -48.7% |
| **Meeting Expenses** | | | | |
| Meetings | 628 | 1,479 | (851) | |
| Travel | 4,415 | 11,676 | (7,261) | |
| Conference Calls | 2,283 | 1,997 | 286 | |
| **Total Meeting Expenses** | **7,326** | **15,152** | **(7,826)** | -51.6% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 2,143 | 7,443 | (5,300) | |
| Office Rent | 10,868 | 19,814 | (8,946) | |
| Office Costs | 4,070 | 5,308 | (1,238) | |
| Professional Services | 1,127 | 2,150 | (1,023) | |
| Miscellaneous | - | - | - | |
| Depreciation | 3,070 | 2,489 | 581 | |
| **Total Operating Expenses** | **21,278** | **37,204** | **(15,926)** | -42.8% |
| **Total Indirect Expenses** | **30,851** | **49,657** | **(18,806)** | -37.9% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **210,561** | **396,749** | **(186,188)** | -46.9% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 187,774** | **$ 1,586** | **$ 186,188** | 11739.5% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (3,070) | $ (2,489) | $ (581) | |
| Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 13,498 | 4,066 | 9,432 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 10,428** | **$ 1,577** | **$ 8,851** | 561.3% |
| **Total Budget** | **$ 220,989** | **$ 398,326** | **$ (177,337)** | -44.5% |
| **CHANGE IN WORKING CAPITAL** | **$ 177,346** | **$ 9** | **$ 177,337** | 1970411.1% |
| **Direct FTEs** | 0.73 | 1.48 | (0.75) | |
| **Indirect FTE's** | 0.15 | 0.24 | (0.09) | |
| **Total FTE's** | 0.88 | 1.72 | (0.84) | |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**COMPLIANCE**
**December 31, 2017**

***(In Whole Dollars)***

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 5,263,317 | $ 5,263,317 | $ - | 0.0% |
| Penalty Sanctions | 72,105 | 72,106 | (1) | |
| Total ERO Funding | 5,335,422 | 5,335,423 | (1) | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **5,335,422** | **5,335,423** | **(1)** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 2,609,804 | 2,461,771 | 148,033 | |
| Payroll Taxes | 158,197 | 144,595 | 13,602 | |
| Benefits | 423,095 | 459,445 | (36,350) | |
| Retirement Costs | 364,662 | 372,041 | (7,379) | |
| **Total Personnel Expenses** | **3,555,758** | **3,437,852** | **117,906** | 3.4% |
| **Meeting Expenses** | | | | |
| Meetings | 9,186 | 10,857 | (1,671) | |
| Travel | 90,146 | 93,365 | (3,219) | |
| Conference Calls | 10,940 | 9,286 | 1,654 | |
| **Total Meeting Expenses** | **110,272** | **113,508** | **(3,236)** | -2.9% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 245,930 | 417,540 | (171,610) | |
| Office Rent | 413,039 | 413,238 | (199) | |
| Office Costs | 133,835 | 91,505 | 42,330 | |
| Professional Services | 21,533 | 28,462 | (6,929) | |
| Miscellaneous | - | - | - | |
| Depreciation | 112,040 | 130,006 | (17,966) | |
| **Total Operating Expenses** | **926,377** | **1,080,751** | **(154,374)** | -14.3% |
| **Total Indirect Expenses** | **742,069** | **657,384** | **84,685** | 12.9% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **5,334,476** | **5,289,495** | **44,981** | 0.9% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 946** | **$ 45,928** | **$ (44,982)** | -97.9% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (112,040) | $ (130,006) | $ 17,966 | |
| Software CapEx | 28,137 | 135,977 | (107,840) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 81,732 | 39,950 | 41,782 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ (2,171)** | **$ 45,921** | **$ (48,092)** | -104.7% |
| **Total Budget** | **$ 5,332,305** | **$ 5,335,416** | **$ (3,111)** | -0.1% |
| **CHANGE IN WORKING CAPITAL** | **$ 3,117** | **$ 7** | **$ 3,110** | 44428.6% |
| **Direct FTEs** | 17.94 | 19.59 | (1.65) | |
| **Indirect FTE's** | 3.61 | 3.18 | 0.43 | |
| **Total FTE's** | 21.55 | 22.77 | (1.22) | |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**RELIABILITY ASSESSMENT**
**December 31, 2017**

***(In Whole Dollars)***

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 1,011,039 | $ 1,011,039 | $ - | |
| Penalty Sanctions | 13,251 | 13,251 | - | |
| Total ERO Funding | 1,024,290 | 1,024,290 | - | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **1,024,290** | **1,024,290** | **-** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 471,643 | 517,669 | (46,026) | |
| Payroll Taxes | 28,741 | 30,860 | (2,119) | |
| Benefits | 62,935 | 85,720 | (22,785) | |
| Retirement Costs | 64,501 | 76,047 | (11,546) | |
| **Total Personnel Expenses** | **627,820** | **710,296** | **(82,476)** | -11.6% |
| **Meeting Expenses** | | | | |
| Meetings | 2,801 | 1,261 | 1,540 | |
| Travel | 40,075 | 47,221 | (7,146) | |
| Conference Calls | 318 | 275 | 43 | |
| **Total Meeting Expenses** | **43,194** | **48,757** | **(5,563)** | -11.4% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 61,898 | 74,595 | (12,697) | |
| Office Rent | 47,384 | 48,195 | (811) | |
| Office Costs | 17,765 | 10,422 | 7,343 | |
| Professional Services | 3,930 | 5,225 | (1,295) | |
| Miscellaneous | - | - | - | |
| Depreciation | 7,300 | 8,379 | (1,079) | |
| **Total Operating Expenses** | **138,277** | **146,816** | **(8,539)** | -5.8% |
| **Total Indirect Expenses** | **134,657** | **120,679** | **13,978** | 11.6% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **943,948** | **1,026,548** | **(82,600)** | -8.0% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 80,342** | **$ (2,258)** | **$ 82,600** | -3658.1% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (7,300) | $ (8,379) | $ 1,079 | |
| Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 12,261 | 5,994 | 6,267 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 4,961** | **$ (2,385)** | **$ 7,346** | -308.0% |
| **Total Budget** | **$ 948,909** | **$ 1,024,163** | **$ (75,254)** | -7.3% |
| **CHANGE IN WORKING CAPITAL** | **$ 75,381** | **$ 127** | **$ 75,254** | 59255.1% |
| **Direct FTEs** | 3.23 | 3.60 | (0.37) | |
| **Indirect FTE's** | 0.65 | 0.58 | 0.07 | |
| **Total FTE's** | 3.88 | 4.18 | (0.30) | |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**TRAINING AND EDUCATION**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 314,044 | $ 314,044 | $ - | |
| Penalty Sanctions | 4,086 | 4,086 | - | |
| Total ERO Funding | 318,130 | 318,130 | - | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 92,450 | 92,000 | 450 | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **410,580** | **410,130** | **450** | 0.1% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 151,597 | 159,615 | (8,018) | |
| Payroll Taxes | 9,036 | 9,515 | (479) | |
| Benefits | 20,611 | 23,701 | (3,090) | |
| Retirement Costs | 20,398 | 23,448 | (3,050) | |
| **Total Personnel Expenses** | **201,642** | **216,279** | **(14,637)** | -6.8% |
| **Meeting Expenses** | | | | |
| Meetings | 43,393 | 67,603 | (24,210) | |
| Travel | 4,767 | 17,786 | (13,019) | |
| Conference Calls | 2,011 | 1,720 | 291 | |
| **Total Meeting Expenses** | **50,171** | **87,109** | **(36,938)** | -42.4% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 36,778 | 30,583 | 6,195 | |
| Office Rent | 15,277 | 14,860 | 417 | |
| Office Costs | 21,204 | 20,588 | 616 | |
| Professional Services | 963 | 1,612 | (649) | |
| Miscellaneous | - | - | - | |
| Depreciation | 1,324 | 1,707 | (383) | |
| **Total Operating Expenses** | **75,546** | **69,350** | **6,196** | 8.9% |
| **Total Indirect Expenses** | **43,478** | **37,243** | **6,235** | 16.7% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **370,837** | **409,981** | **(39,144)** | -9.5% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 39,743** | **$ 149** | **$ 39,594** | 26573.2% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (1,324) | $ (1,707) | $ 383 | |
| Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 1,870 | 1,850 | 20 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 546** | **$ 143** | **$ 403** | 281.8% |
| **Total Budget** | **$ 371,383** | **$ 410,124** | **$ (38,741)** | -9.4% |
| **CHANGE IN WORKING CAPITAL** | **$ 39,197** | **$ 6** | **$ 39,191** | 653183.3% |
| **Direct FTEs** | 1.02 | 1.11 | (0.09) | |
| **Indirect FTE's** | 0.21 | 0.18 | 0.03 | |
| **Total FTE's** | 1.23 | 1.29 | (0.06) | |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**SITUATIONAL AWARENESS**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ 9,567 | $ 9,567 | $ - | |
| Penalty Sanctions | 110 | 110 | - | |
| Total ERO Funding | 9,677 | 9,677 | - | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **9,677** | **9,677** | **-** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 7,531 | 4,314 | 3,217 | |
| Payroll Taxes | 350 | 257 | 93 | |
| Benefits | 965 | 649 | 316 | |
| Retirement Costs | 1,033 | 634 | 399 | |
| **Total Personnel Expenses** | **9,879** | **5,854** | **4,025** | 68.8% |
| **Meeting Expenses** | | | | |
| Meetings | 17 | 12 | 5 | |
| Travel | 102 | 38 | 64 | |
| Conference Calls | 8 | 3 | 5 | |
| **Total Meeting Expenses** | **127** | **53** | **74** | 139.6% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 88 | 169 | (81) | |
| Office Rent | 760 | 402 | 358 | |
| Office Costs | 1,706 | 2,086 | (380) | |
| Professional Services | 45 | 50 | (5) | |
| Miscellaneous | - | - | - | |
| Depreciation | 53 | 44 | 9 | |
| **Total Operating Expenses** | **2,652** | **2,751** | **(99)** | -3.6% |
| **Total Indirect Expenses** | **2,142** | **1,155** | **987** | 85.5% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **14,800** | **9,813** | **4,987** | 50.8% |
| **Change in Assets/Additions (Use) of Reserves** | **$ (5,123)** | **$ (136)** | **$ (4,987)** | 3666.9% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (53) | $ (44) | $ (9) | |
| Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 71 | 57 | 14 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 18** | **$ 13** | **$ 5** | 38.5% |
| **Total Budget** | **$ 14,818** | **$ 9,826** | **$ 4,992** | 50.8% |
| **CHANGE IN WORKING CAPITAL** | **$ (5,141)** | **$ (149)** | **$ (4,992)** | 3350.3% |
| **Direct FTEs** | 0.05 | 0.03 | 0.02 | |
| **Indirect FTE's** | 0.01 | 0.01 | - | |
| **Total FTE's** | 0.06 | 0.04 | 0.02 | |

*See Independent Auditors' Report*

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**GENERAL ADMINISTRATIVE**
**December 31, 2017**

*(In Whole Dollars)*

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ (826,959) | $ (826,959) | $ - | |
| Penalty Sanctions | - | - | - | |
| Total ERO Funding | (826,959) | (826,959) | - | 0.0% |
| Membership Dues | - | - | - | |
| Testing Fees | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | - | - | - | |
| **Total Funding** | **(826,959)** | **(826,959)** | **-** | 0.0% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 674,240 | 602,510 | 71,730 | |
| Payroll Taxes | 40,126 | 35,918 | 4,208 | |
| Benefits | 77,010 | 80,482 | (3,472) | |
| Retirement Costs | 91,132 | 88,510 | 2,622 | |
| **Total Personnel Expenses** | **882,508** | **807,420** | **75,088** | 9.3% |
| **Meeting Expenses** | | | | |
| Meetings | - | - | - | |
| Travel | - | - | - | |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **-** | **-** | **-** | 0.0% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Office Rent | 67,643 | 56,094 | 11,549 | |
| Office Costs | 3,044 | 2,604 | 440 | |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **70,687** | **58,698** | **11,989** | 20.4% |
| **Total Indirect Expenses** | **(953,196)** | **(866,118)** | **(87,078)** | 10.1% |
| **Other Non-Operating Expenses** | **-** | **-** | **-** | |
| **Total Expenses** | **(1)** | **-** | **(1)** | 0.0% |
| **Change in Assets/Additions (Use) of Reserves** | **$ (826,958)** | **$ (826,959)** | **$ 1** | 0.0% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ -** | **$ -** | **$ -** | 0.0% |
| **Total Budget** | **$ (1)** | **$ -** | **$ (1)** | 0.0% |
| **CHANGE IN WORKING CAPITAL** | **$ (826,958)** | **$ (826,959)** | **$ 1** | 0.0% |
| **FTEs** | 4.62 | 4.19 | 0.43 | |

**Florida Reliability Coordinating Council, Inc.**
**Quarterly Statement of Activities - Total Actual To Total Budget**
**TOTAL MEMBER SERVICES - NON STATUTORY**
**December 31, 2017**

***(In Whole Dollars)***

| | 2017 YTD Actual | 2017 YTD Budget (Unaudited) | 2017 YTD Variance | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| ERO Assessments | $ - | $ - | $ - | |
| Penalty Sanctions | - | - | - | |
| Total ERO Funding | - | - | - | 0.0% |
| Membership Dues | 10,301,621 | 10,301,621 | - | |
| Testing Fees | - | - | - | |
| Services & Software | 587,499 | 203,700 | 383,799 | |
| Workshops | - | - | - | |
| Special Assessment | - | - | - | |
| Non Cash Postretirement | 77,858 | - | 77,858 | |
| **Total Funding** | **10,966,978** | **10,505,321** | **461,657** | 4.4% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 2,877,635 | 2,872,547 | 5,088 | |
| Payroll Taxes | 175,294 | 171,025 | 4,269 | |
| Benefits | 387,964 | 482,572 | (94,608) | |
| Retirement Costs | 392,202 | 410,392 | (18,190) | |
| **Total Personnel Expenses** | **3,833,095** | **3,936,536** | **(103,441)** | -2.6% |
| **Meeting Expenses** | | | | |
| Meetings | 25,619 | 31,210 | (5,591) | |
| Travel | 94,452 | 88,973 | 5,479 | |
| Conference Calls | 37,909 | 32,713 | 5,196 | |
| **Total Meeting Expenses** | **157,980** | **152,896** | **5,084** | 3.3% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 5,328,046 | 5,255,111 | 72,935 | |
| Office Rent | 288,795 | 273,573 | 15,222 | |
| Office Costs | 591,739 | 330,766 | 260,973 | |
| Professional Services | 42,724 | 42,501 | 223 | |
| Miscellaneous | - | - | - | |
| Depreciation | 41,030 | 112,507 | (71,477) | |
| **Total Operating Expenses** | **6,292,334** | **6,014,458** | **277,876** | 4.6% |
| **Total Indirect Expenses** | **-** | **-** | **-** | 0.0% |
| **Other Non-Operating Expenses** | **72,000** | **-** | **72,000** | |
| **Total Expenses** | **10,355,409** | **10,103,890** | **251,519** | 2.5% |
| **Change in Assets/Additions (Use) of Reserves** | **$ 611,569** | **$ 401,431** | **$ 210,138** | 52.3% |
| **Fixed Asset Expenditures** | | | | |
| Depreciation | $ (41,030) | $ (112,507) | $ 71,477 | |
| Net Non Pension Post Retir. Oblig | 5,858 | - | 5,858 | |
| Software CapEx | - | 156,720 | (156,720) | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment & Computers CapEx | 70,898 | 50,482 | 20,416 | |
| Leasehold Improvements | - | - | - | |
| **Increase/(Decrease) in Fixed Assets** | **$ 35,726** | **$ 94,695** | **$ (58,969)** | -62.3% |
| **Total Budget** | **$ 10,391,135** | **$ 10,198,585** | **$ 192,550** | 1.9% |
| **CHANGE IN WORKING CAPITAL** | **$ 575,843** | **$ 306,736** | **$ 269,107** | 87.7% |
| **FTEs** | 19.75 | 20.42 | (0.67) | |
| Beginning Working Capital 1/1/2017 | 800,806 | 543,146 | 257,660 | 1/1/2017 |
| Change in Working Capital | 575,843 | 306,736 | 269,107 | |
| Working Capital at 12/31/2017 | 1,376,649 | 849,882 | 526,767 | 12/31/2017 |

# <u>ATTACHMENT 3</u>

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## MIDWEST RELIABILITY ORGANIZATION

*Sue Clarke, VP Finance and Administration*
*P: 651.855.1707*
*F: 651.855.1712*
*E: sa.clarke@midwestreliability.org*

May 1, 2018

Mr. Scott Jones
Mr. Andy Sharp
North American Electric Reliability Corporation (NERC)

RE: 2017 Budget Variance Explanation Based on Audited Financials

Dear Mr. Jones and Mr. Sharp:

MRO staff reports the audited final numbers for the 2017 budget were 1.7 percent under budget due to a reduction in meeting and travel costs, consultant and contract costs, and offset by an unfavorable actuarial adjustment to retirement plans for 2017. Staff travel and meeting expenses were lower than budgeted because of an increase in MRO-hosted meetings and webinars. The Consultants and Contracts budget variance was primarily due to: (1) internal staff – rather than consulting support – provided network security maintenance; (2) costs for an external security audit were avoided and substituted with IT tools that performed this function, together with staff training and an internal audit; these IT tools were less costly than the planned external audit; (3) SharePoint development and other business improvement projects were placed on hold in anticipation of the CMEP project, reducing the need for those efforts. External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year. The acceleration of leasehold improvements for the approved facility expansion and reconfiguration in 2015 and 2016 left capital dollars budgeted in 2017 unspent. There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2017 adjustment resulted in an increase in the deferred liability primarily due to the medical premiums being higher than expected.

While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2017. Some highlights:

- Conducted 18 audits, including 6 combined CIP/operations and planning audits, 2 CIP audits, 2 operations and planning audits, 4 coordinated operations and planning audits led by another Regional Entity, and 4 coordinated CIP audits let by another Regional Entity
- Completed Compliance Oversight Plans (COPs) for all RCs, TOPs, and BAs
- Filed 115 noncompliances with FERC or the Regulatory Authority
- Registered 15 new entities (the highest number of new registrations since MRO's inception), and deregistered 1 entity
- Completed 2 Certification Reviews, a TOP and a BA
- Completed the seasonal and long-term reliability assessments for the year
- Provided analysis of 13 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and compliance assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities

- Completed several workshops in support of regional reliability and security, in addition to other outreach activities

As requested, variances greater than $10,000 and 10 percent are explained below; expenses not budgeted are also explained.

**Meeting and Travel Expenses (Variance of $289,913 (40.3%) under budget)**
MRO saw a reduction in meeting and travel costs due to: (1) reduced face-to-face working group meetings; and (2) reduced staff travel due to an increase in the use of MRO's facilities to host meetings.

**Consultants & Contracts (Variance of $193,560 (28.7%) under budget)**
The 2017 budget variance was primarily due to: (1) internal staff – rather than consulting support – provided network security maintenance; (2) costs for an external security audit were avoided and substituted with IT tools that performed this function, together with staff training and an internal audit; these IT tools were less costly than the planned external audit; (3) SharePoint development and other business improvement projects were placed on hold in anticipation of the CMEP project, reducing the need for those efforts.

**Professional Services (Variance of $56,361 (24.7%) over budget)**
External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year.

**Fixed Assets (Variance of $111,416 (59.5%) under budget)**
The acceleration of leasehold improvements for the approved facility expansion and reconfiguration in 2015 and 2016 left capital dollars budgeted in 2017 unspent.

MRO had no non-statutory activities in 2017; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

If you have any questions regarding this report, please contact me.

Thank you,

*Sue Clarke*

Sue Clarke

Cc: Sara Patrick, MRO Interim President and CEO

Midwest Reliability Organization

# 2017 MRO Budget True-Up

## Date: May 1, 2018

380 St. Peter Street, Suite 800 • Saint Paul, MN 55102 •Phone (651) 855-1760 • Fax (651) 855-1712
www.midwestreliability.org

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# 2017 Statutory Summary Budget Variance

| Consolidated | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 10,494,345 | 10,494,345 | - | |
| Penalty Sanctions | 166,251 | 166,251 | - | |
| **Total ERO Funding** | **$ 10,660,596** | **$ 10,660,596** | **$ -** | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 10,660,596** | **$ 10,660,596** | **$ -** | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 5,993,033 | 5,874,689 | 118,344 | 2.0% |
| Payroll Taxes | 395,552 | 366,600 | 28,952 | 7.9% |
| Employee Benefits | 530,165 | 608,751 | (78,586) | -12.9% |
| Savings & Retirement | 995,036 | 1,195,387 | (200,351) | -16.8% |
| **Total Personnel Expenses** | **7,913,786** | **8,045,426** | **(131,641)** | -1.6% |
| **Meeting Expenses** | | | | |
| Meetings | 64,130 | 85,000 | (20,870) | -24.6% |
| Travel | 365,863 | 635,000 | (269,137) | -42.4% |
| Conference Calls | 94 | - | 94 | |
| **Total Meeting Expenses** | **430,087** | **720,000** | **(289,913)** | -40.3% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 480,517 | 674,077 | (193,560) | -28.7% |
| Rent & Improvements | 708,302 | 701,900 | 6,402 | 0.9% |
| Office Costs | 520,429 | 539,933 | (19,504) | -3.6% |
| Professional Services | 284,911 | 228,550 | 56,361 | 24.7% |
| Miscellaneous | - | - | - | |
| Depreciation | 490,294 | 504,000 | (13,706) | -2.7% |
| **Total Operating Expenses** | **2,484,453** | **2,648,460** | **(164,007)** | -6.2% |
| **Indirect Expenses** | **-** | **-** | **-** | |
| **Other Non-Operating Expenses** | **542,601** | **-** | **542,601** | |
| **Total Expenses (B)** | **11,370,927** | **11,413,886** | **(42,960)** | |
| **Change in Assets (A - B)** | **(710,331)** | **(753,290)** | **42,960** | |
| **Fixed Assets** | | | | |
| Depreciation | (490,294) | (504,000) | 13,706 | 2.7% |
| Computer & Software CapEx | 104,023 | 173,670 | (69,647) | -40.1% |
| Furniture & Fixtures CapEx | 34,709 | - | 34,709 | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | 16,475 | 143,111 | (126,636) | |
| **(Inc)Dec in Fixed Assets** | $ (335,087) | $ (187,219) | $ (147,868) | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **(335,087)** | **(187,221)** | **(147,868)** | |
| **TOTAL BUDGET (B + C)** | **11,035,840** | **11,226,665** | **(190,828)** | -1.7% |
| **Change in Working Capital (A-B-C)** | **(375,244)** | **(566,069)** | **190,828** | |
| **FTEs** | **41.72** | **43.0** | **(1.28)** | |

# Summary of Financials and Resources

MRO staff reports the audited final numbers for the 2017 budget were 1.7 percent under budget due to a reduction in meeting and travel costs, consultant and contract costs, and offset by an unfavorable actuarial adjustment to retirement plans for 2017. Staff travel and meeting expenses were lower than budgeted because of an increase in MRO-hosted meetings and webinars. The Consultants and Contracts budget variance was primarily due to: (1) internal staff – rather than consulting support – provided network security maintenance; (2) costs for an external security audit were avoided and substituted with IT tools that performed this function, together with staff training and an internal audit; these IT tools were less costly than the planned external audit; (3) SharePoint development and other business improvement projects were placed on hold in anticipation of the CMEP project, reducing the need for those efforts. External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year. The acceleration of leasehold improvements for the approved facility expansion and reconfiguration in 2015 and 2016 left capital dollars budgeted in 2017 unspent. There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2017 adjustment resulted in an increase in the deferred liability primarily due to the medical premiums being higher than expected.

While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2017. Some highlights:

- Completed 11 audits, including 6 CIP/operations and planning audits, 4 coordinated operations and planning audits led by another Regional Entity, and 1 coordinated CIP audit led by another Regional Entity
- Completed Compliance Oversight Plans (COPs) for all RCs, TOPs, and BAs
- Filed 115 noncompliances with FERC or the Regulatory Authority
- Registered 15 new entities (the highest number of new registrations since MRO's inception), and deregistered 1 entity
- Completed 2 Certification Reviews, a TOP and a BA
- Completed the seasonal and long-term reliability assessments for the year
- Provided analysis of 13 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and compliance assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities
- Completed several workshops in support of regional reliability and security, in addition to other outreach activities

As requested, variances greater than $10,000 and 10 percent are explained below; expenses not budgeted are also explained.

**Meeting and Travel Expenses (Variance of $289,913 (40.3%) under budget)**

MRO saw a reduction in meeting and travel costs due to: (1) reduced face-to-face working group meetings; and (2) reduced staff travel due to an increase in the use of MRO's facilities to host meetings.

**Consultants & Contracts (Variance of $193,560 (28.7%) under budget)**
The 2017 budget variance was primarily due to: (1) internal staff – rather than consulting support – provided network security maintenance; (2) costs for an external security audit were avoided and substituted with IT tools that performed this function, together with staff training and an internal audit; these IT tools were less costly than the planned external audit; (3) SharePoint development and other business improvement projects were placed on hold in anticipation of the CMEP project, reducing the need for those efforts.

**Professional Services (Variance of $56,361 (24.7%) over budget)**
External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year.

**Fixed Assets (Variance of $111,416 (59.5%) under budget)**
The acceleration of leasehold improvements for the approved facility expansion and reconfiguration in 2015 and 2016 left capital dollars budgeted in 2017 unspent.

MRO had no non-statutory activities in 2017; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

# Section A — Statutory Programs

## 1. Reliability Standards, Organization Registration and Certification Program

| RELIABILITY STANDARDS, REGISTRATION AND CERTIFICATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 623,464 | 623,464 | - | |
| Penalty Sanctions | 10,401 | 10,401 | - | |
| **Total ERO Funding** | **$ 633,865** | **$ 633,865** | **$ -** | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 633,865 | 633,865 | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 255,602 | 214,962 | 40,640 | 18.9% |
| Payroll Taxes | 16,824 | 13,591 | 3,233 | 23.8% |
| Employee Benefits | 25,113 | 26,474 | (1,361) | -5.1% |
| Savings & Retirement | 48,550 | 50,081 | (1,531) | -3.1% |
| **Total Personnel Expenses** | 346,089 | 305,108 | 40,981 | 13.4% |
| **Meeting Expenses** | | | | |
| Meetings | 601 | 2,500 | (1,899) | -76.0% |
| Travel | 17,621 | 42,400 | (24,779) | -58.4% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 18,222 | 44,900 | (26,678) | -59.4% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 5,801 | 6,088 | (287) | -4.7% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 5,801 | 6,088 | (287) | -4.7% |
| | | | | |
| **Indirect Expenses** | 332,286 | 289,481 | 42,804 | 14.8% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 702,398 | 645,577 | 56,820 | 8.8% |
| | | | | |
| **Change in Assets (A - B)** | (68,533) | (11,712) | (56,820) | -485.1% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | (22,303) | (11,712) | (10,590) | -90.4% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (22,303) | (11,712) | (10,590) | -90.4% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **680,095** | **633,865** | 46,230 | **7.3%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(46,230)** | **0** | **46,230** | |
| | | | | |
| **FTEs** | **2.05** | **1.96** | 0.09 | **4.6%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**
*Salaries*
Increase in FTEs assisting with the Standard Drafting team and registration. The increase in this area is reflected in a decrease in other areas.

**Meeting Expenses**
*Travel*
Reduced travel costs due to fewer face-to-face meetings.

**Indirect Expenses**
Actual FTEs are used to allocate indirect expenses, and actuals were greater than budget; thus, there were more indirect costs than budgeted allocated to this program based on FTEs. The increase in this area is reflected in a decrease in other areas.

# 2. Compliance Monitoring and Enforcement Program (CMEP)

| COMPLIANCE MONITORING AND ENFORCEMENT | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 7,201,608 | 7,201,608 | - | |
| Penalty Sanctions | 112,018 | 112,018 | - | |
| **Total ERO Funding** | **$ 7,313,627** | **$ 7,313,627** | **$ -** | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 7,313,627 | 7,313,627 | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 2,859,856 | 2,842,052 | 17,804 | 0.6% |
| Payroll Taxes | 188,940 | 187,019 | 1,921 | 1.0% |
| Employee Benefits | 242,098 | 298,571 | (56,473) | -18.9% |
| Savings & Retirement | 414,233 | 535,130 | (120,897) | -22.6% |
| **Total Personnel Expenses** | 3,705,127 | 3,862,772 | (157,645) | -4.1% |
| **Meeting Expenses** | | | | |
| Meetings | 2,069 | 6,500 | (4,431) | -68.2% |
| Travel | 120,396 | 199,900 | (79,504) | -39.8% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 122,465 | 206,400 | (83,935) | -40.7% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 89,674 | 169,000 | (79,326) | -46.9% |
| Rent & Improvements | - | - | - | |
| Office Costs | 74,167 | 83,770 | (9,603) | -11.5% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 163,841 | 252,770 | (88,929) | -35.2% |
| | | | | |
| **Indirect Expenses** | 3,142,936 | 3,117,832 | 25,105 | 0.8% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 7,134,369 | 7,439,774 | (305,404) | -4.1% |
| | | | | |
| **Change in Assets (A - B)** | 179,257 | (126,147) | 305,404 | 242.1% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | (210,952) | (126,147) | (84,805) | -67.2% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (210,952) | (126,147) | (84,805) | -67.2% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **6,923,417** | **7,313,627** | (390,210) | **-5.3%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **390,210** | **(0)** | **(390,210)** | |
| | | | | |
| **FTEs** | **19.39** | **21.11** | **(1.72)** | **-8.1%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**
*Employee Benefits*
Benefits expenses were budgeted at a higher increase than what MRO experienced.

*Savings and Retirement*
The formula used to budget the annual expense for the MRO Retiree Medical Plan was resulting in an overstated expense. MRO staff worked with the actuary in correcting the budgeting methodology going forward.

**Meeting Expenses**
*Travel*
Reduced travel costs are due to fewer days required for onsite audits, in addition to fewer-than-budgeted FTEs and face-to-face working groups.

**Operating Expenses**
*Consultants & Contracts*
Contractor replaced with part-time employee.

## 3. Reliability Assessment and Performance Analysis Program

| RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS Includes Event Analysis | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 2,464,519 | 2,464,519 | - | |
| Penalty Sanctions | 34,067 | 34,067 | - | |
| **Total ERO Funding** | **$ 2,498,586** | **$ 2,498,586** | **$ -** | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 2,498,586 | 2,498,586 | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 977,675 | 917,627 | 60,048 | 6.5% |
| Payroll Taxes | 65,257 | 56,875 | 8,382 | 14.7% |
| Employee Benefits | 85,493 | 88,481 | (2,988) | -3.4% |
| Savings & Retirement | 207,889 | 225,268 | (17,379) | -7.7% |
| **Total Personnel Expenses** | 1,336,314 | 1,288,251 | 48,063 | 3.7% |
| **Meeting Expenses** | | | | |
| Meetings | 5,028 | 15,000 | (9,972) | -66.5% |
| Travel | 115,875 | 197,000 | (81,125) | -41.2% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 120,903 | 212,000 | (91,097) | -43.0% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 22,018 | 72,000 | (49,982) | -69.4% |
| Rent & Improvements | - | - | - | |
| Office Costs | 12,748 | 16,500 | (3,752) | -22.7% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 34,766 | 88,500 | (53,734) | -60.7% |
| | | | | |
| **Indirect Expenses** | 1,063,314 | 948,199 | 115,115 | 12.1% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 2,555,297 | 2,536,950 | 18,347 | 0.7% |
| | | | | |
| **Change in Assets (A - B)** | (56,711) | (38,364) | (18,347) | -47.8% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | (71,369) | (38,364) | (33,005) | -86.0% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (71,369) | (38,364) | (33,005) | -86.0% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **2,483,928** | **2,498,586** | (14,658) | **-0.6%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **14,658** | **0** | **(14,658)** | |
| | | | | |
| **FTEs** | **6.56** | **6.42** | 0.14 | **2.2%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Meeting Expenses**
*Travel*
Travel reimbursement for the entities has been trending down in the past few years due to fewer off-site meetings.

**Operating Expenses**
*Consultants and Contracts*
MRO's work for the FAC alert is winding down and the model building activities have dropped significantly. Both activities were supported by outside consultants.

**Indirect Expenses**
Total actual indirect costs were over budget; therefore, there were more indirect costs than budgeted allocated to this program based on FTEs.

## 4. Training, Education, and Operator Certification Program

| TRAINING, EDUCATION and OPERATOR CERTIFICATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 582,435 | 582,435 | - | 0.0% |
| Penalty Sanctions | 7,164 | 7,164 | - | 0.0% |
| **Total ERO Funding** | **$ 589,598** | **$ 589,598** | **$ -** | 0.0% |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 589,598 | 589,598 | - | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 235,202 | 243,378 | (8,176) | -3.4% |
| Payroll Taxes | 16,387 | 12,985 | 3,402 | 26.2% |
| Employee Benefits | 24,600 | 22,934 | 1,666 | 7.3% |
| Savings & Retirement | 40,265 | 47,081 | (6,816) | -14.5% |
| **Total Personnel Expenses** | 316,454 | 326,378 | (9,924) | -3.0% |
| **Meeting Expenses** | | | | |
| Meetings | 21,799 | 30,700 | (8,901) | -29.0% |
| Travel | 13,886 | 41,200 | (27,314) | -66.3% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 35,685 | 71,900 | (36,215) | -50.4% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | - | - | - | |
| | | | | |
| **Indirect Expenses** | 317,698 | 199,388 | 118,310 | 59.3% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 669,837 | 597,666 | 72,171 | 12.1% |
| | | | | |
| **Change in Assets (A - B)** | (80,238) | (8,067) | (72,171) | -894.6% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | (21,324) | (8,067) | (13,257) | -164.3% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (21,324) | (8,067) | (13,257) | -164.3% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **648,513** | **589,598** | 58,914 | **10.0%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(58,914)** | **0** | **58,914** | |
| | | | | |
| **FTEs** | **1.96** | **1.35** | 0.61 | **45.2%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Meeting Expenses**
*Travel*
Total travel costs were less than budgeted because there were fewer workshop speakers requesting travel reimbursement.

**Indirect Expenses**
Total actual indirect costs were over budget; therefore, there were more indirect costs than budgeted allocated to this program based on FTEs.

# 5. Situation Awareness and Infrastructure Security Program

| SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection) | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 188,392 | 188,392 | - | 0.0% |
| Penalty Sanctions | 2,600 | 2,600 | - | 0.0% |
| **Total ERO Funding** | **$ 190,992** | **$ 190,992** | **$ -** | 0.0% |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 190,992 | 190,992 | - | 0.0% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 113,872 | 68,496 | 45,376 | 66.2% |
| Payroll Taxes | 7,694 | 4,642 | 3,052 | 65.7% |
| Employee Benefits | 9,746 | 6,937 | 2,809 | 40.5% |
| Savings & Retirement | 18,995 | 14,275 | 4,720 | 33.1% |
| **Total Personnel Expenses** | 150,307 | 94,350 | 55,957 | 59.3% |
| **Meeting Expenses** | | | | |
| Meetings | - | 200 | (200) | -100.0% |
| Travel | 17,533 | 20,500 | (2,967) | -14.5% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 17,533 | 20,700 | (3,167) | -15.3% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 5,030 | 6,500 | (1,470) | -22.6% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 5,030 | 6,500 | (1,470) | -22.6% |
| | | | | |
| **Indirect Expenses** | 136,156 | 72,370 | 63,786 | 88.1% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 309,026 | 193,920 | 115,106 | 59.4% |
| | | | | |
| **Change in Assets (A - B)** | (118,034) | (2,928) | (115,106) | -3931.1% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | (9,139) | (2,928) | (6,211) | -212.1% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (9,139) | (2,928) | (6,211) | -212.1% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **299,887** | **190,992** | 108,895 | **57.0%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(108,895)** | **0** | **108,895** | |
| | | | | |
| **FTEs** | **0.84** | **0.49** | **0.35** | **71.4%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**
*Salaries*
Resources were shifted to this department from other areas of responsibility. The increase in this program is reflected in a decrease in other programs.

**Indirect Expenses**
Total actual indirect costs were over budget; therefore, there were more indirect costs than budgeted allocated to this program based on FTEs.

## 6. Administrative Services

**Methodology for Allocation of Administrative Services Expenses to Programs**

All expenses for the Administrative Services programs, referred to as indirect expenses, are allocated to the delegated program areas based on their respective number of FTEs.

## 6a. General and Administrative

| GENERAL and ADMINISTRATIVE | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | (566,073) | (566,073) | - | |
| Penalty Sanctions | - | | - | |
| **Total ERO Funding** | **$ (566,073)** | **$ (566,073)** | **$ -** | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | (566,073) | (566,073) | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 576,740 | 573,621 | 3,119 | 0.5% |
| Payroll Taxes | 32,843 | 25,338 | 7,505 | 29.6% |
| Employee Benefits | 37,917 | 43,745 | (5,828) | -13.3% |
| Savings & Retirement | 99,319 | 109,173 | (9,854) | -9.0% |
| | | | | |
| **Total Personnel Expenses** | 746,819 | 751,877 | (5,058) | -0.7% |
| **Meeting Expenses** | | | | |
| Meetings | 34,374 | 30,000 | 4,374 | 14.6% |
| Travel | 61,295 | 113,000 | (51,705) | -45.8% |
| Conference Calls | 94 | - | 94 | |
| **Total Meeting Expenses** | 95,763 | 143,000 | (47,237) | -33.0% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 75,317 | 75,000 | 317 | 0.4% |
| Rent & Improvements | - | - | - | |
| Office Costs | 25,328 | 35,500 | (10,172) | -28.7% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 100,645 | 110,500 | (9,855) | -8.9% |
| | | | | |
| **Indirect Expenses** | (943,227) | (1,005,377) | 62,150 | 6.2% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | (566,073) | (566,073) | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | **-** | **-** | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(566,073)** | **566,073** | **-** | |
| | | | | |
| **FTEs** | **2.80** | **2.91** | (0.11) | **-3.8%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Meeting Expenses**
*Travel*
Travel reimbursement for the entities has been trending down in the past few years due to fewer off-site meetings.

*Conference Calls*
A backup audio conferencing resource was used a few times. This was not budgeted.

**Operating Expenses**
*Office Costs*
Office costs were reduced in 2017 due to decreased spending on promotional items. FTEs in this program also began cell phone reimbursement as opposed to using MRO's business plan, which resulted in lower costs than budgeted.

## 6b. Legal and Regulatory

| LEGAL and REGULATORY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | | | - | |
| Penalty Sanctions | | | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | - | - | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 232,353 | 200,048 | 32,305 | 16.1% |
| Payroll Taxes | 12,553 | 9,439 | 3,114 | 33.0% |
| Employee Benefits | 11,286 | 13,591 | (2,305) | -17.0% |
| Savings & Retirement | 36,406 | 37,820 | (1,414) | -3.7% |
| **Total Personnel Expenses** | 292,598 | 260,898 | 31,700 | 12.2% |
| **Meeting Expenses** | | | | |
| Meetings | 204 | - | 204 | |
| Travel | 14,198 | 8,000 | 6,198 | 77.5% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 14,402 | 8,000 | 6,402 | 80.0% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 6,260 | 7,775 | (1,515) | -19.5% |
| Professional Services | 235,286 | 175,050 | 60,236 | 34.4% |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 241,546 | 182,825 | 58,721 | 32.1% |
| | | | | |
| **Indirect Expenses** | (548,546) | (451,723) | (96,823) | -21.4% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | - | - | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | 0.00 | 0.00 | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **(Inc)Dec in Fixed Assets** | $ - | $ - | $ - | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | **-** | **-** | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | **-** | **-** | **-** | |
| | | | | |
| **FTEs** | **0.86** | **0.95** | (0.09) | **-9.5%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**
*Salaries*
Upper management supported this department in response to an organization situation, resulting in higher than budgeted Salary Expense allocated to this department.

**Meeting Expenses**
*Meetings*
General Counsel hosted a few ad hoc meetings that had not been budgeted.

**Operating Expenses**
*Professional Services*
External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year.

**Indirect Expenses**
Total actual costs were over budget in this program area; therefore, there were more indirect costs than budgeted allocated to the other programs based on the FTE count.

# 6c. Information Technology

| INFORMATION TECHNOLOGY | | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|---|
| **Funding** | | | | | |
| | **ERO Funding** | | | | |
| | Assessments | | | - | |
| | Penalty Sanctions | | | - | |
| | **Total ERO Funding** | $ - | $ - | $ - | |
| | Federal Grants | - | - | - | |
| | Membership Fees | - | - | - | |
| | Testing | - | - | - | |
| | Services & Software | - | - | - | |
| | Workshop Fees | - | - | - | |
| | Interest | - | - | - | |
| | Miscellaneous | - | - | - | |
| **Total Funding (A)** | | - | - | - | |
| **Expenses** | | | | | |
| | **Personnel Expenses** | | | | |
| | Salaries | 313,911 | 399,848 | (85,937) | -21.5% |
| | Payroll Taxes | 24,904 | 29,685 | (4,781) | -16.1% |
| | Employee Benefits | 47,324 | 55,637 | (8,313) | -14.9% |
| | Savings & Retirement | 47,483 | 81,819 | (34,336) | -42.0% |
| | **Total Personnel Expenses** | 433,622 | 566,989 | (133,367) | -23.5% |
| | **Meeting Expenses** | | | | |
| | Meetings | - | - | - | |
| | Travel | 2,971 | 8,000 | (5,029) | -62.9% |
| | Conference Calls | - | - | - | |
| | **Total Meeting Expenses** | 2,971 | 8,000 | (5,029) | -62.9% |
| | **Operating Expenses** | | | | |
| | Consultants & Contracts | 247,754 | 329,110 | (81,356) | -24.7% |
| | Rent & Improvements | - | - | - | |
| | Office Costs | 249,529 | 210,000 | 39,529 | 18.8% |
| | Professional Services | - | - | - | |
| | Miscellaneous | - | - | - | |
| | Depreciation | 490,294 | 504,000 | (13,706) | -2.7% |
| | **Total Operating Expenses** | 987,577 | 1,043,110 | (55,533) | -5.3% |
| | **Indirect Expenses** | (1,424,170) | (1,618,099) | 193,929 | 12.0% |
| | **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | | - | - | - | |
| **Change in Assets (A - B)** | | - | - | - | |
| **Fixed Assets** | | | | | |
| | Depreciation | (490,294.00) | (504,000.00) | 13,706 | 2.7% |
| | Computer & Software CapEx | 104,023 | 173,670 | (69,647) | -40.1% |
| | Furniture & Fixtures CapEx | - | - | - | |
| | Equipment CapEx | - | - | - | |
| | Leasehold Improvements | - | - | - | |
| | **(Inc)Dec in Fixed Assets** | (386,271) | (330,330) | (55,941) | -16.9% |
| | Allocation of Fixed Assets | 386,271 | 330,330 | 55,941 | 16.9% |
| **Total Inc(Dec) in Fixed Assets ©** | | - | - | - | |
| **TOTAL BUDGET (B + C)** | | - | - | - | |
| **Change in Working Capital (A-B-C)** | | - | - | - | |
| **FTEs** | | **3.73** | **3.92** | (0.19) | **-4.8%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**

*Salaries*

Executive resources were shifted from this department to other areas of responsibility, resulting in lower Salaries Expense than budgeted. An under FTE in this program will result in an over FTE in another program.

*Savings & Retirement*

The formula used to budget the annual expense for the MRO Retiree Medical Plan was resulting in an overstated expense. MRO staff worked with the actuary in correcting the budget methodology going forward.

**Operating Expenses**

*Consultants and Contracts*

The 2017 budget variance was due primarily due to (1) internal staff – rather than consulting support – provided network security maintenance; (2) costs for an external security audit were avoided and substituted with IT tools that performed this function, together with staff training and in internal audit; these IT tools were less costly than the planned external audit; (3) SharePoint development and other business improvement projects were placed on hold in anticipation of the CMEP project, reducing the need for those efforts.

*Office Costs*

Previously budgeted laptops were exceeding our $3,000 threshold for capitalization and were budgeted to computer capital expense. In 2017 numerous laptops were expensed. This over budget in office costs is offset by an under budget variance in Computer & Software CapEx.

**Indirect Expenses**

Total actual costs were under budget in this program for the reasons listed above; therefore, the allocation of Indirect Expenses from this program to the statutory direct programs was lower than budgeted.

**Fixed Assets**

*Computer & Software CapEx*

Previously budgeted laptops were exceeding our $3,000 threshold for capitalization and were budgeted to computer capital expense. In 2017 numerous laptops were expensed. This under budget in computer capital costs offsets the over budget in office costs.

## 6d. Human Resources

**Human Resources costs are included in Finance and Accounting.**

## 6e. Human Resources, Finance, and Accounting

| HUMAN RESOURCES, FINANCE and ACCOUNTING | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | | - | |
| Penalty Sanctions | - | | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | - | - | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 427,822 | 414,657 | 13,165 | 3.2% |
| Payroll Taxes | 30,150 | 27,026 | 3,124 | 11.6% |
| Employee Benefits | 46,588 | 52,381 | (5,793) | -11.1% |
| Savings & Retirement | 81,896 | 94,740 | (12,844) | -13.6% |
| **Total Personnel Expenses** | 586,456 | 588,804 | (2,348) | -0.4% |
| **Meeting Expenses** | | | | |
| Meetings | 55 | 100 | (45) | -45.0% |
| Travel | 2,088 | 5,000 | (2,912) | -58.2% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 2,143 | 5,100 | (2,957) | -58.0% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 45,754 | 28,967 | 16,787 | 58.0% |
| Rent & Improvements | 708,302 | 701,900 | 6,402 | 0.9% |
| Office Costs | 141,566 | 173,800 | (32,234) | -18.5% |
| Professional Services | 49,625 | 53,500 | (3,875) | -7.2% |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 945,247 | 958,167 | (12,920) | -1.3% |
| | | | | |
| **Indirect Expenses** | (2,076,447) | (1,552,071) | (524,376) | -33.8% |
| | | | | |
| **Other Non-Operating Expenses** | 542,601 | - | 542,601 | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | - | - | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | 34,709 | - | 34,709 | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | 16,475 | 143,111 | (126,636) | -88.5% |
| **(Inc)Dec in Fixed Assets** | 51,184 | 143,111 | (91,927) | |
| | | | | |
| Allocation of Fixed Assets | (51,184) | (143,111) | 91,927 | -64.2% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | - | - | - | |
| | | | | |
| **FTEs** | **3.53** | **3.89** | **(0.36)** | **-9.3%** |

**Explanation of variances greater than $10,000 and 10 percent; as well as expenses not budgeted:**

**Personnel Expenses**
*Savings & Retirement*
The formula used to budget the annual expense for the MRO Retiree Medical Plan was resulting in an overstated expense. MRO staff worked with the actuary in correcting our budgeting methodology going forward.

**Operating Expenses**
*Consultants and Contracts*
MRO expected to be fully staffed in 2017 and had not budgeted any hiring costs. However, it became necessary to incur hiring costs during the year (e.g., postings on job sites). Actuals also included two unbudgeted remuneration studies.

*Office Costs*
Tuition assistance is included in Office Costs; however, staff did not pursue out-of-state management training that had been budgeted for the year.

**Indirect Expenses**
Total actual costs were over budget in this program for the reasons listed above and due to the unbudgeted costs recorded in Other Non-Operating Expenses, below; therefore, the allocation of Indirect Expenses from this program to the statutory direct programs was higher than budgeted.

**Other Non-Operating Expenses**
As part of its annual audit, an actuarial assessment of the MRO Retiree Medical Plan is required by the auditors. The 2017 actuarial adjustment resulted in an increase in the deferred liability primarily because medical premiums increased more than expected.

**Fixed Assets**
*Furniture & Fixtures CapEx*
Furniture purchases were budgeted in Leasehold Improvements but the actual costs were recorded in Furniture & Fixtures CapEx. The over budget in Furniture & Fixtures CapEx is offset by the under budget in Leasehold Improvements.

*Leasehold Improvements*
The acceleration of leasehold improvements for the approved facility expansion and reconfiguration in 2015 and 2016 left capital dollars budgeted in 2017 unspent. Additionally, actual costs in Leasehold Improvements were lower than budgeted due to the treatment of furniture purchases as described above.

# Section B — Supplemental Financial Information

| Statement of Activities and Capital Expenditures by Program 2017 Actual | Total | Statutory Total | Non-Statutory Total | Statutory Total | Reliability Standards (Section 300) | Compliance and Organization Registration and Certification (Section 400 & 500) | Reliability Assessment and Performance Analysis (Section 800) | Training and Education (Section 600 & 900) | Situation Awareness and Infrastructure Security (Section 1000) | Committee and Member Forums | General and Administrative | Legal and Regulatory | Information Technology | Human Resources | Accounting and Finance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Funding** | | | | | | | | | | | | | | | |
| **ERO Funding** | | | | | | | | | | | | | | | |
| NERC Assessments | 10,494,345 | 10,494,345 | - | 10,494,345 | 623,464 | 7,201,608 | 2,464,519 | 582,435 | 188,392 | | (566,073) | | | | |
| Penalty Sanctions | 166,250 | 166,250 | - | 166,250 | 10,401 | 112,018 | 34,067 | 7,164 | 2,600 | | | | | | |
| **Total NERC Funding** | 10,660,595 | 10,660,595 | - | 10,660,595 | 633,865 | 7,313,627 | 2,498,586 | 589,598 | 190,992 | - | (566,073) | - | - | - | - |
| Membership Dues | - | - | - | | | | | | | - | | | | | |
| Testing Fees | - | - | - | | | | | | | | | | | | |
| Services & Software | - | - | - | | | | | | | | | | | | |
| Workshops | - | - | - | | | | | | | | | | | | |
| Interest | - | - | - | | | | | | | | | | | | |
| Miscellaneous | - | - | - | | | | | | | | | | | | |
| **Total Funding (A)** | 10,660,595 | 10,660,595 | - | 10,660,595 | 633,865 | 7,313,627 | 2,498,586 | 589,598 | 190,992 | - | (566,073) | - | - | - | - |
| **Expenses** | | | | | | | | | | | | | | | |
| **Personnel Expenses** | | | | | | | | | | | | | | | |
| **Salaries** | 5,993,033 | 5,993,033 | - | 5,993,033 | 255,602 | 2,859,856 | 977,675 | 235,202 | 113,872 | - | 576,740 | 232,353 | 313,911 | - | 427,822 |
| **Payroll Taxes** | 395,552 | 395,552 | - | 395,552 | 16,824 | 188,940 | 65,257 | 16,387 | 7,694 | - | 32,843 | 12,553 | 24,904 | - | 30,150 |
| **Benefits** | 530,165 | 530,165 | - | 530,165 | 25,113 | 242,098 | 85,493 | 24,600 | 9,746 | - | 37,917 | 11,286 | 47,324 | - | 46,588 |
| **Retirement Costs** | 995,036 | 995,036 | - | 995,036 | 48,550 | 414,233 | 207,889 | 40,265 | 18,995 | - | 99,319 | 36,406 | 47,483 | - | 81,896 |
| **Total Personnel Expenses** | 7,913,786 | 7,913,786 | - | 7,913,786 | 346,089 | 3,705,127 | 1,336,314 | 316,454 | 150,307 | - | 746,819 | 292,598 | 433,622 | - | 586,456 |
| **Meeting Expenses** | | | | | | | | | | | | | | | |
| **Meetings** | 64,130 | 64,130 | - | 64,130 | 601 | 2,069 | 5,028 | 21,799 | - | - | 34,374 | 204 | - | - | 55 |
| **Travel** | 365,863 | 365,863 | - | 365,863 | 17,621 | 120,396 | 115,875 | 13,886 | 17,533 | - | 61,295 | 14,198 | 2,971 | - | 2,088 |
| **Conference Calls** | 94 | 94 | - | 94 | - | - | - | - | - | - | 94 | - | - | - | - |
| **Total Meeting Expenses** | 430,087 | 430,087 | - | 430,087 | 18,222 | 122,465 | 120,903 | 35,685 | 17,533 | - | 95,763 | 14,402 | 2,971 | - | 2,143 |
| **Operating Expenses** | | | | | | | | | | | | | | | |
| **Consultants & Contracts** | 480,517 | 480,517 | - | 480,517 | - | 89,674 | 22,018 | - | - | - | 75,317 | - | 247,754 | - | 45,754 |
| **Office Rent** | 708,302 | 708,302 | - | 708,302 | - | - | - | - | - | - | - | - | - | - | 708,302 |
| **Office Costs** | 520,429 | 520,429 | - | 520,429 | 5,801 | 74,167 | 12,748 | - | 5,030 | - | 25,328 | 6,260 | 249,529 | - | 141,566 |
| **Professional Services** | 284,911 | 284,911 | - | 284,911 | - | - | - | - | - | - | - | 235,286 | - | - | 49,625 |
| **Miscellaneous** | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Depreciation** | 490,294 | 490,294 | - | 490,294 | - | - | - | - | - | - | - | - | 490,294 | - | - |
| **Total Operating Expenses** | 2,484,453 | 2,484,453 | - | 2,484,453 | 5,801 | 163,841 | 34,766 | - | 5,030 | - | 100,645 | 241,546 | 987,577 | - | 945,247 |
| **Total Direct Expenses** | 10,828,326 | 10,828,326 | - | 10,828,326 | 370,112 | 3,991,433 | 1,491,983 | 352,139 | 172,870 | - | 943,227 | 548,546 | 1,424,170 | - | 1,533,846 |
| **Indirect Expenses** | - | - | - | - | 332,286 | 3,142,936 | 1,063,314 | 317,698 | 136,156 | - | (943,227) | (548,546) | (1,424,170) | - | (2,076,447) |
| **Other Non-Operating Expenses** | 542,601 | 542,601 | - | 542,601 | | | | | | | - | - | - | - | 542,601 |
| **Total Expenses (B)** | 11,370,927 | 11,370,927 | - | 11,370,927 | 702,398 | 7,134,369 | 2,555,297 | 669,837 | 309,026 | - | - | - | - | - | - |
| **Change in Assets** | (710,332) | (710,332) | - | (710,332) | (68,533) | 179,257 | (56,711) | (80,238) | (118,034) | - | (566,073) | - | - | - | - |
| **Fixed Assets** | | | | | | | | | | | | | | | |
| Depreciation | (490,294) | (490,294) | - | (490,294) | - | - | - | - | - | - | - | - | (490,294) | - | - |
| Computer & Software CapEx | 104,023 | 104,023 | - | 104,023 | | | | | | | | | 104,023 | | - |
| Furniture & Fixtures CapEx | 34,709 | 34,709 | - | 34,709 | | | | | | | | | | | 34,709 |
| Equipment CapEx | - | - | - | - | | | | | | | | | | | - |
| Leasehold Improvements | 16,475 | 16,475 | - | 16,475 | | | | | | | | | | | 16,475 |
| Allocation of Fixed Assets | - | - | - | - | (22,303) | (210,952) | (71,369) | (21,324) | (9,139) | | - | - | 386,271 | - | (51,184) |
| **Inc(Dec) in Fixed Assets ( C )** | (335,087) | (335,087) | - | (335,087) | (22,303) | (210,952) | (71,369) | (21,324) | (9,139) | - | - | - | - | - | - |
| **TOTAL BUDGET (=B + C)** | 11,035,840 | 11,035,840 | - | 11,035,840 | 680,095 | 6,923,417 | 2,483,928 | 648,513 | 299,887 | - | - | - | - | - | - |
| **TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)** | (375,245) | (375,245) | - | (375,245) | (46,230) | 390,210 | 14,658 | (58,914) | (108,895) | - | (566,073) | - | - | - | - |
| **FTEs** | 41.72 | 41.72 | - | 41.72 | 2.05 | 19.39 | 6.56 | 1.96 | 0.84 | - | 2.80 | 0.86 | 3.73 | - | 3.53 |
| **Indirect Costs Allocation** | - | - | - | - | 332,286 | 3,142,936 | 1,063,314 | 317,698 | 136,156 | - | (943,227) | (548,546) | (1,424,170) | - | (2,076,447) |
| **Allocation of Fixed Assets** | | | | | | | | | | - | - | - | (386,271) | - | 51,184 |
| **Penalty Sanctions Allocation** | | | | 166,250 | 11,065 | 104,662 | 35,409 | 10,580 | 4,534 | | | | | | |
| **Interest Income Allocation** | | | | - | - | - | - | - | - | - | - | - | - | - | 708,302 |
| **Other Non-Operating Expenses** | | | | - | - | - | - | - | - | | | | | | |

# MIDWEST RELIABILITY ORGANIZATION

Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

**MIDWEST RELIABILITY ORGANIZATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Midwest Reliability Organization
Saint Paul, Minnesota

We have audited the accompanying financial statements of Midwest Reliability Organization (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 these 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 audits 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 the Organization as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
April 5, 2018

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2017 and 2016

***ASSETS***

| | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 4,029,351 | $ 3,755,883 |
| Restricted cash | 142,644 | 166,275 |
| Accounts receivable | - | 317 |
| Prepaid expenses | 306,060 | 345,447 |
| Total Current Assets | 4,478,055 | 4,267,922 |
| **PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET** | 1,465,404 | 1,786,766 |
| **OTHER ASSETS** | | |
| Restricted cash - non-current | 31,717 | - |
| Security deposit - non-current | 39,858 | 39,858 |
| Capitalized software costs, net of accumulated amortization of $433,461 and $417,285, respectively | 59,222 | 33,088 |
| **TOTAL ASSETS** | $ 6,074,256 | $ 6,127,634 |

***LIABILITIES AND NET ASSETS***

| | 2017 | 2016 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable - trade | $ 221,639 | $ 414,885 |
| Accrued liabilities | 955,039 | 791,037 |
| Retirement plan contribution | 541,215 | 511,177 |
| Deferred assessments | 142,644 | 166,275 |
| Total Current Liabilities | 1,860,537 | 1,883,374 |
| **OTHER LIABILITIES** | | |
| Postretirement medical benefit obligation | 1,080,522 | 507,557 |
| Deferred assessments - non-current | 31,717 | - |
| Deferred rent - non-current | 575,437 | 500,325 |
| Total Liabilities | 3,548,213 | 2,891,256 |
| **NET ASSETS (UNRESTRICTED)** | 2,526,043 | 3,236,378 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 6,074,256 | $ 6,127,634 |

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **REVENUE** | | |
| Assessments | $ 10,494,345 | $ 10,891,562 |
| Penalty sanctions | 166,250 | 136,249 |
| Total Revenue | 10,660,595 | 11,027,811 |
| **EXPENSES** | | |
| Personnel expenses | | |
| Salaries | 5,993,033 | 5,661,968 |
| Payroll taxes | 395,552 | 352,174 |
| Employee benefits | 530,165 | 555,977 |
| Retirement benefits | 995,038 | 964,511 |
| Total personnel expenses | 7,913,788 | 7,534,630 |
| Meeting expenses | | |
| Conference calls | 94 | 2,296 |
| Meetings | 64,130 | 70,385 |
| Travel | 365,862 | 441,994 |
| Total meeting expenses | 430,086 | 514,675 |
| Operating expenses | | |
| Building rent and facilities | 708,302 | 670,041 |
| Consulting | 480,518 | 483,780 |
| Office costs | 1,010,724 | 970,789 |
| Professional services | 284,911 | 185,834 |
| Total operating expenses | 2,484,455 | 2,310,444 |
| Total Expenses | 10,828,329 | 10,359,749 |
| **CHANGE IN UNRESTRICTED NET ASSETS BEFORE POSTRETIREMENT RELATED CHANGES** | (167,734) | 668,062 |
| **POSTRETIREMENT RELATED CHANGES** | | |
| Postretirement medical benefit obligation changes other than net periodic cost | 542,601 | (28,204) |
| **CHANGE IN UNRESTRICTED NET ASSETS** | (710,335) | 696,266 |
| UNRESTRICTED NET ASSETS - Beginning of Year | 3,236,378 | 2,540,112 |
| **UNRESTRICTED NET ASSETS - END OF YEAR** | $ 2,526,043 | $ 3,236,378 |

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ (710,335) | $ 696,266 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 474,119 | 422,278 |
| Software amortization | 16,176 | 54,940 |
| Loss on disposition of property, improvements and equipment | - | 6,723 |
| Change in assets and liabilities: | | |
| Accounts receivable | 317 | (317) |
| Prepaid expenses | 39,387 | (88,367) |
| Accounts payable - trade | (14,163) | 9,700 |
| Accrued liabilities | 164,002 | 36,357 |
| Retirement plan contribution | 30,038 | 19,841 |
| Deferred assessments | 8,086 | 118,250 |
| Deferred rent | 75,112 | 62,931 |
| Postretirement medical benefit obligation | 572,965 | (14,145) |
| Net Cash Flows From Operating Activities | 655,704 | 1,324,457 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Change in restricted cash | (8,086) | (118,250) |
| Purchases of property, improvements and equipment and software | (374,150) | (1,081,113) |
| Net Cash Flows From Investing Activities | (382,236) | (1,199,363) |
| **Net Change in Cash and Cash Equivalents** | 273,468 | 125,094 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 3,755,883 | 3,630,789 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 4,029,351 | $ 3,755,883 |
| **SUPPLEMENTAL CASH FLOW DISCLOSURE** | | |
| Equipment and software additions included in accounts payable | $ 45,363 | $ 224,446 |

See accompanying notes to financial statements.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

*Services*

Midwest Reliability Organization (or the “Organization”) is a nonprofit organization dedicated to ensuring the reliability of the bulk power system in the north-central part of North America. The Organization is a Regional Entity under the Energy Policy Act of 2005 (United States) and operates under delegated authority from the Federal Energy Regulatory Commission (FERC) via a delegation agreement with the North American Reliability Corporation. Additionally, the Organization operates in the provinces of Saskatchewan and Manitoba through other agreements. The primary focus of the Organization is ensuring compliance with reliability standards utilizing open, fair processes in the public interest and providing assessments on bulk power system reliability. In addition to the Board of Directors, the board has established five technical organizational groups comprised of stakeholders: Security Advisory Council, Compliance Committee, Planning Committee, Operating Committee and the Standards Committee. The Board of Directors has four committees: Finance and Audit Committee, Governance and Personnel Committee, Dispute Resolution Committee and Hearing Body Committee.

*2018 Subsequent Event*

In February 2018, the Organization amended its delegation agreement with NERC updating its geographical borders to include the reassignment of 109 of the 122 registered entities formerly registered in the Southwest Power Pool, Inc. Regional Entity to the Organization.

*Financial Statement Presentation*

As a 501(c)(3) non-profit organization, it classifies net assets, support and revenue based upon the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted net assets** - Net assets that are not subject to donor-imposed stipulations.

*Cash and Cash Equivalents*

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are held by one financial institution, Wells Fargo, in three accounts. Escrowed amounts resulting from penalties assessed and collected in the United States are segregated into a separate account and reported as restricted cash on the statement of financial position. Cash on deposit in excess of federally insured limits are subject to the usual banking risks of funds in excess of those limits.

*Receivables*

Receivables, if any, result primarily from assessments related to load serving entities (members and nonmembers). No allowance for doubtful accounts is recorded based on historical experience and management's evaluation of receivables. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Property, Improvements and Equipment*

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding $3,000 are capitalized for the years ended December 31, 2017 and 2016, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts, and the resulting gain or loss is included in operations.

*Capitalized Software Costs*

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled $16,176 and $54,940 for the years ended December 31, 2017 and 2016, respectively.

*Deferred Assessments*

Deferred assessments represents penalty assessments paid by load-serving entities, which will be used to offset budget allocations received from the North American Electric Reliability Corporation (“NERC”).

*Tax Status*

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. They are also exempt from state income taxes under applicable State of Minnesota provisions. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2017 and 2016. The Organization’s tax returns are subject to review and examination by federal and state authorities.

*Revenue and Assessments*

The Organization receives its revenues from NERC through a net energy-to-load allocation for all load-serving entities within its geographical area. The revenue allocation is prescribed under the Energy Policy Act of 2005 in the United States and similar arrangements in Saskatchewan and Manitoba. Any other revenues are collected on a fee-for-service basis at no cost, if applicable.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

*New Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This new guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective date for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. The Organization is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

*Subsequent Events*

The Organization has evaluated subsequent events through April 5, 2018, which is the date that the financial statements were approved and available to be issued.

## NOTE 2 - NERC TRANSACTIONS

The Organization has entered into a delegation agreement with NERC to enforce the Reliability Standards as set by NERC within a designated region. In connection with the current delegation agreement, the Organization has the ability to propose Reliability Standards and Regional Variances. The Organization has the authority to enforce the Reliability Standards as set by NERC and approved by regulatory authorities within the geographic boundaries. The Organization is subject to oversight from NERC and applicable regulations in the United States, Manitoba, and Saskatchewan.

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted revenues from NERC were $10,494,345 and $10,891,562 for the years ended December 31, 2017 and 2016, respectively, which agree with the amounts received.

## NOTE 3 - LEASE COMMITMENTS

The Organization executed an operating lease for office space in St Paul, Minnesota on January 20, 2012. On July 13, 2015 the Second Amendment to the Office Lease was executed which expanded the premises and extended the terms. Rent expense was $359,756 and $337,187 for the years ended December 31, 2017 and 2016, respectively.

Future expected minimum lease payments under the lease as of December 31, 2017 are as follows:

| | |
|---|---|
| Years Ending December 31 | |
| 2018 | $ 390,705 |
| 2019 | 402,483 |
| 2020 | 414,600 |
| 2021 | 426,971 |
| 2022 | 439,766 |
| Thereafter | 1,319,003 |
| | $ 3,393,528 |

## NOTE 4 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

The following is a schedule of property, improvements and equipment as of December 31:

| | 2017 | 2016 |
|---|---|---|
| Equipment | $ 2,104,349 | $ 2,041,723 |
| Furniture | 596,178 | 564,351 |
| Leasehold improvements | 764,984 | 748,509 |
| | 3,465,511 | 3,354,583 |
| Less: Accumulated depreciation | (2,000,107) | (1,567,817) |
| Net Property, Improvements and Equipment | $ 1,465,404 | $ 1,786,766 |

## NOTE 5 - LINE OF CREDIT

The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of $2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2020. There were no outstanding balances at December 31, 2017 or 2016.

## NOTE 6 - RETIREMENT PLANS

*Postretirement Health Plan*

The Organization has a defined benefit postretirement health plan available to eligible current and future retirees and eligible spouses and dependents. The Midwest Reliability Organization Retiree Medical Trust is the sole source of funding for the plan benefits. Under the terms of the postretirement health plan, Midwest Reliability Organization has no obligation to make any contributions to the trust. Information regarding the plan as of December 31 was as follows:

| | 2017 | 2016 |
|---|---|---|
| Change in projected benefit obligation | | |
| Benefit obligation at beginning of year | $ 1,551,829 | $ 1,398,216 |
| Service cost | 194,190 | 191,183 |
| Interest cost | 64,503 | 60,794 |
| Actuarial loss (gain) | 582,910 | (75,463) |
| Benefits paid | (18,848) | (22,901) |
| Benefit obligation at end of year | 2,374,584 | 1,551,829 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | 1,044,272 | 876,514 |
| Actual return on plan assets | 139,224 | 39,146 |
| Employer contribution | 129,414 | 151,513 |
| Benefits paid | (18,848) | (22,901) |
| Fair value of plan assets at end of year | 1,294,062 | 1,044,272 |
| Unfunded status recognized as a noncurrent liability | $ (1,080,522) | $ (507,557) |
| Weighted average assumptions used to calculate the benefit obligation-discount rate | 3.63% | 4.19% |

## NOTE 6 - RETIREMENT PLANS (Continued)

Net periodic postretirement benefit expense for the years ending December 31 is comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Components of net periodic benefit cost | | |
| Service cost | $ 194,190 | $ 191,183 |
| Interest cost | 64,503 | 60,794 |
| Expected return on plan assets | (60,314) | (51,638) |
| Amortization of prior service credit | (38,601) | (38,601) |
| Amortization of actuarial loss | - | 3,834 |
| Net periodic benefit cost | $ 159,778 | $ 165,572 |
| Weighted-average assumptions used to calculate the net periodic benefit cost | | |
| Discount rate | 4.19% | 4.39% |
| Expected return on plan assets | 5.50% | 5.50% |
| Rate of compensation increases | N/A | N/A |

The mortality assumptions for the plan were based on RP 2014 mortality tables under scales MP-2017 and MP-2016 during the years ended December 31, 2017 and 2016, respectively.

The expected rates of return on plan assets are based on the weighting of the Organization's asset allocations, the 30-year rolling historical average returns, and recent historical average return.

Assumed health care cost trend rates used to determine the benefit obligation at December 31 consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Health care cost trend rate assumed for next year | 6.4% | 6.6% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5.0% | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2025 | 2025 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care trend rates would have the following effects:

| | One-Percentage Point | |
|---|---|---|
| | Increase | Decrease |
| Effect on total of service cost and interest cost | $ 73,138 | $ (54,223) |
| Effect on postretirement benefit obligation | 578,636 | (436,789) |

**NOTE 6 - RETIREMENT PLANS** (Continued)

Plan related changes other than net periodic cost included in retirement benefit expense:

| | 2017 | 2016 |
|---|---|---|
| Actuarial loss (gain) arising during the year | $ 504,000 | $ (66,805) |
| Amortization of prior year service cost | 38,601 | 38,601 |
| | $ 542,601 | $ (28,204) |

The Organization employs a total return investment approach for plan assets with a mix of equity and debt investments used to maximize the long-term appreciation of plan assets for a prudent level of risk. The Organization's plan assets are invested in various funds, which consist of both stocks and bonds. The equity component includes investment in companies of various sizes, with an emphasis on large cap stocks, and represents several investment styles. The equity portion also includes an allocation to international stocks. Investments in bonds are diversified into three portfolios that invest mainly in U.S. treasuries, high quality corporate issues and mortgage securities.

Percentage of fair value by investment category at December 31, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Equity Securities | 53% | 52% |
| Debt Securities | 42% | 42% |
| Other | 5% | 6% |

The fair values of the Organization’s postretirement health plan assets at December 31, by asset category, are as follows:

| | 2017 | 2016 |
|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Quoted Prices in Active Markets for Identical Assets (Level 1) |
| Asset category | | |
| Cash equivalents | $ 60,061 | $ 62,695 |
| Mutual funds-bonds | 546,620 | 540,896 |
| Mutual funds-equities | 687,381 | 440,681 |
| | $ 1,294,062 | $ 1,044,272 |

***Cash equivalents*** - Investments in cash equivalents consist of money market funds and are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

***Mutual Funds*** - Investments in mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

**NOTE 6 - RETIREMENT PLANS** (Continued)

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2017 and 2016.

While the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2017 are as follows:

| | | |
|---|---|---|
| Years Ending December 31 | | |
| 2018 | $ | 35,738 |
| 2019 | | 32,033 |
| 2020 | | 45,932 |
| 2021 | | 48,804 |
| 2022 | | 56,335 |
| 2023 - 2027 | | 436,688 |

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material effect on the financial statements.

The Organization expects to contribute $171,385 to the plan in 2018.

*Defined Contribution Retirement Plan*

The Organization has a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. For employees to receive the non-elective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched $275,045 and $268,115 of employee deferrals as of December 31, 2017 and 2016, respectively. In addition, the Organization elected to make an employer contribution in the amount of $499,352 and $475,951 for the years ended December 31, 2017 and 2016, respectively.

The Organization also has a 457B plan. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were $41,000 and $37,000 for the years ended December 31, 2017 and 2016, respectively. The Organization matched $19,000 and $20,500 of employee deferrals for the years ended December 31, 2017 and 2016, respectively.

The Organization also has a 457F plan. Employer contribution amounts for employees in excess of IRS contribution limits are deposited to the 457F. The Organization contributed in the amounts of $41,863 and $35,226, for the years ended December 31, 2017 and 2016, respectively.

# <u>ATTACHMENT 4</u>

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## NORTHEAST POWER COORDINATING COUNCIL, INC.

***Via Email***

NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS. NEW YORK. NY 10018 (212) 840-1070 FAX (212) 302-2782

May 1, 2018

North American Electric Reliability Corporation
3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
Attention: Mr. Scott Jones

Subject: NPCC 2017 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2017 Financial Statements

Dear Scott:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2017 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 26, 2018 and forwarded to NERC for its information and provision to FERC.

As you know, NPCC is a Cross-border Regional Entity which provides Regional Entity functions and services through its regional entity (RE) division. The establishment of Regionally-specific criteria, and monitoring and enforcement of compliance with such criteria are provided through the criteria services (CS) division of NPCC. The CS division is funded by assessments to the Independent System Operators/Balancing Authority Areas within the Region based on their respective Net Energy for Load.

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 95/5 split for 2017 based upon direct program area FTEs of 36.86 in the RE division and 2.14 in the CS division. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses and fixed asset expenditures for NPCC's RE division for 2017 were $14,655,814 which is $491,242 or 3.2% under the 2017 operating budget of $15,147,059. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2017 were $952,219 which is $74,677 or 7.3% under the 2017 operating budget of $1,026,896. In the aggregate, actual total expenses and fixed asset expenditures for the NPCC RE and CS divisions were $15,608,033 which is $565,919 or 3.5% under the 2017 total corporate expense budget of $16,173,951. Indirect expenses are allocated to the direct programs based on FTE ratio.

Variances from budget in total for NPCC, total non-statutory, total statutory and total by statutory program area are provided using the template provided by NERC which presents actual and budgeted costs on program-by-program format. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2017 Business Plan and Budget. Explanations of significant expense variances are provided for the Regional Entity division in total and by program area where the explanation differs from that for the Regional Entity total.

Should you have any questions please do not hesitate to contact me via email at jhala@npcc.org or via telephone at (212) 840-1070.

Sincerely,

*Jessica Hala*

Jessica Hala
Senior Manager, Finance and Accounting

Enclosures

cc: Mr. Edward A. Schwerdt – NPCC President & CEO
Ms. Jennifer Budd Mattiello – NPCC Senior Vice President & COO

Northeast Power Coordinating Council, Inc.
2017 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

| | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) |
|---|---|---|---|
| **Funding** | | | |
| **ERO Funding** | | | |
| Assessments | 14,255,061 | 14,255,061 | - |
| Penalty Sanctions | - | - | - |
| **Total ERO Funding** | **14,255,061** | **14,255,061** | **-** |
| Federal Grants | - | - | - |
| Non-Statutory Assessments | 1,105,867 | 1,105,867 | - |
| Testing | - | - | - |
| Services & Software | - | - | - |
| Workshop Fees | 69,729 | 64,000 | 5,729 |
| Interest | 11,502 | - | 11,502 |
| Miscellaneous | - | - | - |
| **Total Funding (A)** | **15,442,158** | **15,424,927** | **17,231** |
| **Expenses** | | | |
| **Personnel Expenses** | | | |
| Salaries | 7,041,407 | 7,160,068 | (118,661) |
| Payroll Taxes | 435,446 | 427,620 | 7,826 |
| Employee Benefits | 1,398,719 | 1,484,703 | (85,984) |
| Savings & Retirement | 849,484 | 889,828 | (40,343) |
| **Total Personnel Expenses** | **9,725,056** | **9,962,219** | **(237,162)** |
| **Meeting Expenses** | | | |
| Meetings | 371,335 | 382,100 | (10,765) |
| Travel | 793,855 | 906,832 | (112,977) |
| Conference Calls | 32,239 | 37,000 | (4,761) |
| **Total Meeting Expenses** | **1,197,429** | **1,325,932** | **(128,503)** |
| **Operating Expenses** | | | |
| Consultants & Contracts | 1,991,400 | 2,027,000 | (35,600) |
| Rent & Improvements | 776,460 | 809,700 | (33,240) |
| Office Costs | 572,514 | 679,100 | (106,586) |
| Professional Services | 1,021,302 | 1,041,000 | (19,698) |
| Miscellaneous | 51,668 | 53,000 | (1,332) |
| Depreciation | 249,175 | 260,000 | (10,825) |
| **Total Operating Expenses** | **4,662,519** | **4,869,800** | **(207,281)** |
| **Indirect Expenses** | - | - | - |
| **Other Non-Operating Expenses** | - | - | - |
| **Total Expenses (B)** | **15,585,004** | **16,157,951** | **(572,946)** |
| **Change in Assets (A - B)** | **(142,846)** | **(733,024)** | **590,177** |
| **Fixed Assets** | | | |
| Depreciation | (249,175) | (260,000) | 10,825 |
| Computer & Software CapEx | 226,985 | 276,000 | (49,015) |
| Furniture & Fixtures CapEx | 1,062 | - | 1,062 |
| Equipment CapEx | 44,158 | - | 44,158 |
| Leasehold Improvements | - | - | - |
| **Incr(Dec) in Fixed Assets** | **23,030** | **16,000** | **7,030** |
| Allocation of Fixed Assets | - | - | - |
| **Total Inc(Dec) in Fixed Assets (C)** | **23,030** | **16,000** | **7,030** |
| **TOTAL BUDGET (B + C)** | **15,608,034** | **16,173,951** | **(565,917)** |
| **Change in Working Capital (A-B-C)** | **(165,876)** | **(749,023)** | **583,147** |
| **FTE's** | **38.54** | **39.00** | **(0.46)** |

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| TOTAL STATUTORY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 14,255,061 | 14,255,061 | - | 0.00% |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | 14,255,061 | 14,255,061 | - | 0.00% |
| | | | | |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 69,729 | 64,000 | 5,729 | |
| Interest | 10,871 | - | 10,871 | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 14,335,661 | 14,319,061 | 16,600 | 0.12% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 6,653,533 | 6,758,926 | (105,393) | -1.56% |
| Payroll Taxes | 411,658 | 404,319 | 7,339 | 1.82% |
| Employee Benefits | 1,354,227 | 1,415,603 | (61,376) | -4.34% |
| Savings & Retirement | 805,601 | 847,224 | (41,622) | -4.91% |
| **Total Personnel Expenses** | 9,225,019 | 9,426,073 | (201,052) | -2.13% |
| **Meeting Expenses** | | | | |
| Meetings | 369,222 | 377,100 | (7,878) | -2.09% |
| Travel | 744,572 | 855,232 | (110,660) | -12.94% |
| Conference Calls | 32,239 | 37,000 | (4,761) | -12.87% |
| **Total Meeting Expenses** | 1,146,033 | 1,269,332 | (123,299) | -9.71% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 1,991,400 | 2,009,000 | (17,600) | -0.88% |
| Rent & Improvements | 776,460 | 809,700 | (33,240) | -4.11% |
| Office Costs | 572,514 | 679,100 | (106,586) | -15.70% |
| Professional Services | 1,021,302 | 1,041,000 | (19,698) | -1.89% |
| Miscellaneous | 50,450 | 50,000 | 450 | 0.90% |
| Depreciation | 238,066 | 250,000 | (11,934) | -4.77% |
| **Total Operating Expenses** | 4,650,192 | 4,838,800 | (188,608) | -3.90% |
| | | | | |
| **Indirect Expenses** | (392,639) | (413,146) | 20,509 | -4.96% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 14,628,605 | 15,121,059 | (492,450) | -3.26% |
| | | | | |
| **Change in Assets (A - B)** | (292,944) | (801,998) | 509,050 | -63.47% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | (238,066) | (250,000) | 11,934 | -4.77% |
| Computer & Software CapEx | 225,641 | 276,000 | (50,359) | -18.25% |
| Furniture & Fixtures CapEx | 1,062 | - | 1,062 | |
| Equipment CapEx | 38,572 | - | 38,572 | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | 27,209 | 26,000 | 1,209 | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | 27,209 | 26,000 | 1,208 | 4.65% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **14,655,814** | **15,147,059** | **(491,242)** | **-3.24%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(320,153)** | **(827,997)** | **507,842** | -61.33% |
| | | | | |
| **FTE's** | **36.40** | **36.86** | **(0.46)** | **-1.24%** |

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| NON-STATUTORY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | - | - | - | |
| | | | | |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | 1,105,867 | 1,105,867 | - | 0.00% |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 631 | - | 631 | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 1,106,498 | 1,105,867 | 631 | 0.06% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 387,874 | 401,142 | (13,268) | -3.31% |
| Payroll Taxes | 23,788 | 23,301 | 487 | 2.09% |
| Employee Benefits | 44,492 | 69,100 | (24,608) | -35.61% |
| Savings & Retirement | 43,883 | 42,605 | 1,278 | 3.00% |
| **Total Personnel Expenses** | 500,037 | 536,147 | (36,110) | -6.74% |
| **Meeting Expenses** | | | | |
| Meetings | 2,113 | 5,000 | (2,887) | -57.74% |
| Travel | 49,283 | 51,600 | (2,317) | -4.49% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 51,396 | 56,600 | (5,204) | -9.19% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | 18,000 | (18,000) | -100.00% |
| Rent & Improvements | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | - | - | |
| Miscellaneous | 1,218 | 3,000 | (1,782) | -59.40% |
| Depreciation | 11,109 | 10,000 | 1,109 | 11.09% |
| **Total Operating Expenses** | 12,327 | 31,000 | (18,673) | -60.24% |
| | | | | |
| **Indirect Expenses** | 392,638 | 413,149 | (20,511) | -4.96% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 956,398 | 1,036,896 | (80,498) | -7.76% |
| | | | | |
| **Change in Assets (A - B)** | 150,100 | 68,971 | 81,129 | 117.63% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | (11,109) | (10,000) | (1,109) | 11.09% |
| Computer & Software CapEx | 1,344 | - | 1,344 | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 5,586 | - | 5,586 | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | (4,179) | (10,000) | 5,821 | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (4,179) | (10,000) | 5,821 | -58.21% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **952,219** | **1,026,896** | **(74,677)** | **-7.27%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **154,279** | **78,971** | **75,308** | 95.36% |
| | | | | |
| **FTE's** | **2.14** | **2.14** | **-** | **0.00%** |

## TOTAL STATUTORY

### Personnel Expenses
In 2017, NPCC started the year at a full complement. Staff was reallocated during the year to continue to meet NPCC's Regional Delegation Agreement (RDA) responsibilities. Two partial year vacancies resulted in lower salary expense and associated incentive compensation expenses. Despite being down one FTE for about five months of the year, NPCC performed all of its 2017 delegated responsibilities as well as exceeding target attainment of its corporate goals and objectives. In the benefits area, medical insurance coverage was waived by approximately 25% of NPCC employees who have superior coverage from a former employer. Additionally, premiums were lower than budgeted which contributed to the year-end underage.

### Meeting Expenses
Travel expenses were under budget as a result of continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective.

### Office Costs
Under budget variance was driven by lower negotiated telephone contracts and the timing of IT related enhancements, which are ongoing, including the implementation of an enterprise content management system.

### Indirect Expenses
Total Administrative Services expenses were under budget for the year, resulting in lower than budgeted allocated indirect expenses to the direct program areas.

### Fixed Assets
Computer & Software capital expenditures were under budget primarily due to timing of CMEP Data Administration Application (CDAA) software development project.

### Compliance Hearings
No funds were budgeted in association with NPCC conducting compliance hearings and no hearings have been initiated to date in NPCC.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| RELIABILITY STANDARDS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 1,022,328 | 1,022,328 | - | 0.00% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | 1,022,328 | 1,022,328 | - | 0.00% |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 1,022,328 | 1,022,328 | - | 0.00% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 369,088 | 370,220 | (1,132) | -0.31% |
| Payroll Taxes | 21,461 | 21,273 | 188 | 0.88% |
| Employee Benefits | 93,206 | 97,411 | (4,205) | -4.32% |
| Savings & Retirement | 30,666 | 43,020 | (12,354) | -28.72% |
| **Total Personnel Expenses** | 514,421 | 531,925 | (17,504) | -3.29% |
| **Meeting Expenses** | | | | |
| Meetings | 2,778 | 13,000 | (10,222) | -78.63% |
| Travel | 89,628 | 103,157 | (13,529) | -13.11% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 92,406 | 116,157 | (23,751) | -20.45% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | 10,000 | (10,000) | -100.00% |
| Rent & Improvements | - | - | - | |
| Office Costs | 366 | - | 366 | |
| Professional Services | - | - | - | |
| Miscellaneous | 281 | - | 281 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 647 | 10,000 | (9,353) | -93.53% |
| **Indirect Expenses** | 354,190 | 372,606 | (18,416) | -4.94% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 961,664 | 1,030,688 | (69,024) | -6.70% |
| **Change in Assets (A - B)** | 60,664 | (8,359) | 69,024 | -825.71% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | (2,999) | (8,359) | 5,360 | -64.12% |
| **Total Inc(Dec) in Fixed Assets (C)** | (2,999) | (8,359) | 5,360 | -64.12% |
| **TOTAL BUDGET (B + C)** | **958,665** | **1,022,329** | **(63,664)** | **-6.23%** |
| **Change in Working Capital (A-B-C)** | **63,664** | **-** | **63,664** | |
| **FTE's** | **1.93** | **1.93** | **-** | **0.00%** |

## RELIABILITY STANDARDS

### Personnel
Savings and Retirement expenses were lower than budgeted due to a lower rate of employee participation than anticipated.

### Meeting Expenses
Continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective and have kept meeting and travel expenses under budget.

### Consultants and Contracts
Increased staff efforts lessened utilization of outside consultants and contractors.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 8,084,046 | 8,084,046 | - | 0.00% |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | 8,084,046 | 8,084,046 | - | 0.00% |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 8,084,046 | 8,084,046 | - | 0.00% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 2,535,235 | 2,749,908 | (214,673) | -7.81% |
| Payroll Taxes | 182,458 | 179,504 | 2,954 | 1.65% |
| Employee Benefits | 476,999 | 519,457 | (42,458) | -8.17% |
| Savings & Retirement | 299,626 | 290,486 | 9,140 | 3.15% |
| **Total Personnel Expenses** | 3,494,318 | 3,739,356 | (245,038) | -6.55% |
| **Meeting Expenses** | | | | |
| Meetings | 18,542 | 23,800 | (5,258) | -22.09% |
| Travel | 270,668 | 329,500 | (58,832) | -17.85% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 289,210 | 353,300 | (64,090) | -18.14% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 1,388,390 | 1,274,000 | 114,390 | 8.98% |
| Rent & Improvements | - | - | - | |
| Office Costs | 1,942 | - | 1,942 | |
| Professional Services | (2,340) | - | (2,340) | |
| Miscellaneous | 11,223 | - | 11,223 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 1,399,215 | 1,274,000 | 125,215 | 9.83% |
| **Indirect Expenses** | 2,871,085 | 3,282,024 | (410,939) | -12.52% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 8,053,828 | 8,648,680 | (594,852) | -6.88% |
| **Change in Assets (A - B)** | 30,218 | (564,634) | 594,852 | -105.35% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | 55,728 | 151,000 | (95,272) | -63.09% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | 55,728 | 151,000 | (95,272) | |
| Allocation of Fixed Assets | (16,378) | (73,631) | 57,253 | -77.76% |
| **Total Inc(Dec) in Fixed Assets (C)** | 39,350 | 77,369 | (38,019) | -49.14% |
| **TOTAL BUDGET (B + C)** | **8,093,178** | **8,726,049** | **(632,872)** | **-7.25%** |
| **Change in Working Capital (A-B-C)** | **(9,132)** | **(642,003)** | **632,872** | -98.58% |
| **FTE's** | **15.83** | **17.00** | **(1.17)** | **-6.86%** |

## COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION

### Total Expenses

Despite the under budget variance in total expenses NPCC's Compliance Operations, Enforcement and Organization Registration program area performed all of its 2017 delegated responsibilities as well as exceeding target attainment of its goals and objectives, including:

- Conducted 30 off-site Operations & Planning (O&P) audits, eight on-site O&P audits, four off-site O&P spot checks, eleven off-site CIP audits, and eleven on-site CIP audits;
- Participated on two MRRE audits as the LRE for 5 entities; observed FERC-led CIP audit of one entity
- Performed 40 Inherent Risk Assessments (IRA);
- Performed 10 Internal Control Evaluations (ICE, 8 O&P, 2 CIP);
- Processed 9 new Technical Feasibility Exception (TFE) submittals from 7 registered entities:, 9 Material Change Reports(MCRs) and 7 TFE Terminations;
- Closed 107 Violations;
- Accepted 4 Mitigation Plans;
- Accepted 188 Mitigation Activities;
- Processed 13 new entity registrations, 14 entity delistings, 2 function deactivations, 2 entity name changes, 4 added functions, 4 DP to DPUF changes and 0 certification reviews.

### Personnel Expenses

Reallocation of staff due to reprioritization resulted in lower than budgeted personnel expenses in this program area. Under budget personnel expenses were offset by over budget consultants and contracts expenses.

### Meeting Expenses

Continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective and have kept meeting and travel expenses under budget. Travel expenses were also lower because of staff reallocation from this program.

### Consultants & Contracts

This over budget variance is primarily due to the utilization of independent contractor support for compliance monitoring activities budgeted to be completed by staff. This overage is offset by underage in Personnel and Travel expenses.

### Indirect Expenses

Indirect expenses were under budget resulting from lower than budgeted total Administrative Services expense and a lower than budgeted allocation of those expenses due to less FTEs in this program for the year.

### Fixed Assets

Computer & Software capital expenditures were under budget primarily due to timing of CMEP Data Administration Application (CDAA) software development project.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 3,206,966 | 3,206,966 | - | 0.00% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | 3,206,966 | 3,206,966 | - | 0.00% |
| | | | | |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 3,206,966 | 3,206,966 | - | 0.00% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 1,054,885 | 1,084,994 | (30,109) | -2.78% |
| Payroll Taxes | 64,806 | 65,373 | (567) | -0.87% |
| Employee Benefits | 254,435 | 214,688 | 39,747 | 18.51% |
| Savings & Retirement | 130,227 | 121,271 | 8,956 | 7.39% |
| **Total Personnel Expenses** | 1,504,353 | 1,486,325 | 18,028 | 1.21% |
| **Meeting Expenses** | | | | |
| Meetings | 17,103 | 20,500 | (3,397) | -16.57% |
| Travel | 196,692 | 186,850 | 9,842 | 5.27% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 213,795 | 207,350 | 6,445 | 3.11% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 491,390 | 413,000 | 78,390 | 18.98% |
| Rent & Improvements | - | - | - | |
| Office Costs | 18,285 | - | 18,285 | |
| Professional Services | - | - | - | |
| Miscellaneous | 2,045 | - | 2,045 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 511,720 | 413,000 | 98,720 | 23.90% |
| | | | | |
| **Indirect Expenses** | 1,069,704 | 1,125,541 | (55,837) | -4.96% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 3,299,572 | 3,232,217 | 67,355 | 2.08% |
| | | | | |
| **Change in Assets (A - B)** | (92,606) | (25,251) | (67,355) | 266.74% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (5,968) | (25,251) | 19,283 | -76.37% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (5,968) | (25,251) | 19,283 | -76.37% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **3,293,604** | **3,206,966** | **86,639** | **2.70%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(86,639)** | **-** | **(86,639)** | |
| | | | | |
| **FTE's** | **5.83** | **5.83** | **-** | **0.00%** |

## RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

### Personnel Expenses
In the benefits area, medical insurance coverage elections varied from those which were budgeted in this program area, resulting in higher expense than budgeted.

### Consultants and Contracts
Reprioritization called for increased utilization of outside consultants and contractors in this program area to assist in the NPCC Event Replication Base Case Development Working Group efforts.

### Office Costs
Un-budgeted office costs are primarily software licenses that were budgeted under Contracts.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| TRAINING, EDUCATION and OPERATOR CERTIFICATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 184,658 | 184,658 | - | 0.00% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | 184,658 | 184,658 | - | 0.00% |
| | | | | |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 69,729 | 64,000 | 5,729 | 8.95% |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 254,387 | 248,658 | 5,729 | 2.30% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 21,517 | 21,012 | 505 | 2.40% |
| Payroll Taxes | 1,116 | 1,396 | (280) | -20.05% |
| Employee Benefits | 4,149 | 4,801 | (652) | -13.58% |
| Savings & Retirement | 2,684 | 2,641 | 43 | 1.63% |
| **Total Personnel Expenses** | 29,466 | 29,850 | (384) | -1.29% |
| **Meeting Expenses** | | | | |
| Meetings | 171,655 | 186,300 | (14,645) | -7.86% |
| Travel | 1,474 | 13,635 | (12,161) | -89.19% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 173,129 | 199,935 | (26,806) | -13.41% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 8 | - | 8 | |
| Professional Services | - | - | - | |
| Miscellaneous | 3,069 | - | 3,069 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 3,077 | - | 3,077 | |
| | | | | |
| **Indirect Expenses** | 18,187 | 19,306 | (1,119) | -5.80% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 223,859 | 249,091 | (25,232) | -10.13% |
| | | | | |
| **Change in Assets (A - B)** | 30,528 | (433) | 30,961 | -7148.32% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (102) | (433) | 331 | -76.37% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (102) | (433) | 331 | -76.37% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **223,757** | **248,658** | **(24,901)** | **-10.01%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **30,630** | **-** | **30,630** | |
| | | | | |
| **FTE's** | **0.10** | **0.10** | **-** | **0.00%** |

## TRAINING, EDUCATION and OPERATOR CERTIFICATION

### Meeting expenses

Continued efforts to limit the number of attendees sent to off-site meetings, and to control meeting costs have kept meeting and travel expenses under budget. Multiple proposals for larger meetings have resulted in more competitive rates and use of certain hotels repetitively has provided customer loyalty discounts.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| SITUATION AWARENESS and INFRASTRUCTURE SECURITY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 1,943,053 | 1,943,053 | - | 0.00% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | 1,943,053 | 1,943,053 | - | 0.00% |
| | | | | |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 1,943,053 | 1,943,053 | - | 0.00% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 732,411 | 660,213 | 72,198 | 10.94% |
| Payroll Taxes | 52,933 | 42,778 | 10,155 | 23.74% |
| Employee Benefits | 150,075 | 160,814 | (10,739) | -6.68% |
| Savings & Retirement | 94,246 | 72,333 | 21,913 | 30.29% |
| **Total Personnel Expenses** | 1,029,665 | 936,137 | 93,528 | 9.99% |
| **Meeting Expenses** | | | | |
| Meetings | 4,706 | 13,500 | (8,794) | -65.14% |
| Travel | 95,979 | 78,500 | 17,479 | 22.27% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 100,685 | 92,000 | 8,685 | 9.44% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 30,000 | 160,000 | (130,000) | -81.25% |
| Rent & Improvements | - | - | - | |
| Office Costs | 7,001 | - | 7,001 | |
| Professional Services | - | - | - | |
| Miscellaneous | 1,376 | - | 1,376 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 38,377 | 160,000 | (121,623) | -76.01% |
| | | | | |
| **Indirect Expenses** | 917,456 | 772,241 | 145,215 | 18.80% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 2,086,183 | 1,960,378 | 125,805 | 6.42% |
| | | | | |
| **Change in Assets (A - B)** | (143,130) | (17,325) | (125,805) | 726.15% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (3,071) | (17,325) | 14,254 | -82.27% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | (3,071) | (17,325) | 14,254 | -82.27% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **2,083,112** | **1,943,053** | **140,059** | **7.21%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(140,059)** | **-** | **(140,059)** | |
| | | | | |
| **FTE's** | **4.71** | **4.00** | **0.71** | **17.71%** |

## SITUATION AWARENESS and INFRASTRUCTURE SECURITY

### Personnel

Reallocation of staff due to reprioritization resulted in higher than budgeted personnel expenses in this program area. Over budget personnel expenses were offset by under budget consultants and contracts expenses.

### Consultants and Contracts

This significant under budget variance is primarily due to increased staff efforts resulting from additional FTE allocation to this program area. The underage was partially offset by overage in personnel expenses.

### Indirect Expenses

Indirect expenses were over budget in this program area resulting from a higher than budgeted allocation percentage due to a greater than budgeted number of FTEs for this year.

**Northeast Power Coordinating Council, Inc.**
**2017 Statement of Activities Summary**

| ADMINISTRATIVE SERVICES | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | (185,991) | (185,991) | - | 0.00% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | (185,991) | (185,991) | - | 0.00% |
| Federal Grants | - | - | - | |
| Non-Statutory Assessments | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 10,871 | - | 10,871 | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | (175,120) | (185,991) | 10,871 | -5.84% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 1,940,397 | 1,872,579 | 67,818 | 3.62% |
| Payroll Taxes | 88,884 | 93,995 | (5,111) | -5.44% |
| Employee Benefits | 375,363 | 418,433 | (43,070) | -10.29% |
| Savings & Retirement | 248,152 | 317,471 | (69,319) | -21.83% |
| **Total Personnel Expenses** | 2,652,796 | 2,702,478 | (49,682) | -1.84% |
| **Meeting Expenses** | | | | |
| Meetings | 154,438 | 120,000 | 34,438 | 28.70% |
| Travel | 90,131 | 143,590 | (53,459) | -37.23% |
| Conference Calls | 32,239 | 37,000 | (4,761) | -12.87% |
| **Total Meeting Expenses** | 276,808 | 300,590 | (23,782) | -7.91% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 81,620 | 152,000 | (70,380) | -46.30% |
| Rent & Improvements | 776,460 | 809,700 | (33,240) | -4.11% |
| Office Costs | 544,912 | 679,100 | (134,188) | -19.76% |
| Professional Services | 1,023,642 | 1,041,000 | (17,358) | -1.67% |
| Miscellaneous | 32,456 | 50,000 | (17,544) | -35.09% |
| Depreciation | 238,066 | 250,000 | (11,934) | -4.77% |
| **Total Operating Expenses** | 2,697,156 | 2,981,800 | (284,644) | -9.55% |
| **Indirect Expenses** | (5,623,261) | (5,984,868) | 361,607 | -6.04% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 3,500 | - | 3,500 | |
| **Change in Assets (A - B)** | (178,620) | (185,991) | 7,371 | -3.96% |
| **Fixed Assets** | | | | |
| Depreciation | (238,066) | (250,000) | 11,934 | -4.77% |
| Computer & Software CapEx | 169,913 | 125,000 | 44,913 | 35.93% |
| Furniture & Fixtures CapEx | 1,062 | - | 1,062 | |
| Equipment CapEx | 38,572 | - | 38,572 | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | (28,519) | (125,000) | 96,481 | |
| Allocation of Fixed Assets | 28,519 | 125,000 | (96,481) | -77.18% |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| **TOTAL BUDGET (B + C)** | **3,500** | **-** | **3,500** | |
| **Change in Working Capital (A-B-C)** | **(178,620)** | **(185,991)** | **7,371** | -3.96% |
| **FTE's** | **8.00** | **8.00** | **-** | **0.00%** |

## ADMINISTRATIVE SERVICES

### Interest Income

Interest income, while not budgeted, was allocated by FTE ratio between statutory and non-statutory.

### Personnel

Salaries over budget variance was related to MDCC recommended and Board approved adjustments to variable incentives, based on the findings of a third party total remuneration study. Under budget Benefits expense was driven by lower than budgeted medical coverage premiums. Savings & Retirement under budget variance was related to changes in participation levels.

### Meeting Expenses

Continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective, have kept travel expenses under budget and resulted in an overage in meetings expense.

### Consultants and Contracts

Regional Entity Management Group related contract was terminated subsequent to the finalization of the 2017 budget resulting in an under budget variance.

### Office Costs

Under budget variance was driven by lower negotiated telephone contracts and the timing of IT related enhancements, which are ongoing, including the implementation of an enterprise content management system.

### Miscellaneous

Underage primarily driven by recording various expenses and fees directly to program areas. NPCC total miscellaneous expenses were within 3% or $2,000 of budget.

### Fixed Assets

Computer & Software capital expenditures were over budget due to timing of the implementation of an enterprise content management system. The implementation and roll out of this project will continue into 2018 and the total project cost is projected to be within budget. Unbudgeted equipment capital expenditure was to for an upgraded office telephone system with lower maintenance costs.

**NPCC**
**Penalty Sanctions**

| Date Invoiced | Date Received | Entity Name | Amount | Year to Recognize for Business Plan & Budget | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 12/14/2009 | 12/17/2009 | | $ 10,000.00 | $ 10,000.00 | | | | | | | | |
| 12/14/2009 | 12/17/2009 | | 10,000.00 | 10,000.00 | | | | | | | | |
| 12/14/2009 | 12/17/2009 | | 10,000.00 | 10,000.00 | | | | | | | | |
| 12/14/2009 | 12/17/2009 | | 10,000.00 | 10,000.00 | | | | | | | | |
| 3/8/2010 | 3/19/2010 | | 250,000.00 | 250,000.00 | | | | | | | | |
| 4/12/2010 | 4/20/2010 | | 5,000.00 | 5,000.00 | | | | | | | | |
| 6/1/2010 | 6/9/2010 | | 13,500.00 | 13,500.00 | | | | | | | | |
| 8/9/2010 | 8/26/2010 | | 40,000.00 | | 40,000.00 | | | | | | | |
| 11/1/2010 | 11/30/2010 | | 5,000.00 | | 5,000.00 | | | | | | | |
| 12/9/2010 | 12/21/2010 | | 450,000.00 | | 450,000.00 | | | | | | | |
| 12/9/2010 | 12/21/2010 | | 7,500.00 | | 7,500.00 | | | | | | | |
| | | Subtotal - 2010 | **$ 811,000.00** | | | | | | | | | |
| 3/28/2011 | 4/7/2011 | | $ 30,000.00 | | 30,000.00 | | | | | | | |
| 3/28/2011 | 4/12/2011 | | 10,000.00 | | 10,000.00 | | | | | | | |
| 4/7/2011 | 4/21/2011 | | 2,500.00 | | 2,500.00 | | | | | | | |
| 4/7/2011 | 4/15/2011 | | 5,000.00 | | 5,000.00 | | | | | | | |
| 4/7/2011 | 4/18/2011 | | 7,500.00 | | 7,500.00 | | | | | | | |
| 5/17/2011 | 5/26/2011 | | 2,500.00 | | 2,500.00 | | | | | | | |
| 5/17/2011 | 5/31/2011 | | 35,000.00 | | 35,000.00 | | | | | | | |
| 6/14/2011 | 6/20/2011 | | 4,000.00 | | 4,000.00 | | | | | | | |
| 6/2/2011 | 6/10/2011 | | 2,500.00 | | 2,500.00 | | | | | | | |
| 6/2/2011 | 6/13/2011 | | 2,500.00 | | 2,500.00 | | | | | | | |
| 6/2/2011 | 6/30/2011 | | 7,500.00 | | 7,500.00 | | | | | | | |
| 6/2/2011 | 6/30/2011 | | 2,500.00 | | 2,500.00 | | | | | | | |
| 6/27/2011 | 7/13/2011 | | 15,000.00 | | | 15,000.00 | | | | | | |
| 7/27/2011 | 8/10/2011 | | 3,500.00 | | | 3,500.00 | | | | | | |
| 7/27/2011 | 8/10/2011 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 7/27/2011 | 8/10/2011 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 7/27/2011 | 9/6/2011 | | 15,000.00 | | | 15,000.00 | | | | | | |
| 8/18/2011 | 9/13/2011 | | 80,000.00 | | | 80,000.00 | | | | | | |
| 9/6/2011 | 9/23/2011 | | 2,500.00 | | | 2,500.00 | | | | | | |
| 9/9/2011 | 9/19/2011 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 9/6/2011 | 9/23/2011 | | 50,000.00 | | | 50,000.00 | | | | | | |
| 9/14/2011 | 9/26/2011 | | 4,000.00 | | | 4,000.00 | | | | | | |
| 9/9/2011 | 9/30/2011 | | 7,500.00 | | | 7,500.00 | | | | | | |
| 9/6/2011 | 10/3/2011 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 10/4/2011 | 10/12/2011 | | 6,000.00 | | | 6,000.00 | | | | | | |
| 10/4/2011 | 10/14/2011 | | 3,500.00 | | | 3,500.00 | | | | | | |
| 10/4/2011 | 10/17/2011 | | 5,000.00 | | | 5,000.00 | | | | | | |
| | | Subtotal - 2011 | **$ 323,500.00** | | | | | | | | | |
| 2/22/2012 | 3/8/2012 | | $ 15,000.00 | | | 15,000.00 | | | | | | |
| 2/22/2012 | 3/8/2012 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 2/23/2012 | 3/12/2012 | | 17,500.00 | | | 17,500.00 | | | | | | |
| 2/22/2012 | 3/21/2012 | | 25,000.00 | | | 25,000.00 | | | | | | |
| 4/3/2012 | 5/1/2012 | | 5,000.00 | | | 5,000.00 | | | | | | |
| 4/2/2012 | 5/1/2012 | | 3,800.00 | | | 3,800.00 | | | | | | |
| 4/3/2012 | 5/2/2012 | | 4,000.00 | | | 4,000.00 | | | | | | |
| 5/10/2012 | 6/5/2012 | | 10,000.00 | | | 10,000.00 | | | | | | |
| 6/22/2012 | 7/3/2012 | | 8,000.00 | | | | 8,000.00 | | | | | |
| 6/22/2012 | 7/18/2012 | | 25,000.00 | | | | 25,000.00 | | | | | |
| 9/5/2012 | 10/2/2012 | | 15,000.00 | | | | 15,000.00 | | | | | |
| 12/4/2012 | 1/3/2013 | | 30,000.00 | | | | 30,000.00 | | | | | |
| 12/18/2012 | 1/10/2013 | | 40,000.00 | | | | 40,000.00 | | | | | |
| | | Subtotal - 2012 | **$ 203,300.00** | | | | | | | | | |
| 4/30/2013 | 5/30/2013 | | 6,000.00 | | | | 6,000.00 | | | | | |
| 4/30/2013 | 5/30/2013 | | 5,000.00 | | | | 5,000.00 | | | | | |
| 4/30/2013 | 5/30/2013 | | 6,000.00 | | | | 6,000.00 | | | | | |
| 4/30/2013 | 5/30/2013 | | 6,000.00 | | | | 6,000.00 | | | | | |
| 4/30/2013 | 5/30/2013 | | 6,000.00 | | | | 6,000.00 | | | | | |
| 4/30/2013 | 5/30/2013 | | 6,000.00 | | | | 6,000.00 | | | | | |
| 6/6/2013 | 7/5/2013 | | 50,000.00 | | | | | 50,000.00 | | | | |
| 6/6/2013 | 7/5/2013 | | 10,000.00 | | | | | 10,000.00 | | | | |
| 6/6/2013 | 7/5/2013 | | 30,000.00 | | | | | 30,000.00 | | | | |
| 6/6/2013 | 7/5/2013 | | 25,000.00 | | | | | 25,000.00 | | | | |
| 8/5/2013 | 9/4/2013 | | 7,000.00 | | | | | 7,000.00 | | | | |
| 10/3/2013 | 10/16/2013 | | 25,000.00 | | | | | 25,000.00 | | | | |
| 10/31/2013 | 11/1/2013 | | 5,000.00 | | | | | 5,000.00 | | | | |
| 1/2/2014 | 1/8/2014 | | 25,000.00 | | | | | 25,000.00 | | | | |
| | | Subtotal - 2013 | **$ 212,000.00** | | | | | | | | | |
| 3/4/2014 | 3/6/2014 | | 14,000.00 | | | | | 14,000.00 | | | | |
| 4/3/2014 | 4/30/2014 | | 90,000.00 | | | | | 90,000.00 | | | | |
| 6/5/2014 | 6/18/2014 | | 9,500.00 | | | | | 9,500.00 | | | | |
| 11/6/2014 | 11/14/2014 | | 5,000.00 | | | | | | 5,000.00 | | | |
| 11/6/2014 | 11/24/2014 | | 20,000.00 | | | | | | 20,000.00 | | | |
| 11/6/2014 | 11/20/2014 | | 12,000.00 | | | | | | 12,000.00 | | | |
| 11/6/2014 | 12/1/2014 | | 20,000.00 | | | | | | 20,000.00 | | | |
| | | Subtotal - 2014 | **$ 170,500.00** | | | | | | | | | |
| 2/20/2015 | 3/5/2015 | | $ 10,000.00 | | | | | | $ 10,000.00 | | | |
| | | Subtotal - 2015 | **$ 10,000.00** | | | | | | | | | |
| 12/12/2016 | 12/16/2016 | | $ 75,000.00 | | | | | | | | $ 75,000.00 | |
| | | Subtotal - 2016 | **$ 75,000.00** | | | | | | | | | |
| | | | $ - | | | | | | | | | $ - |
| | | Subtotal - 2017 | $ - | | | | | | | | | |
| | | | **$ 1,805,300.00** | **$ 308,500.00** | **$ 614,000.00** | **$ 297,300.00** | **$ 153,000.00** | **$ 290,500.00** | **$ 67,000.00** | **$ -** | **$ 75,000.00** | **$ -** |

| **2017 Penalties Reconciliation** | **12/31/2017** | **12/31/2016** | **Change in 2017** |
|---|---|---|---|
| Total Cumulative Penalties - GAAP/PWC Audit | $ 1,805,300.00 | $ 1,805,300.00 | $ - |
| Total Cumulative Penalties - True Up Report/BP&B | 1,730,300.00 | 1,730,300.00 | - |
| **NERC Unrecognized Penalties[1]** | **$ 75,000.00** | **$ 75,000.00** | **$ -** |

[1] NPCC's audited financial statements include penalties recorded as earned revenue at the time of invoicing, in accordance with GAAP. NPCC's true up report includes only those penalties included in the approved budget for the calendar year, resulting in the difference detailed above.

# Northeast Power Coordinating Council, Inc.

**Financial Statements**
**December 31, 2017 and 2016**

# Northeast Power Coordinating Council, Inc.
## Index
## December 31, 2017 and 2016

pwc

## 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

*PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017*
*T: (646) 471 3000, F: (813) 286 6000,* www.pwc.com/us

# 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.

# <u>ATTACHMENT 5</u>

# 2017 ACTUAL COST-TO-BUDGET COMPARISON

# AND

# 2017 AUDITED FINANCIAL REPORT

# FOR

# RELIABILITYFIRST CORPORATION

RELIABILITY FIRST

Jill Lewton
Controller
3 Summit Park, Suite 600
Cleveland Drive, OH 44131
Office: 216.503.0600
Jill.lewton@rfirst.org

May 4, 2018

Mr. Scott Jones
North American Electric Reliability Corporation
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

**ReliabilityFirst's 2017 Actual Cost-To-Budget Comparison**

Dear Mr. Scott Jones:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year 2017 Actual Cost-To-Budget Comparison. A summary of significant variances are explained in the Introduction Section, while more detailed explanations of variances are provided by program area.

For more information, please contact me at 216.503.0600 or jill.lewton@rfirst.org.

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Jill Lewton*

Jill Lewton
Controller

## Introduction

This Actual Cost-To-Budget Comparison includes a summary of significant variances, followed by more detailed analyses by program area. In 2017, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the ERO. The financial information included in this comparison is based on the results of ReliabilityFirst's 2017 independent audit that was performed by RSM US LLP and completed on March 22, 2018. For the year ending December 31, 2017, ReliabilityFirst Corporation was $109K (.55%) over budget.

## Cost Allocation

ReliabilityFirst records all direct costs to the appropriate program areas. Costs related to the Administrative Services programs (Indirect Expenses) are allocated proportionately based on FTE count to the direct programs.

- Direct Programs include:
  - Reliability Standards
  - Reliability Assurance and Compliance Monitoring
  - Enforcement Management
  - Reliability Assessment and Performance Analysis
  - Training and Education
  - Situation Awareness and Infrastructure Security
- Administrative Services Programs include:
  - General and Administrative
  - Legal and Regulatory Affairs
  - Information Technology
  - Human Resources
  - Finance and Accounting

## Funding

The variance in Investment Income was due to the change in the market value of the company's investment portfolio, which was not budgeted. This variance is reflected in each direct program as a result of it being allocated proportionately based on FTE count to the direct programs.

The variance in Miscellaneous Income was mainly due to the redemption of the corporate credit card rewards as cash, which was not budgeted. This variance is reflected in each direct program as a result of it being allocated proportionately based on FTE count to the direct programs.

## Budget Expenses

### Personnel Expenses

Salaries was over budget due to various staff promotions that were made, organization changes that occurred, and the utilization of college interns for various legal and data analytics projects, none of which were budgeted.

Employee Benefits was under budget as a result of variances in Training, Medical Benefits, and Workers Compensation Insurance. Training was under budget as a result of employees not taking advantage of training opportunities. Medical Benefits was under budget due to budgeting for a mid-year rate increase, which did not occur. Workers Compensation Insurance was under budget due to employer premium refund adjustments received, which were not expected. These amounts were offset by a variance in Relocation Expense. Relocation Expense was over budget due to relocating an employee to the corporate office, which was not budgeted.

Retirement Costs was under budget mainly due to employees not taking full advantage of the company plan benefits.

### Meeting Expenses

Travel was under budget due to travel activity being less than anticipated.

### Operating Expenses

Contracts & Consultants was under budget as a result of less than expected contract support for the compliance monitoring, and risk and mitigation activities, the costs associated with the development of a web-hosted database application for the MMWG/ERAG being less than expected, the postponement of a social engineering assessment, and the discontinuation of the project management support for the Regional Entity Management Group. These variances were offset by the costs associated with the additional work for the financial internal controls assessment and the support costs to implement a budget software tool.

Office Costs was under budget as a result of experiencing less upgrades than anticipated for the compliance portal, and the postponement and reevaluation of various IT purchases that were budgeted. As a result, the funds budgeted for these purchases were used to help offset the costs of the corporate websites, which is discussed within the Fixed Assets section below. In addition, the annual support and maintenance fees for the new budgeting software tool were expected to begin in 2017, however, the fees did not begin until 2018.

Professional Services was under budget due to not needing to conduct a search for a new independent director.

Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the prior year fixed asset purchases being over budget, there was more depreciation expense recorded this year than budgeted.

### Fixed Assets

Computer Hardware & Software was over budget due to the costs associated with the redesign and development of the corporate internal and public websites, which were not budgeted.

Leasehold Improvements was over budget due to the additional costs incurred to upgrade the women’s restroom.

### Allocation of Fixed Assets

Allocation of Fixed Assets are fixed asset costs related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs.

## Cash Reserves

### Working Capital Reserve

ReliabilityFirst Working Capital Reserve of $2,399,357 was established in 2017 to provide the capability to stabilize future years’ assessments.

### Operating Reserve

ReliabilityFirst’s Operating Reserve of $1,000,000, which is designated each year with the intention of providing for unbudgeted and unexpected expenditures, was not utilized in 2017.

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**ReliabilityFirst Corporation**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 19,560,881 | $ 19,560,881 | $ - | 0.00% |
| Penalty Sanctions | 659,000 | 659,000 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 20,219,881** | **$ 20,219,881** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 66,900 | - | 66,900 | 0.00% |
| Miscellaneous | 2,236 | - | 2,236 | 0.00% |
| **Total Funding** | **$ 20,289,017** | **$ 20,219,881** | **$ 69,136** | **0.34%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 12,361,870 | $ 11,895,778 | $ 466,092 | 3.92% |
| Payroll Taxes | 723,961 | 705,869 | 18,092 | 2.56% |
| Employee Benefits | 1,688,041 | 1,805,733 | (117,692) | -6.52% |
| Retirement Costs | 1,907,166 | 1,949,239 | (42,073) | -2.16% |
| **Total Personnel Expenses** | **$ 16,681,038** | **$ 16,356,619** | **$ 324,419** | **1.98%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 255,548 | $ 243,490 | $ 12,058 | 4.95% |
| Travel | 556,369 | 765,950 | (209,581) | -27.36% |
| Conference Calls | 48,293 | 49,200 | (907) | -1.84% |
| **Total Meeting Expenses** | **$ 860,210** | **$ 1,058,640** | **$ (198,430)** | **-18.74%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ 290,367 | $ 431,312 | $ (140,945) | -32.68% |
| Office Rent | 510,433 | 520,177 | (9,744) | -1.87% |
| Office Costs | 669,970 | 759,164 | (89,194) | -11.75% |
| Professional Services | 405,541 | 471,105 | (65,564) | -13.92% |
| Miscellaneous | 44,222 | 42,422 | 1,800 | 4.24% |
| Depreciation | 412,306 | 356,502 | 55,804 | 15.65% |
| **Total Operating Expenses** | **$ 2,332,839** | **$ 2,580,682** | **$ (247,843)** | **-9.60%** |
| **Total Direct Expenses** | **$ 19,874,087** | **$ 19,995,941** | **$ (121,854)** | **-0.61%** |
| **Indirect Expenses** | **$ -** | **$ -** | **$ -** | **0.00%** |
| **Non-Operating Expenses** | - | - | - | 0.00% |
| **Total Expenses** | **$ 19,874,087** | **$ 19,995,941** | **$ (121,854)** | **-0.61%** |
| **Change in Assets** | **$ 414,930** | **$ 223,940** | **$ 190,990** | **85.29%** |
| **Fixed Assets** | | | | |
| Depreciation | $ (412,306) | $ (356,502) | $ (55,804) | 15.65% |
| Computer Hardware & Software CapEx | 491,800 | 219,500 | 272,300 | 124.05% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | 63,903 | 50,000 | 13,903 | 27.81% |
| | $ 143,397 | $ (87,002) | $ 230,399 | -264.82% |
| Allocation of Fixed Assets | - | - | $ - | 0.00% |
| **Inc/(Dec) in Fixed Assets** | **$ 143,397** | **$ (87,002)** | **$ 230,399** | **-264.82%** |
| **Total Budget** | **$ 20,017,484** | **$ 19,908,939** | **$ 108,545** | **0.55%** |
| **Total Change in Working Capital** | **$ 271,533** | **$ 310,942** | **$ (39,409)** | **-12.67%** |
| WC - 12/31/2016 | 1,282,492 | (152,868) | 1,435,360 | |
| Less: Adjustment for future liabilities | (1,056,429) | - | (1,056,429) | |
| Available Working Capital | 226,063 | (152,868) | 378,931 | |
| Change in reserves from current year operations | 271,533 | 310,942 | (39,409) | |
| Other Adjustments to Reserves | (137,324) | (158,074) | 20,750 | |
| **Total Working Capital** | **360,272** | **(0)** | **360,272** | |
| Working Capital Reserve | 2,399,357 | 2,399,357 | - | |
| Operating Reserve | 1,000,000 | 1,000,000 | - | |
| **Total Working Capital and Operating Reserve** | **3,759,629** | **3,399,357** | **360,272** | |
| **FTEs** | **73.86** | **72.30** | **1.56** | **2.16%** |

## Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Created a 2018-2022 Strategic Plan that is risk based and reflects a mature, forward looking organization
- Honored in the Cleveland Plain Dealer as a top Ohio workplace
- Identified high-priority risks within the ReliabilityFirst region (Regional Risk Elements), along with a list of associated Reliability Standards and Requirements that help to mitigate these risks
- Matured the Regional Risk Assessment program by refining the risk analysis techniques, and conducting targeted outreach activities on the Risk Elements
- Performed 73 Inherent Risk Assessments (IRAs), and completed IRAs for approximately 60% of the entities in the ReliabilityFirst footprint
- Trained three entities on ReliabilityFirst's Risk Harm Assessment Methodology and Process
- Completed analysis of 62 open events that occurred in 2014-2016 and completed analysis of 73 new events that occurred in 2017
- Experienced no Category 2 or higher events within the regional footprint, for the second consecutive year
- Conducted summer and winter seasonal assessments, transmission reliability assessments, and a long-term resource assessment
- Performed 45 Operations & Planning Audits and ten CIP audits, all of which were specifically scoped and tailored around the identified Risk Elements
- Conducted 36 assist visits, including an assist visit for an entity outside of the ReliabilityFirst footprint
- Held Spring and Fall Reliability and CIP Workshops, which included sessions on common themes in CIP compliance program deficiencies, protection system failures (misoperations), situational awareness and monitoring, supply chain management, human performance, and numerous other topics beneficial to industry stakeholders
- Hosted a Substation Protection Workshop for Field Personnel that focused on understanding and mitigating Protection System Failures (Misoperations)
- Conducted on-site generation plant visits, reviewed records related to the entity's winterization plan implementation, and conducted a walk-through of selected areas of their facilities that may be exposed to extreme weather conditions

For more information on these major accomplishments see ReliabilityFirst's 2017 Annual Report.

## Explanation of Variances - Reliability Standards

The resources and expenses associated with the Reliability Standards Program are included in the Reliability Assurance and Compliance Monitoring Program as a result of decreased activity in the Standards Program and the need to deploy resources to advance the Reliability Assurance Program.

# Reliability Assurance and Compliance Monitoring

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**Reliability Assurance and Compliance Monitoring**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 12,821,050 | $ 12,821,050 | $ - | 0.00% |
| Penalty Sanctions | 417,595 | 417,595 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 13,238,645** | **$ 13,238,645** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 39,973 | - | 39,973 | 0.00% |
| Miscellaneous | 1,336 | - | 1,336 | 0.00% |
| **Total Funding** | **$ 13,279,955** | **$ 13,238,645** | **$ 41,310** | **0.31%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 6,059,826 | $ 6,303,495 | $ (243,669) | -3.87% |
| Payroll Taxes | 372,659 | 374,528 | (1,869) | -0.50% |
| Employee Benefits | 792,678 | 950,873 | (158,195) | -16.64% |
| Retirement Costs | 887,881 | 987,840 | (99,959) | -10.12% |
| **Total Personnel Expenses** | **$ 8,113,044** | **$ 8,616,736** | **$ (503,692)** | **-5.85%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 14,265 | $ 18,250 | $ (3,985) | -21.84% |
| Travel | 301,256 | 513,000 | (211,744) | -41.28% |
| Conference Calls | - | - | - | 0.00% |
| **Total Meeting Expenses** | **$ 315,521** | **$ 531,250** | **$ (215,729)** | **-40.61%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ 81,172 | $ 152,400 | $ (71,228) | -46.74% |
| Office Rent | - | - | - | 0.00% |
| Office Costs | 260,905 | 297,899 | (36,994) | -12.42% |
| Professional Services | - | - | - | 0.00% |
| Miscellaneous | - | 4,100 | (4,100) | -100.00% |
| Depreciation | 47,771 | 24,144 | 23,627 | 97.86% |
| **Total Operating Expenses** | **$ 389,848** | **$ 478,543** | **$ (88,695)** | **-18.53%** |
| **Total Direct Expenses** | **$ 8,818,413** | **$ 9,626,529** | **$ (808,116)** | **-8.39%** |
| **Indirect Expenses** | **$ 3,548,922** | **$ 3,685,529** | **$ (136,607)** | **-3.71%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ 12,367,335** | **$ 13,312,058** | **$ (944,723)** | **-7.10%** |
| **Change in Assets** | **$ 912,620** | **$ (73,413)** | **$ 986,033** | **-1343.13%** |
| **Fixed Assets** | | | | |
| Depreciation | (47,771) | (24,144) | (23,627) | 97.86% |
| Computer Hardware & Software CapEx | 9,072 | - | 9,072 | 0.00% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | - | - | - | 0.00% |
| | (38,699) | (24,144) | (14,555) | 60.28% |
| Allocation of Fixed Assets | $ 113,993 | $ (49,269) | $ 163,262 | -331.37% |
| **Inc/(Dec) in Fixed Assets** | **$ 75,294** | **$ (73,413)** | **$ 148,707** | **-202.56%** |
| **Total Budget** | **$ 12,442,629** | **$ 13,238,645** | **$ (796,016)** | **-6.01%** |
| **Total Change in Working Capital** | **$ 837,326** | **$ -** | **$ 837,326** | **0.00%** |
| **FTEs** | **35.05** | **36.50** | **(1.45)** | **-3.97%** |

## Explanation of Variances – Reliability Assurance and Compliance Monitoring

### Personnel Expenses

Employee Benefits was under budget as a result of variances in Medical Benefits and Training. Medical Benefits was under budget primarily due to the reallocation of two employees to the Situation Awareness and Infrastructure Security program. (Three employees were actually reallocated to the Situation Awareness and Infrastructure Security program. However, one employee was reallocated to the Reliability Assurance and Compliance Monitoring program from the Information Technology program resulting in a net change of two employees.) Training was under budget due to employees not taking advantage of training opportunities.

Retirement Costs was under budget due to the reallocation of the two employees to the Situation Awareness and Infrastructure Security program and a miscalculation in the budget amounts.

### Meeting Expenses

Travel was under budget due to travel activity being less than anticipated, along with the reallocation of the two employees to the Situation Awareness and Infrastructure Security program.

### Operating Expenses

Contracts and Consultants was under budget as a result of more effective utilization of staff resources, resulting in less need to utilize contractors for compliance monitoring, and risk and mitigation activities.

Office Costs was under budget primarily due to variances in Computer Service & Maintenance and Telephone Expense. Computer Service & Maintenance was under budget as a result of experiencing less upgrades than anticipated for the compliance portal. In addition, telephone expense was under budget as a result of changing the company's wireless plan in the first quarter.

Miscellaneous expense was under budget due to not performing employee wellness activities within the program.

Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the prior year fixed asset purchases being over budget, there was more depreciation expense recorded this year than budgeted.

### Fixed Assets

Computer Hardware and Software was over budget due to an upgrade for the compliance audit management software. The upgrade for the software was budgeted as an expense, however, due to the cost of the upgrade, it was capitalized instead of expensed.

# Enforcement Management

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**Enforcement Management**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 2,088,764 | $ 2,088,764 | $ - | 0.00% |
| Penalty Sanctions | 94,388 | 94,388 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 2,183,152** | **$ 2,183,152** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 9,705 | - | 9,705 | 0.00% |
| Miscellaneous | 324 | - | 324 | 0.00% |
| **Total Funding** | **$ 2,193,182** | **$ 2,183,152** | **$ 10,030** | **0.46%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 1,058,906 | $ 962,026 | $ 96,880 | 10.07% |
| Payroll Taxes | 70,590 | 69,066 | 1,524 | 2.21% |
| Employee Benefits | 143,551 | 147,725 | (4,174) | -2.83% |
| Retirement Costs | 145,698 | 153,346 | (7,648) | -4.99% |
| **Total Personnel Expenses** | **$ 1,418,745** | **$ 1,332,163** | **$ 86,582** | **6.50%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 1,132 | $ 1,500 | $ (368) | -24.53% |
| Travel | 23,262 | 17,000 | 6,262 | 36.84% |
| Conference Calls | - | - | - | 0.00% |
| **Total Meeting Expenses** | **$ 24,394** | **$ 18,500** | **$ 5,894** | **31.86%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ 6,000 | $ - | $ 6,000 | 0.00% |
| Office Rent | - | - | - | 0.00% |
| Office Costs | 8,666 | 9,694 | (1,028) | -10.60% |
| Professional Services | 827 | - | 827 | 0.00% |
| Miscellaneous | - | 900 | (900) | -100.00% |
| Depreciation | - | - | - | 0.00% |
| **Total Operating Expenses** | **$ 15,493** | **$ 10,594** | **$ 4,899** | **46.24%** |
| **Total Direct Expenses** | **$ 1,458,632** | **$ 1,361,257** | **$ 97,375** | **7.15%** |
| **Indirect Expenses** | **$ 861,664** | **$ 833,031** | **$ 28,633** | **3.44%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ 2,320,296** | **$ 2,194,288** | **$ 126,008** | **5.74%** |
| **Change in Assets** | **$ (127,114)** | **$ (11,136)** | **$ (115,978)** | **1041.47%** |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | 0.00% |
| Computer Hardware & Software CapEx | - | - | - | 0.00% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | - | - | - | 0.00% |
| | - | - | - | 0.00% |
| Allocation of Fixed Assets | $ 27,677 | $ (11,136) | $ 38,813 | -348.54% |
| **Inc/(Dec) in Fixed Assets** | **$ 27,677** | **$ (11,136)** | **$ 38,813** | **-348.54%** |
| **Total Budget** | **$ 2,347,973** | **$ 2,183,152** | **$ 164,821** | **7.55%** |
| **Total Change in Working Capital** | **$ (154,791)** | **$ -** | **$ (154,791)** | **0.00%** |
| **FTEs** | **8.51** | **8.25** | **0.26** | **3.15%** |

## Explanation of Variances – Enforcement Management

### Personnel Expenses

Salaries was over budget due to the additional compensation required to retain experienced and qualified staff. In addition, interns were hired, which were not budgeted, throughout the year to assist with violation processing by reviewing Mitigation Plan verification documents, drafting violation dispositions, and writing various reports, such as the CIP Themes Report.

Employee Benefits was under budget as a result of variances in Training and Medical Benefits. Training was under budget due to employees not taking advantage of training opportunities. Medical Benefits was under budget due to budgeting for a mid-year rate increase, which did not occur.

Retirement Costs was under budget due to employees not taking full advantage of the company plan benefits.

### Operating Expenses

The variance in Contracts and Consultants was due to the executive coaching services that occurred, but were not budgeted.

Professional Services was over budget due to unanticipated legal fees related to enforcement and case management support.

# Reliability Assessment and Performance Analysis

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**Reliability Assessment and Performance Analysis**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 2,829,661 | $ 2,829,661 | $ - | 0.00% |
| Penalty Sanctions | 95,532 | 95,532 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 2,925,193** | **$ 2,925,193** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 9,523 | - | 9,523 | 0.00% |
| Miscellaneous | 318 | - | 318 | 0.00% |
| **Total Funding** | **$ 2,935,034** | **$ 2,925,193** | **$ 9,841** | **0.34%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 1,310,390 | $ 1,358,695 | $ (48,305) | -3.56% |
| Payroll Taxes | 81,719 | 83,237 | (1,518) | -1.82% |
| Employee Benefits | 144,021 | 153,895 | (9,874) | -6.42% |
| Retirement Costs | 209,001 | 216,410 | (7,409) | -3.42% |
| **Total Personnel Expenses** | **$ 1,745,131** | **$ 1,812,237** | **$ (67,106)** | **-3.70%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 4,926 | $ 18,500 | $ (13,574) | -73.37% |
| Travel | 100,417 | 110,000 | (9,583) | -8.71% |
| Conference Calls | - | - | - | 0.00% |
| **Total Meeting Expenses** | **$ 105,343** | **$ 128,500** | **$ (23,157)** | **-18.02%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ 87,896 | $ 110,012 | $ (22,116) | -20.10% |
| Office Rent | - | - | - | 0.00% |
| Office Costs | 40,976 | 42,487 | (1,511) | -3.56% |
| Professional Services | - | - | - | 0.00% |
| Miscellaneous | - | 100 | (100) | -100.00% |
| Depreciation | 3,452 | 2,377 | 1,075 | 45.23% |
| **Total Operating Expenses** | **$ 132,324** | **$ 154,976** | **$ (22,652)** | **-14.62%** |
| **Total Direct Expenses** | **$ 1,982,798** | **$ 2,095,713** | **$ (112,915)** | **-5.39%** |
| **Indirect Expenses** | **$ 845,464** | **$ 843,128** | **$ 2,336** | **0.28%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ 2,828,262** | **$ 2,938,841** | **$ (110,579)** | **-3.76%** |
| **Change in Assets** | **$ 106,773** | **$ (13,648)** | **$ 120,421** | **-882.33%** |
| **Fixed Assets** | | | | |
| Depreciation | (3,452) | (2,377) | (1,075) | 45.23% |
| Computer Hardware & Software CapEx | - | - | - | 0.00% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | - | - | - | 0.00% |
| | (3,452) | (2,377) | (1,075) | 45.23% |
| Allocation of Fixed Assets | $ 27,157 | $ (11,271) | $ 38,428 | -340.94% |
| **Inc/(Dec) in Fixed Assets** | **$ 23,705** | **$ (13,648)** | **$ 37,353** | **-273.69%** |
| **Total Budget** | **$ 2,851,966** | **$ 2,925,193** | **$ (73,227)** | **-2.50%** |
| **Total Change in Working Capital** | **$ 83,068** | **$ -** | **$ 83,068** | **0.00%** |
| **FTEs** | **8.35** | **8.35** | **0.00** | **0.00%** |

## Explanation of Variances - Reliability Assessment and Performance Analysis

### Personnel Expenses

Personnel Expenses was under budget due to a miscalculation in the budget amounts.

### Meeting Expenses

Meetings was under budget due to subcommittee meetings not occurring and the costs of meetings being lower than budget.

### Operating Expenses

Contracts and Consultants was under budget due to the costs associated with the development of a web-hosted database application for the MMWG/ERAG being less than expected.

# Training and Education

| Statement of Activities, Fixed Assets and Change in Working Capital<br>January 1, 2017 - December 31, 2017<br>Training and Education | | | | |
|---|---|---|---|---|
| | **2017 Actual** | **2017 Budget** | **2017 Variance Over/(Under)** | **% Variance** |
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 940,686 | $ 940,686 | $ - | 0.00% |
| Penalty Sanctions | 34,323 | 34,323 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 975,009** | **$ 975,009** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 3,421 | - | 3,421 | 0.00% |
| Miscellaneous | 114 | - | 114 | 0.00% |
| **Total Funding** | **$ 978,545** | **$ 975,009** | **$ 3,536** | **0.36%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 397,635 | $ 390,401 | $ 7,234 | 1.85% |
| Payroll Taxes | 27,929 | 27,841 | 88 | 0.32% |
| Employee Benefits | 49,052 | 58,311 | (9,259) | -15.88% |
| Retirement Costs | 62,549 | 62,184 | 365 | 0.59% |
| **Total Personnel Expenses** | **$ 537,165** | **$ 538,737** | **$ (1,572)** | **-0.29%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 146,488 | $ 135,000 | $ 11,488 | 8.51% |
| Travel | - | - | - | 0.00% |
| Conference Calls | - | - | - | 0.00% |
| **Total Meeting Expenses** | **$ 146,488** | **$ 135,000** | **$ 11,488** | **8.51%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ - | $ - | $ - | 0.00% |
| Office Rent | - | - | - | 0.00% |
| Office Costs | - | 2,400 | (2,400) | -100.00% |
| Professional Services | - | - | - | 0.00% |
| Miscellaneous | - | - | - | 0.00% |
| Depreciation | - | - | - | 0.00% |
| **Total Operating Expenses** | **$ -** | **$ 2,400** | **$ (2,400)** | **-100.00%** |
| **Total Direct Expenses** | **$ 683,653** | **$ 676,137** | **$ 7,516** | **1.11%** |
| **Indirect Expenses** | **$ 303,759** | **$ 302,920** | **$ 839** | **0.28%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ 987,412** | **$ 979,057** | **$ 8,355** | **0.85%** |
| **Change in Assets** | **$ (8,868)** | **$ (4,048)** | **$ (4,820)** | **119.06%** |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | 0.00% |
| Computer Hardware & Software CapEx | - | - | - | 0.00% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | - | - | - | 0.00% |
| | - | - | - | 0.00% |
| Allocation of Fixed Assets | $ 9,757 | $ (4,048) | $ 13,805 | -341.03% |
| **Inc/(Dec) in Fixed Assets** | **$ 9,757** | **$ (4,048)** | **$ 13,805** | **-341.03%** |
| **Total Budget** | **$ 997,169** | **$ 975,009** | **$ 22,160** | **2.27%** |
| **Total Change in Working Capital** | **$ (18,624)** | **$ -** | **$ (18,624)** | **0.00%** |
| **FTEs** | **3.00** | **3.00** | **0.00** | **0.00%** |

## Explanation of Variances – Training and Education

### Personnel Expenses

Employee Benefits was under budget as a result of a variance in Medical Benefits. Medical Benefits was under budget due to budgeting for a mid-year rate increase, which did not occur.

### Operating Expenses

Office Costs was under budget due to not utilizing a live polling solution to interact with the attendees during the Reliability Workshops, as anticipated.

# Situation Awareness and Infrastructure Security

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**Situation Awareness and Infrastructure Security**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 569,779 | $ 569,779 | | 0.00% |
| Penalty Sanctions | 17,161 | 17,161 | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 586,940** | **$ 586,940** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | 4,277 | - | 4,277 | 0.00% |
| Miscellaneous | 143 | - | 143 | 0.00% |
| **Total Funding** | **$ 591,360** | **$ 586,940** | **$ 4,420** | **0.75%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 739,356 | $ 257,959 | $ 481,397 | 186.62% |
| Payroll Taxes | 36,254 | 15,693 | 20,561 | 131.02% |
| Employee Benefits | 61,062 | 32,936 | 28,126 | 85.40% |
| Retirement Costs | 101,575 | 41,174 | 60,401 | 146.70% |
| **Total Personnel Expenses** | **$ 938,247** | **$ 347,762** | **$ 590,485** | **169.80%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 1,981 | $ 1,000 | $ 981 | 98.10% |
| Travel | 42,083 | 35,000 | 7,083 | 20.24% |
| Conference Calls | - | - | - | 0.00% |
| **Total Meeting Expenses** | **$ 44,064** | **$ 36,000** | **$ 8,064** | **22.40%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ - | $ 25,000 | $ (25,000) | -100.00% |
| Office Rent | - | - | - | 0.00% |
| Office Costs | 3,540 | 3,743 | (203) | -5.42% |
| Professional Services | - | - | - | 0.00% |
| Miscellaneous | - | - | - | 0.00% |
| Depreciation | 5,232 | 7,732 | (2,500) | -32.33% |
| **Total Operating Expenses** | **$ 8,772** | **$ 36,475** | **$ (27,703)** | **-75.95%** |
| **Total Direct Expenses** | **$ 991,083** | **$ 420,237** | **$ 570,846** | **135.84%** |
| **Indirect Expenses** | **$ 379,699** | **$ 151,460** | **$ 228,239** | **150.69%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ 1,370,782** | **$ 571,697** | **$ 799,085** | **139.77%** |
| **Change in Assets** | **$ (779,422)** | **$ 15,243** | **$ (794,665)** | **-5213.31%** |
| **Fixed Assets** | | | | |
| Depreciation | (5,232) | (7,732) | 2,500 | -32.33% |
| Computer Hardware & Software CapEx | - | 25,000 | (25,000) | -100.00% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | - | - | - | 0.00% |
| | (5,232) | 17,268 | (22,500) | -130.30% |
| Allocation of Fixed Assets | $ 12,196 | $ (2,025) | $ 14,221 | -702.28% |
| **Inc/(Dec) in Fixed Assets** | **$ 6,964** | **$ 15,243** | **$ (8,279)** | **-54.31%** |
| **Total Budget** | **$ 1,377,746** | **$ 586,940** | **$ 790,806** | **134.73%** |
| **Total Change in Working Capital** | **$ (786,387)** | **$ -** | **$ (786,387)** | **0.00%** |
| **FTEs** | **3.75** | **1.50** | **2.25** | **150.00%** |

## Explanation of Variances - Situation Awareness and Infrastructure Security

### Personnel Expenses

Personnel expenses were over budget due the reallocation of three FTEs from the Reliability Assurance and Compliance Monitoring Department.

### Operating Expenses

Contracts and Consultants was under budget due to the postponement of a Social Engineering Assessment.

### Fixed Assets

Computer Hardware and Software was under budget due to a management decision not to purchase an analysis tool that would be used to quantify threats, after the researcher developing the software changed the specs of the tool.

# Administrative Services

**Statement of Activities, Fixed Assets and Change in Working Capital**
**January 1, 2017 - December 31, 2017**
**Administrative Services**

| | 2017 Actual | 2017 Budget | 2017 Variance Over/(Under) | % Variance |
|---|---|---|---|---|
| **Funding** | | | | |
| **Reliability*First* Funding** | | | | |
| ERO Assessments | $ 310,941 | $ 310,941 | $ - | 0.00% |
| Penalty Sanctions | - | - | - | 0.00% |
| **Total Reliability*First* Funding** | **$ 310,941** | **$ 310,941** | **$ -** | **0.00%** |
| Membership Dues | $ - | $ - | $ - | 0.00% |
| Federal Grants | - | - | - | 0.00% |
| Services & Software | - | - | - | 0.00% |
| Workshops | - | - | - | 0.00% |
| Investment | - | - | - | 0.00% |
| Miscellaneous | - | - | - | 0.00% |
| **Total Funding** | **$ 310,941** | **$ 310,941** | **$ -** | **0.00%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 2,795,757 | $ 2,623,202 | $ 172,555 | 6.58% |
| Payroll Taxes | 134,810 | 135,504 | (694) | -0.51% |
| Employee Benefits | 497,677 | 461,993 | 35,684 | 7.72% |
| Retirement Costs | 500,462 | 488,285 | 12,177 | 2.49% |
| **Total Personnel Expenses** | **$ 3,928,706** | **$ 3,708,984** | **$ 219,722** | **5.92%** |
| **Meeting Expenses** | | | | |
| Meetings | $ 86,756 | $ 69,240 | $ 17,516 | 25.30% |
| Travel | 89,351 | 90,950 | (1,599) | -1.76% |
| Conference Calls | 48,293 | 49,200 | (907) | -1.84% |
| **Total Meeting Expenses** | **$ 224,400** | **$ 209,390** | **$ 15,010** | **7.17%** |
| **Operating Expenses** | | | | |
| Contracts & Consultants | $ 115,299 | $ 143,900 | $ (28,601) | -19.88% |
| Office Rent | 510,433 | 520,177 | (9,744) | -1.87% |
| Office Costs | 355,883 | 402,941 | (47,058) | -11.68% |
| Professional Services | 404,714 | 471,105 | (66,391) | -14.09% |
| Miscellaneous | 44,222 | 37,322 | 6,900 | 18.49% |
| Depreciation | 355,851 | 322,249 | 33,602 | 10.43% |
| **Total Operating Expenses** | **$ 1,786,402** | **$ 1,897,694** | **$ (111,292)** | **-5.86%** |
| **Total Direct Expenses** | **$ 5,939,508** | **$ 5,816,068** | **$ 123,440** | **2.12%** |
| **Indirect Expenses** | **$ (5,939,508)** | **$ (5,816,068)** | **$ (123,440)** | **2.12%** |
| **Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | 0.00% |
| **Total Expenses** | **$ -** | **$ -** | **$ -** | **0.00%** |
| **Change in Assets** | **$ 310,941** | **$ 310,941** | **$ -** | **0.00%** |
| **Fixed Assets** | | | | |
| Depreciation | (355,851) | (322,249) | (33,602) | 10.43% |
| Computer Hardware & Software | 482,728 | 194,500 | 288,228 | 148.19% |
| Furniture & Fixtures CapEx | - | - | - | 0.00% |
| Equipment CapEx | - | - | - | 0.00% |
| Leasehold Improvements | 63,903 | 50,000 | 13,903 | 27.81% |
| | 190,780 | (77,749) | 268,529 | -345.38% |
| Allocation of Fixed Assets | $ (190,780) | $ 77,749 | $ (268,529) | -345.38% |
| **Inc/(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | **0.00%** |
| **Total Budget** | **$ -** | **$ -** | **$ -** | **0.00%** |
| **Total Change in Working Capital** | **$ 310,941** | **$ 310,941** | **$ -** | **0.00%** |
| **FTEs** | **15.20** | **14.70** | **0.50** | **3.40%** |

## Explanation of Variances – Administrative Services

### Personnel Expenses

Payroll Taxes was under budget due to the actual FUI tax rate being lower than the budgeted rate.

### Meeting Expenses

Meetings was over budget due to the increase in meetings held, along with multiple unplanned team building and training activities for the management team. Additionally, the costs associated with the annual week of training where higher than expected.

### Operating Expense

Contracts and Consultants was under budget due to the discontinuation of the project management support for the Regional Entity Management group. This variance is partially offset by the costs associated with the additional work for the financial internal controls assessment and the implementation costs for the new budgeting software, neither of which were budgeted.

Office Costs was under budget as a result of the postponement and reevaluation of various IT purchases that were budgeted. As a result, the funds budgeted for these purchases were used to help offset the costs of the corporate websites, which is discussed within the Fixed Assets section below. In addition, the annual support and maintenance fees for the new budgeting software tool were expected to begin in 2017, however, they did not begin until 2018.

Professional Services was under budget due to not needing to conduct a search for a new independent director.

Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the prior year fixed asset purchases being over budget, there was more depreciation expense recorded this year than budgeted.

### Fixed Assets

Computer Hardware & Software was over budget due to the costs associated with the redesign and development of the corporate internal and external websites that were not budgeted.

The variance in Leasehold Improvements was due to the additional costs incurred to upgrade the women’s restroom.

# ReliabilityFirst Corporation

Financial Report
December 31, 2017

## Contents

RSM US LLP

**Independent Auditor's Report**

To the Finance and Audit Committee
ReliabilityFirst Corporation
Cleveland, Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of ReliabilityFirst Corporation which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 these 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 reasonable 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 ReliabilityFirst Corporation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, schedule of expenses, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
March 22, 2018

**ReliabilityFirst Corporation**

**Statements of Financial Position**
**December 31, 2017 and 2016**

| | **2017** | 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | **$ 4,395,479** | $ 4,161,404 |
| Investments | **6,631,848** | 6,564,948 |
| Accounts receivable | **97,738** | 230,573 |
| Prepaid expenses | **248,059** | 212,464 |
| **Total current assets** | **11,373,124** | 11,169,389 |
| Fixed assets: | | |
| Furniture and equipment | **363,276** | 363,276 |
| Leasehold improvements | **1,963,511** | 1,899,608 |
| Computer software and hardware | **3,108,319** | 2,656,535 |
| | **5,435,106** | 4,919,419 |
| Less accumulated depreciation and amortization | **2,984,589** | 2,591,549 |
| | **2,450,517** | 2,327,870 |
| **Total assets** | **$ 13,823,641** | $ 13,497,259 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable | **$ 291,726** | $ 117,975 |
| Accrued expenses (current portion) | **4,448,433** | 3,786,897 |
| Deferred rent (current portion) | **177,857** | 171,304 |
| **Total current liabilities** | **4,918,016** | 4,076,176 |
| Long-term liabilities: | | |
| Deferred revenue | **350,000** | 350,000 |
| Accrued expenses (net of current portion) | **98,618** | 448,279 |
| Deferred rent (net of current portion) | **1,870,710** | 2,054,717 |
| | **2,319,328** | 2,852,996 |
| **Total liabilities** | **7,237,344** | 6,929,172 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | **1,011,780** | 2,350,955 |
| Operating reserve fund | **1,000,000** | 1,000,000 |
| Working capital reserve fund | **2,399,357** | 645,255 |
| Temporarily restricted | **2,175,160** | 2,571,877 |
| **Total net assets** | **6,586,297** | 6,568,087 |
| **Total liabilities and net assets** | **$ 13,823,641** | $ 13,497,259 |

See notes to financial statements.

**ReliabilityFirst Corporation**

**Statements of Activities**
**Years Ended December 31, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| Unrestricted net assets: | | |
| Revenues: | | |
| Quarterly assessments | **$ 19,560,881** | $ 19,367,209 |
| Investment income | **66,900** | 17,322 |
| Penalty sanctions released from restriction | **659,000** | 748,250 |
| Miscellaneous | **2,236** | 27,076 |
| | **20,289,017** | 20,159,857 |
| Expenses: | | |
| Program: | | |
| Reliability Assurance and Compliance Monitoring | **8,818,413** | 8,898,554 |
| Enforcement | **1,458,632** | 1,361,514 |
| Assessment | **1,982,798** | 1,920,041 |
| Training and Education | **683,653** | 663,101 |
| Situational Awareness | **991,083** | 207,440 |
| Total program expenses | **13,934,579** | 13,050,650 |
| General: | | |
| General and administrative | **2,460,914** | 2,518,179 |
| Legal and regulatory | **849,161** | 670,764 |
| Information technology | **1,319,024** | 1,260,123 |
| Human resources | **997,061** | 879,773 |
| Finance | **313,351** | 307,006 |
| Total general expenses | **5,939,511** | 5,635,845 |
| Total expenses | **19,874,090** | 18,686,495 |
| **Increase in unrestricted net assets** | **414,927** | 1,473,362 |
| Temporarily restricted net assets: | | |
| Penalty sanctions | **262,283** | 2,119,877 |
| Penalty sanctions released from restriction | **(659,000)** | (748,250) |
| **(Decrease) increase in temporarily restricted net assets** | **(396,717)** | 1,371,627 |
| **Increase in total net assets** | **18,210** | 2,844,989 |
| Net assets at beginning of year | **6,568,087** | 3,723,098 |
| Net assets at end of year | **$ 6,586,297** | $ 6,568,087 |

See notes to financial statements.

**ReliabilityFirst Corporation**

**Statements of Cash Flows**
**Years Ended December 31, 2017 and 2016**

| | **2017** | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 18,210** | $ 2,844,989 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **412,306** | 375,232 |
| Loss on disposal of fixed assets | **20,750** | 67 |
| Unrealized loss on investments | **135,516** | 134,317 |
| Realized loss (gain) on investments | **1,435** | (43) |
| Changes in assets and liabilities: | | |
| Accounts receivable | **132,835** | (191,825) |
| Prepaid expenses | **(35,595)** | (73,412) |
| Accounts payable | **51,768** | (30,905) |
| Accrued expenses | **286,834** | 349,827 |
| Deferred rent | **(177,454)** | (144,680) |
| **Net cash provided by operating activities** | **846,605** | 3,263,567 |
| Cash flows from investing activities: | | |
| Purchase of investments | **(2,798,227)** | (4,775,643) |
| Sale of investments | **2,594,376** | 1,749,517 |
| Purchases of fixed assets | **(408,679)** | (294,777) |
| **Net cash used in investing activities** | **(612,530)** | (3,320,903) |
| **Net increase (decrease) in cash** | **234,075** | (57,336) |
| Cash at beginning of year | **4,161,404** | 4,218,740 |
| Cash at end of year | **$ 4,395,479** | $ 4,161,404 |
| Supplemental disclosure of noncash investing activities: | | |
| Accrued acquisition of fixed assets | **$ 147,024** | $ - |

See notes to financial statements.

## Note 1. Organization and Significant Accounting Policies

**Organization**: ReliabilityFirst Corporation (the Corporation) is a not-for-profit corporation whose mission is to preserve and enhance bulk power system reliability and security for the interconnected electric systems within its territory. The Corporation was approved by the North American Electric Reliability Corporation (NERC) to become one of eight Regional Entities of NERC. The Corporation conducts its activities from leased offices in Independence, Ohio.

The Corporation receives its quarterly assessments from NERC. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Corporation's operations.

The following is a summary of the Corporation's significant accounting policies which conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

**Use of estimates**: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition**: The Corporation currently derives its revenues primarily from quarterly assessments. Revenues from such assessments are recognized as unrestricted revenues at the time services are performed and the cost of these services is recognized when incurred.

Penalty sanctions are recognized after the entire appeals process has been exhausted and a Federal Electric Regulatory Commission (FERC) order has been issued and is non-appealable. Penalty sanctions received on or prior to June 30 of each year shall be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty sanctions received after June 30 of each year shall be applied as a general offset to budget requirements for the next subsequent fiscal year.

**Cash**: The Corporation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk.

**Receivables**: Accounts receivable are carried at actual billed amounts relating to penalty sanctions and subcontractor receivables. Receivables relate to assessments that have been billed but not yet collected.

Receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of doubtful accounts and historical collection experience. Receivables are written off when deemed uncollectible. Management has determined that no allowance for doubtful accounts is necessary at December 31, 2017 and 2016.

**Investments**: Investments are carried at fair value. The fair values of marketable debt securities are based on quoted market prices. Realized investment gains and losses represent the difference between the proceeds on sales of investments and their carrying value. Investment income includes interest, dividends, and both realized and unrealized gains and losses. All realized and unrealized gains and losses on investments are reported as increases or decreases, respectively, to unrestricted net assets.

The Corporation invests in U.S. treasury obligations, U.S. government agency securities and corporate bonds. Corporate bonds are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

## Note 1. Organization and Significant Accounting Policies (Continued)

**Fixed assets**: Fixed assets are stated at cost. It is management's policy to capitalize those assets with a cost over $1,000. However, computer software and hardware purchases have a capitalization threshold of $3,000, due to the nature of their short useful life. Depreciation is computed on the straight-line method over the estimated useful lives (generally 3 to 7 years) of the depreciable assets. Amortization for the leasehold improvements is computed on the lesser of the useful life or the lease term.

**Accrued expenses**: Accrued expenses consist primarily of salaries and related payroll expenses incurred in the current fiscal year but not paid until after year-end.

**Deferred revenue**: Amounts received by the Corporation prior to when the revenue is earned are recorded as deferred revenue.

**Income taxes**: The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

In accordance with the accounting standard on accounting for uncertainty in income taxes, the Corporation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Corporation and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the periods covered by these financial statements.

The Corporation currently files the form 990 in the U.S. federal jurisdiction. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2014.

The Corporation also files the charitable registration annual report in the State of Ohio.

**Net assets**: Of the unrestricted net asset balance, $1,000,000 has been designated by the Board of Directors for the Corporation's operating reserve fund at December 31, 2017 and 2016. The operating reserve is designated each year with the intention of providing for unbudgeted and unexpected expenditures. An additional $2,399,357 and $645,255, of the unrestricted net asset balance, has been designated by the Board of Directors for the Corporation's working capital reserve fund at December 31, 2017 and 2016, respectively. The working capital reserve fund was established in 2016 in an effort to enhance day to day cash flow management of expenditures and provide capabilities to stabilize future assessments.

Temporarily restricted net assets result from the receipt of penalty sanctions which are restricted based on timing conditions as described in the Corporation's revenue recognition policy. Penalty monies are governed by a restriction by NERC as to when the funds can be used. Temporarily restricted net assets at December 31, 2017 and 2016, were $2,175,160 and $2,571,877, respectively.

## Note 1. Organization and Significant Accounting Policies (Continued)

**Recent accounting pronouncements**: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP. The updated standard is effective for the Corporation in 2020; early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Corporation in 2021; early adoption is permitted.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the Corporation in 2019; early adoption is allowed.

The Corporation is currently evaluating the impact of the adoption of these standards on its financial statements.

**Subsequent events**: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were available to be issued.

## Note 2. Investments and Fair Value Measurements

The Corporation maintains an investment portfolio which consists of U.S. Treasury obligations, U.S. Government agency securities and corporate bonds.

As described in Note 1, the Corporation records its investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

- Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Note 2. Investments and Fair Value Measurements (Continued)**

- Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs would be classified as Level 3.

The Corporation assesses the levels at each measurement date, and transfers between levels are recognized on the date of the actual event or change in the circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. For the years ended December 31, 2017 and 2016, there were no such transfers.

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2017 and 2016:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Government securities | $ 1,438,288 | $ - | $ - | $ 1,438,288 |
| U.S. Treasury obligations | 350,961 | - | - | 350,961 |
| Corporate bonds | - | 4,288,247 | - | 4,288,247 |
| | $ 1,789,249 | $ 4,288,247 | $ - | 6,077,496 |
| Cash and cash equivalents | | | | 554,352 |
| | | | | $ 6,631,848 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Government securities | $ 1,256,253 | $ - | $ - | $ 1,256,253 |
| U.S. Treasury obligations | 307,238 | - | - | 307,238 |
| Corporate bonds | - | 4,641,727 | - | 4,641,727 |
| | $ 1,563,491 | $ 4,641,727 | $ - | 6,205,218 |
| Cash and cash equivalents | | | | 359,730 |
| | | | | $ 6,564,948 |

### Note 2. Investments and Fair Value Measurements (Continued)

The composition of investment income is as follows at December 31:

| | 2017 | 2016 |
|---|---|---|
| Interest/dividends, net | $ 203,851 | $ 151,596 |
| Realized (loss) gain | (1,435) | 43 |
| Unrealized loss | (135,516) | (134,317) |
| | $ 66,900 | $ 17,322 |

### Note 3. Line of Credit

The Corporation has a $1,000,000 line of credit with an expiration date of July 1, 2018. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 3.50 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2017 or 2016. As there were no drawdowns made, no corresponding interest was paid in 2017 and 2016. The Corporation intends to renew the line when it becomes due on July 1, 2018.

### Note 4. Operating Leases

The Corporation leases its office and data center from unrelated third parties. The leases expire in February 2027 and February 2019, respectively. Rental expense for operating leases amounted to $492,019 and $501,319 for the years ended December 31, 2017 and 2016, respectively. Rent expense in 2017 and 2016 includes $177,454 and $156,961, respectively, in accelerated straight-line amortization of a previous deferred rent liability due to the early termination of a previous lease and a tenant improvement allowance. The deferred rent liability was $2,048,567 and $2,226,021 as of December 31, 2017 and 2016, respectively.

The future minimum lease payments relating to the office lease and data center are as follows:

| | |
|---|---|
| 2018 | $ 680,667 |
| 2019 | 637,460 |
| 2020 | 637,775 |
| 2021 | 648,968 |
| 2022 | 660,162 |
| Thereafter | 2,870,385 |
| | $ 6,135,417 |

## Note 5. Employee Retirement Plan

The Corporation has a salary deferral plan under Section 401(k) of the Internal Revenue Code. All employees are eligible for a 100 percent match of their first 6 percent of voluntary salary deferral savings and the 3 percent Safe Harbor provision of the plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the plan (7 percent in 2017 and 2016). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2017 and 2016. The Corporation's contributions to the plan for 2017 and 2016 were approximately $1,907,000 and $1,722,000, respectively.

## Note 6. Grant from City of Independence, Ohio

In connection with the Corporation's office move in a previous year, the City of Independence (City) awarded a $350,000 grant to the Corporation. The grant agreement provides for the Corporation to meet minimum annual payroll tax requirements as well as a requirement that the Corporation will maintain its principal place of business within the City for a period of not less than 12 years. ReliabilityFirst moved its principal place of business into the City in 2014. If the 12 year requirement is not met by the Corporation, the full $350,000 will be required to be returned to the City upon default. The Corporation has received the $350,000 and has recorded it in deferred revenue due to the requirements of the grant not being met as of December 31, 2017.

**ReliabilityFirst Corporation**

**Schedule of Expenses**
**Year Ended December 31, 2017**

| | Reliability Assurance and Compliance Monitoring | Enforcement | Assessment | Training and Education | Situational Awareness | General and Administrative | Legal and Regulatory | Information Technology | Human Resources | Finance | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expenses: | | | | | | | | | | | |
| Salaries | $ 6,059,826 | $ 1,058,906 | $ 1,310,390 | $ 397,635 | $ 739,356 | $ 1,160,383 | $ 592,002 | $ 520,371 | $ 352,352 | $ 170,655 | $ 12,361,876 |
| Payroll taxes | 372,659 | 70,590 | 81,719 | 27,929 | 36,254 | 31,539 | 28,509 | 38,283 | 23,562 | 12,917 | 723,961 |
| Employee benefits | 792,678 | 143,551 | 144,021 | 49,052 | 61,062 | 74,246 | 75,651 | 108,802 | 213,264 | 25,714 | 1,688,041 |
| Savings and retirement | 887,881 | 145,698 | 209,001 | 62,549 | 101,575 | 147,493 | 83,218 | 82,550 | 161,328 | 25,873 | 1,907,166 |
| Total personnel expenses | 8,113,044 | 1,418,745 | 1,745,131 | 537,165 | 938,247 | 1,413,661 | 779,380 | 750,006 | 750,506 | 235,159 | 16,681,044 |
| Meeting expenses: | | | | | | | | | | | |
| Meetings | 14,265 | 1,132 | 4,926 | 146,488 | 1,981 | 54,061 | 2,342 | 1,731 | 28,484 | 138 | 255,548 |
| Travel | 301,256 | 23,262 | 100,417 | - | 42,083 | 41,014 | 27,317 | 13,346 | 5,152 | 2,522 | 556,369 |
| Conference calls | - | - | - | - | - | - | - | 48,293 | - | - | 48,293 |
| Total meeting expenses | 315,521 | 24,394 | 105,343 | 146,488 | 44,064 | 95,075 | 29,659 | 63,370 | 33,636 | 2,660 | 860,210 |
| Operating expenses: | | | | | | | | | | | |
| Rent and improvements | - | - | - | - | - | 455,943 | - | 54,490 | - | - | 510,433 |
| Contracts | 81,172 | 6,000 | 87,896 | - | - | 1,248 | 8,497 | 16,213 | 72,165 | 17,176 | 290,367 |
| Office costs | 47,721 | 8,666 | 8,976 | - | 3,342 | 32,526 | 14,744 | 72,895 | 2,301 | 1,356 | 192,527 |
| Professional services | - | 827 | - | - | - | 239,785 | 16,857 | - | 102,699 | 45,373 | 405,541 |
| Computer purchase and maintenance | 213,184 | - | 32,000 | - | 198 | 34,031 | - | 172,330 | 9,840 | 11,627 | 473,210 |
| Furniture | - | - | - | - | - | 4,230 | - | - | - | - | 4,230 |
| Miscellaneous | - | - | - | - | - | 15,211 | 24 | 3,073 | 25,914 | - | 44,222 |
| Depreciation and amortization | 47,771 | - | 3,452 | - | 5,232 | 169,204 | - | 186,647 | - | - | 412,306 |
| Total operating expenses | 389,848 | 15,493 | 132,324 | - | 8,772 | 952,178 | 40,122 | 505,648 | 212,919 | 75,532 | 2,332,836 |
| Total | $ 8,818,413 | $ 1,458,632 | $ 1,982,798 | $ 683,653 | $ 991,083 | $ 2,460,914 | $ 849,161 | $ 1,319,024 | $ 997,061 | $ 313,351 | $ 19,874,090 |

**ReliabilityFirst Corporation**

**Schedule of Expenses**
**Year Ended December 31, 2016**

| | Reliability Assurance and Compliance Monitoring | Enforcement | Assessment | Training and Education | Situational Awareness | General and Administrative | Legal and Regulatory | Information Technology | Human Resources | Finance | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expenses: | | | | | | | | | | | |
| Salaries | $ 6,004,301 | $ 994,691 | $ 1,282,192 | $ 381,249 | $ 111,896 | $ 1,147,322 | $ 483,705 | $ 540,772 | $ 270,753 | $ 155,623 | $ 11,372,504 |
| Payroll taxes | 353,617 | 69,125 | 77,793 | 27,077 | 5,449 | 37,452 | 23,625 | 38,793 | 18,930 | 11,784 | 663,645 |
| Employee benefits | 746,168 | 127,801 | 135,394 | 49,980 | 14,769 | 69,083 | 32,727 | 99,380 | 241,951 | 23,190 | 1,540,443 |
| Savings and retirement | 868,368 | 136,121 | 200,224 | 60,679 | 15,284 | 143,690 | 70,358 | 82,322 | 121,095 | 23,984 | 1,722,125 |
| Total personnel expenses | 7,972,454 | 1,327,738 | 1,695,603 | 518,985 | 147,398 | 1,397,547 | 610,415 | 761,267 | 652,729 | 214,581 | 15,298,717 |
| Meeting expenses: | | | | | | | | | | | |
| Meetings | 19,122 | 2,391 | 8,693 | 143,530 | 1,752 | 62,163 | 2,292 | 1,593 | 22,317 | 153 | 264,006 |
| Travel | 426,220 | 19,522 | 89,444 | 586 | 17,744 | 30,652 | 34,735 | 12,557 | 3,257 | 2,328 | 637,045 |
| Conference calls | - | - | - | - | - | - | - | 47,802 | - | - | 47,802 |
| Total meeting expenses | 445,342 | 21,913 | 98,137 | 144,116 | 19,496 | 92,815 | 37,027 | 61,952 | 25,574 | 2,481 | 948,853 |
| Operating expenses: | | | | | | | | | | | |
| Rent and improvements | - | - | - | - | - | 454,633 | - | 63,789 | - | - | 518,422 |
| Contracts | 194,048 | 4,000 | 84,109 | - | 32,593 | 60,577 | 4,497 | 2,798 | 78,897 | 23,230 | 484,749 |
| Office costs | 59,203 | 7,824 | 9,417 | - | 1,799 | 38,591 | 15,742 | 61,027 | 3,797 | 2,800 | 200,200 |
| Professional services | - | - | - | - | - | 225,746 | 3,118 | - | 98,478 | 47,098 | 374,440 |
| Computer purchase and maintenance | 201,433 | 39 | 29,252 | - | - | 33,816 | - | 136,986 | 4,667 | 16,816 | 423,009 |
| Furniture | 600 | - | - | - | - | 18,914 | - | - | - | - | 19,514 |
| Miscellaneous | 407 | - | 71 | - | 709 | 23,457 | (35) | 3,249 | 15,434 | - | 43,292 |
| Depreciation and amortization | 25,067 | - | 3,452 | - | 5,445 | 172,083 | - | 168,988 | 197 | - | 375,232 |
| Loss on disposal of assets | - | - | - | - | - | - | - | 67 | - | - | 67 |
| Total operating expenses | 480,758 | 11,863 | 126,301 | - | 40,546 | 1,027,817 | 23,322 | 436,904 | 201,470 | 89,944 | 2,438,925 |
| Total | $ 8,898,554 | $ 1,361,514 | $ 1,920,041 | $ 663,101 | $ 207,440 | $ 2,518,179 | $ 670,764 | $ 1,260,123 | $ 879,773 | $ 307,006 | $ 18,686,495 |

# ATTACHMENT 6

# 2017 ACTUAL COST-TO-BUDGET COMPARISON

# AND

# 2017 AUDITED FINANCIAL REPORT

# FOR

# SERC RELIABILITY CORPORATION

SERC Reliability Corporation
3701 Arco Corporate Drive, Suite 300
Charlotte, NC 28273
704.357.7372 | Fax 704.357.7914 | www.serc1.org

May 1, 2018

Scott Jones
Chief Financial and Administrative Officer
North American Electric Reliability Corporation

**SERC 2017 Budget vs. Actual Variance Analysis**

Enclosed is SERC's response to your request for information on variances between the 2017 SERC budget and year-end financials.

Overall, funding fell short of budget by $294,417 and SERC under spent its 2017 total budget of $17,482,403 by $685,946. The net impact was a $391,529 favorable variance on SERC's cash position vs. budget for the year.

During 2017, SERC conducted 19 audits covering 24 entities. 10 audits were Operations and Planning (O&P) only audits. Six audits were Critical Infrastructure Protection (CIP) only audits. Three of the audits were combined O&P and CIP Audits. There was also 4 additional O&P and CIP MRRE audits in which SERC was an Affected Regional Entity (ARE). SERC conducted 7 O&P Spot Checks and 1 CIP Spot Check. SERC conducted 34 CIP-related Guided Self-Certifications and 17 O&P-related Guided Self-Certifications

SERC received 357 new potential violations and processed 207 issues to closure. Of these 207 issues, 22 were dismissed. In addition, SERC completed all budgeted reliability assessments for the year.

The most significant variances are explained below:

- Miscellaneous funding was under budget due to the discontinuation of the Regional Entity Management Group (REMG), resulting in a loss of revenue from billing to other participating regions for shared expenses.

- Workshop Fees - SERC hosted most meetings in house or at a member facilities, resulting in savings in costs, and therefore an offsetting decrease in revenue allowing SERC to charge a reduced attendance fee, from when the budget was developed. In addition, the reduced scope of work for the 2017 Restoration Drill resulted in lower than expected workshop attendance.
- During 2017, total personnel costs were lower than budget primarily due to higher than expected vacancies. Overall SERC was 14.41 FTEs less than budget.
- Decreased travel needs for the Compliance group, together with the discontinuation of REMG group resulted in lower travel expense, partially offset by higher meeting expenses.

- Office costs variance to budget driven by IT related spending on hardware and software, a portion of which was budgeted Contracts/Consultants.
- SERC incurred additional costs for candidate search services related to filling key executive positions, causing an over run in Professional Fees.
- Miscellaneous expense included an unbudgeted balance sheet adjustment.
- Depreciation exceeded budget which did not consider depreciation for current year fixed asset purchases.
- Fixed Asset purchases exceed budget primarily due to a data center relocation and conference room sound system upgrades.

SERC has no non-statutory activity, and therefore no statutory funding was used for non-statutory activities.

SERC allocates indirect or administrative expenses and capital expenditures to the statutory programs based upon the ratio of FTEs in those program areas to total statutory program FTEs. The variances associated with this allocation are the result of the differences in the actual versus budgeted ratio of FTEs and the actual versus budgeted spend in the administrative cost centers.

SERC performs the Compliance Enforcement Authority activities for FRCC and SPP. The regional entity reimburses SERC for the actual costs incurred, including an overhead calculation. These costs have been recorded separately on the Compliance Enforcement Activity Statement of Activities.

Detailed descriptions of budget to actual variances are provided in the attached file. If you have any questions, please feel free to call or email me.

Yours truly,

George Krogstie

George Krogstie

cc: Gary Taylor, President/CEO

SERC Reliability Corporation

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| Total Statutory | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 15,706,023 | 15,706,023 | - | 0.00% |
| Penalty Sanctions | 195,000 | 195,000 | - | 0.00% |
| **Total ERO Funding** | **$ 15,901,023** | **$ 15,901,023** | **$ -** | **0.00%** |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 122,098 | 176,025 | (53,927) | -30.64% |
| Interest | 5,369 | 1,000 | 4,369 | 436.90% |
| Miscellaneous | 138,641 | 383,500 | (244,859) | -63.85% |
| **Total Funding (A)** | **$ 16,167,131** | **$ 16,461,548** | **$ (294,417)** | **-1.79%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 9,274,910 | 10,095,783 | (820,873) | -8.13% |
| Payroll Taxes | 600,321 | 747,086 | (146,765) | -19.64% |
| Employee Benefits | 829,719 | 1,087,450 | (257,731) | -23.70% |
| Savings & Retirement | 1,162,439 | 1,278,181 | (115,742) | -9.06% |
| **Total Personnel Expenses** | **11,867,389** | **13,208,500** | **(1,341,111)** | **-10.15%** |
| **Meeting Expenses** | | | | |
| Meetings | 330,069 | 265,768 | 64,301 | 24.19% |
| Travel | 422,033 | 534,977 | (112,944) | -21.11% |
| Conference Calls | 30,512 | 44,544 | (14,032) | -31.50% |
| **Total Meeting Expenses** | **782,614** | **845,289** | **(62,675)** | **-7.41%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 2,033,311 | 2,120,181 | (86,870) | -4.10% |
| Rent & Improvements | 633,197 | 590,983 | 42,214 | 7.14% |
| Office Costs | 638,883 | 282,011 | 356,872 | 126.55% |
| Professional Services | 268,779 | 175,739 | 93,040 | 52.94% |
| Miscellaneous | 125,045 | 16,700 | 108,345 | 648.77% |
| Depreciation | 356,415 | 234,882 | 121,533 | 51.74% |
| **Total Operating Expenses** | **4,055,630** | **3,420,496** | **635,134** | **18.57%** |
| **Indirect Expenses** | - | - | - | |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | **16,705,633** | **17,474,285** | **(768,652)** | **-4.40%** |
| **Change in Assets (A - B)** | **(538,502)** | **(1,012,737)** | **474,235** | **-46.83%** |
| **Fixed Assets** | | | | |
| Depreciation | (356,415) | (234,882) | (121,533) | 51.74% |
| Computer & Software CapEx | 128,046 | 100,000 | 28,046 | 28.05% |
| Furniture & Fixtures CapEx | 6,394 | - | 6,394 | |
| Equipment CapEx | 285,628 | 143,000 | 142,628 | 99.74% |
| Leasehold Improvements | 27,171 | - | 27,171 | |
| **Incr(Dec) in Fixed Assets** | 90,824 | 8,118 | 82,706 | 1018.80% |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **90,824** | **8,118** | **82,706** | **1018.80%** |
| **TOTAL BUDGET (B + C)** | **16,796,457** | **17,482,403** | **(685,946)** | **-3.92%** |
| **Change in Working Capital (A-B-C)** | **(629,326)** | **(1,020,855)** | **391,529** | **-38.35%** |
| **FTE's** | **60.59** | **75.00** | **(14.41)** | **-19.21%** |

SERC Reliability Corporation

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| RELIABILITY STANDARDS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 607,334 | 607,334 | - | 0.00% |
| Penalty Sanctions | 6,670 | 6,670 | - | 0.00% |
| **Total ERO Funding** | **$ 614,004** | **$ 614,004** | **$ -** | 0.00% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 614,004 | 614,004 | - | 0.00% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 215,126 | 255,902 | (40,776) | -15.93% |
| Payroll Taxes | 12,143 | 18,937 | (6,794) | -35.88% |
| Employee Benefits | 19,126 | 23,841 | (4,715) | -19.78% |
| Savings & Retirement | 20,352 | 33,222 | (12,870) | -38.74% |
| **Total Personnel Expenses** | 266,747 | 331,902 | (65,155) | -19.63% |
| **Meeting Expenses** | | | | |
| Meetings | 288 | - | 288 | |
| Travel | - | 2,400 | (2,400) | -100.00% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 288 | 2,400 | (2,112) | -88.00% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | 75 | - | 75 | |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 75 | - | 75 | |
| Indirect Expenses | 412,471 | 279,424 | 133,047 | 47.61% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 679,581 | 613,726 | 65,855 | 10.73% |
| **Change in Assets (A - B)** | (65,577) | 278 | (65,855) | -23688.85% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | 2,386 | 278 | 2,108 | 758.27% |
| **Total Inc(Dec) in Fixed Assets (C)** | 2,386 | 278 | 2,108 | 758.27% |
| **TOTAL BUDGET (B + C)** | **681,967** | **614,004** | **67,963** | **11.07%** |
| **Change in Working Capital (A-B-C)** | **(67,963)** | **-** | **(67,963)** | |
| **FTE's** | **1.26** | **1.70** | **(0.44)** | **-25.88%** |

**Reliability Standards**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $65,155 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 1.70 FTEs in the Standards program during 2017 and finished with 1.26 FTEs.

**Indirect Expenses (Actual $133,047 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. Indirect Expenses for Reliability Standards were over budget primarily because total Indirect Expenses were greater than budget.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 11,611,268 | 11,611,268 | - | 0.00% |
| Penalty Sanctions | 134,617 | 134,617 | - | 0.00% |
| **Total ERO Funding** | **$ 11,745,885** | **$ 11,745,885** | **$ -** | 0.00% |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | 104,489 | 71,000 | 33,489 | 47.17% |
| **Total Funding (A)** | 11,850,374 | 11,816,885 | 33,489 | 0.28% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 3,942,338 | 4,334,934 | (392,596) | -9.06% |
| Payroll Taxes | 262,455 | 320,783 | (58,328) | -18.18% |
| Employee Benefits | 370,537 | 526,268 | (155,731) | -29.59% |
| Savings & Retirement | 498,176 | 564,671 | (66,495) | -11.78% |
| **Total Personnel Expenses** | 5,073,506 | 5,746,656 | (673,150) | -11.71% |
| **Meeting Expenses** | | | | |
| Meetings | 23,572 | 13,500 | 10,072 | 74.61% |
| Travel | 197,495 | 309,282 | (111,787) | -36.14% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 221,067 | 322,782 | (101,715) | -31.51% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 117,222 | 83,000 | 34,222 | 41.23% |
| Rent & Improvements | - | - | - | |
| Office Costs | 11,682 | 19,400 | (7,718) | -39.78% |
| Professional Services | - | - | - | |
| Miscellaneous | 3,093 | - | 3,093 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 131,997 | 102,400 | 29,597 | 28.90% |
| | | | | |
| Indirect Expenses | 6,769,380 | 5,639,443 | 1,129,937 | 20.04% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | 12,195,950 | 11,811,281 | 384,669 | 3.26% |
| | | | | |
| **Change in Assets (A - B)** | (345,576) | 5,604 | (351,180) | -6266.59% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | 38,187 | - | 38,187 | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | 38,187 | - | 38,187 | |
| | | | | |
| Allocation of Fixed Assets | 39,162 | 5,604 | 33,558 | 598.82% |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | 77,349 | 5,604 | 71,745 | 1280.25% |
| | | | | |
| **TOTAL BUDGET (B + C)** | **12,273,299** | **11,816,885** | **456,414** | **3.86%** |
| | | | | |
| **Change in Working Capital (A-B-C)** | **(422,925)** | **-** | **(422,925)** | |
| | | | | |
| **FTE's** | **27.90** | **34.31** | **(6.41)** | **-18.68%** |

**Compliance Operations, Enforcement and Organization Registration**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Total Funding (Actual $33,489 over budget)**

- Miscellaneous revenue from work performed by SERC to provide Compliance Enforcement Authority (CEA) activities for FRCC and SPP was greater than anticipated.

**Personnel Expenses (Actual $673,150 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 34.31 FTEs in the Compliance program during 2017. SERC finished 2017 with 27.90 FTEs in the Compliance program, a difference of 6.41 FTEs. SERC used contractors to assist in completing the work.

**Meeting & Travel Expense (Actual $101,715 under budget)**

- Due to the open positions, travel expenses were decreased. Additionally, SERC has put a greater emphasis on hosting meetings in the Charlotte office, causing a decrease in travel expenses.
- SERC staff traveled to fewer audits due to a change in the process to conduct off-site audits.

**Consultants and Contracts Expense (Actual $34,222 over budget)**

- As stated above, SERC supplemented staff with contractors due to the number of vacant positions.

**Indirect Expenses (Actual $1,129,937 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. Indirect Expenses for the Compliance Operations, Enforcement and Organization Registration program were over budget primarily because total Indirect Expenses were greater than budget.

**Fixed Assets (Actual $71,745 over budget)**

- The budget variance in Computers and Software is due to the purchase of SFTP software to facilitate secure transmission of PEI data from entities to SERC, which was originally budgeted in General & Administrative.
- Fixed Assets related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. The Allocation of Fixed Assets to the Compliance, Operations, Enforcement and Organization Registration program was over budget because total Fixed Assets in indirect programs were greater than budget.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 2,895,142 | 2,895,142 | - | 0.00% |
| Penalty Sanctions | 31,859 | 31,859 | - | 0.00% |
| **Total ERO Funding** | **$ 2,927,001** | **$ 2,927,001** | **$ -** | 0.00% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 2,927,001 | 2,927,001 | - | 0.00% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 581,259 | 865,697 | (284,438) | -32.86% |
| Payroll Taxes | 41,272 | 64,063 | (22,791) | -35.58% |
| Employee Benefits | 55,527 | 112,726 | (57,199) | -50.74% |
| Savings & Retirement | 102,810 | 110,591 | (7,781) | -7.04% |
| **Total Personnel Expenses** | 780,868 | 1,153,077 | (372,209) | -32.28% |
| **Meeting Expenses** | | | | |
| Meetings | 64,464 | 22,200 | 42,264 | 190.38% |
| Travel | 42,384 | 44,268 | (1,884) | -4.26% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 106,848 | 66,468 | 40,380 | 60.75% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 149,000 | 369,000 | (220,000) | -59.62% |
| Rent & Improvements | - | - | - | |
| Office Costs | 46,411 | 2,467 | 43,944 | 1781.27% |
| Professional Services | - | - | - | |
| Miscellaneous | (133) | - | (133) | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 195,278 | 371,467 | (176,189) | -47.43% |
| **Indirect Expenses** | 1,261,677 | 1,334,663 | (72,986) | -5.47% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 2,344,671 | 2,925,675 | (581,004) | -19.86% |
| **Change in Assets (A - B)** | 582,330 | 1,326 | 581,004 | 43816.29% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | 7,299 | 1,326 | 5,973 | 450.45% |
| **Total Inc(Dec) in Fixed Assets (C)** | 7,299 | 1,326 | 5,973 | 450.45% |
| **TOTAL BUDGET (B + C)** | **2,351,970** | **2,927,001** | **(575,031)** | **-19.65%** |
| **Change in Working Capital (A-B-C)** | **575,031** | **-** | **575,031** | |
| **FTE's** | **5.20** | **8.12** | **(2.92)** | **-35.96%** |

**Reliability Assessments and Performance Analysis**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $372,209 under budget)**

- SERC budgeted 8.12 FTEs in the Assessments program during 2017. SERC finished 2017 with 5.20 FTEs in the Assessments program, a difference of 2.92 FTE, resulting in lower Personnel Expense than budgeted.

**Meeting & Travel Expense (Actual $40,380 over budget)**

- Due to staff transitions, more staff traveled to meetings than was originally projected to gain familiarity with the entities and regional staff with which they would be working.

**Consultants and Contracts Expense (Actual $220,000 under budget)**

- UFLS Study was completed under budget.
- Modeling software was budgeted in Contracting/Consulting but expensed to Office Cost.
- ERAG was originally budgeted in RAPA but expensed to another program.

**Office Costs (Actual $43,944 over budget)**

- Office cost ran over budget due to modeling software purchases that were budgeted in Consultants/Contracts.

**Indirect Expenses (Actual $72,986 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. Indirect Expenses for Reliability Assessments and Performance Analysis were under budget due to Reliability Assessment and Performance Analysis' ratio of FTEs being lower than budgeted.

SERC Reliability Corporation
Statement of Activities
From 1/1/2017 through 12/31/2017

| TRAINING, EDUCATION and OPERATOR CERTIFICATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 656,290 | 656,290 | - | 0.00% |
| Penalty Sanctions | 6,670 | 6,670 | - | 0.00% |
| **Total ERO Funding** | **$ 662,960** | **$ 662,960** | **$ -** | 0.00% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 118,423 | 176,025 | (57,602) | -32.72% |
| Interest | - | - | - | |
| Miscellaneous | 606 | - | 606 | |
| **Total Funding (A)** | 781,989 | 838,985 | (56,996) | -6.79% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 112,136 | 191,593 | (79,457) | -41.47% |
| Payroll Taxes | 4,664 | 14,178 | (9,514) | -67.10% |
| Employee Benefits | 4,699 | 25,141 | (20,442) | -81.31% |
| Savings & Retirement | 13,681 | 24,775 | (11,094) | -44.78% |
| **Total Personnel Expenses** | 135,180 | 255,687 | (120,507) | -47.13% |
| **Meeting Expenses** | | | | |
| Meetings | 113,546 | 137,496 | (23,950) | -17.42% |
| Travel | 18,328 | 11,100 | 7,228 | 65.12% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 131,874 | 148,596 | (16,722) | -11.25% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 115,580 | 155,000 | (39,420) | -25.43% |
| Rent & Improvements | - | - | - | |
| Office Costs | 1,215 | - | 1,215 | |
| Professional Services | - | - | - | |
| Miscellaneous | 1,915 | - | 1,915 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 118,710 | 155,000 | (36,290) | -23.41% |
| **Indirect Expenses** | 121,315 | 279,424 | (158,109) | -56.58% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 507,079 | 838,707 | (331,628) | -39.54% |
| **Change in Assets (A - B)** | 274,910 | 278 | 274,632 | 98788.49% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | 702 | 278 | 424 | 152.52% |
| **Total Inc(Dec) in Fixed Assets (C)** | 702 | 278 | 424 | 152.52% |
| **TOTAL BUDGET (B + C)** | **507,781** | **838,985** | **(331,204)** | **-39.48%** |
| **Change in Working Capital (A-B-C)** | **274,208** | **-** | **274,208** | |
| **FTE's** | **0.50** | **1.70** | **(1.20)** | **-70.59%** |

**Training, Education and Operator Certification**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Workshop Fees (Actual $57,602 under budget)**

- SERC hosted most meetings in house or at a member's facilities, resulting in savings in costs, and therefore an offsetting decrease in revenue allowing SERC to charge a reduced attendance fee from when the budget was developed. In addition, the reduced scope of work for the 2017 Restoration Drill resulted in lower than expected workshop attendance.

**Personnel Expenses (Actual $120,507 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 1.70 FTEs in the Training program during 2017. SERC finished 2017 with 0.50 FTEs in the Training program, a difference of 1.20 FTE.

**Meeting & Travel Expense (Actual $16,722 under budget)**

- The under run in meetings expenses is due to a greater emphasis on hosting meetings at SERC's office and member facilities.

**Consultants and Contracts Expense (Actual $39,420 under budget)**

- The favorable variance to budget is due to a reduced scope of work for the 2017 Restoration Drill.

**Indirect Expenses (Actual $158,109 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. Indirect Expenses for Training, Education and Operator Certification were under budget primarily because the department's ratio of FTEs was lower than budgeted.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection) | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 1,270,344 | 1,270,344 | - | 0.00% |
| Penalty Sanctions | 15,184 | 15,184 | - | 0.00% |
| **Total ERO Funding** | **$ 1,285,528** | **$ 1,285,528** | **$ -** | 0.00% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 1,285,528 | 1,285,528 | - | 0.00% |
| **Expense t** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 347,118 | 471,864 | (124,746) | -26.44% |
| Payroll Taxes | 22,979 | 34,917 | (11,938) | -34.19% |
| Employee Benefits | 31,149 | 54,791 | (23,642) | -43.15% |
| Savings & Retirement | 34,388 | 61,522 | (27,134) | -44.10% |
| **Total Personnel Expenses** | 435,634 | 623,094 | (187,460) | -30.09% |
| **Meeting Expenses** | | | | |
| Meetings | 500 | - | 500 | |
| Travel | 7,276 | 25,000 | (17,724) | -70.90% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 7,776 | 25,000 | (17,224) | -68.90% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | 1,140 | - | 1,140 | |
| Office Costs | 16 | 700 | (684) | -97.71% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 1,156 | 700 | 456 | 65.14% |
| **Indirect Expenses** | 533,786 | 636,102 | (102,316) | -16.08% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | 978,352 | 1,284,896 | (306,544) | -23.86% |
| **Change in Assets (A - B)** | 307,176 | 632 | 306,544 | 48503.80% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | 3,088 | 632 | 2,456 | 388.61% |
| **Total Inc(Dec) in Fixed Assets (C)** | 3,088 | 632 | 2,456 | 388.61% |
| **TOTAL BUDGET (B + C)** | **981,440** | **1,285,528** | **(304,088)** | **-23.65%** |
| **Change in Working Capital (A-B-C)** | **304,088** | **-** | **304,088** | |
| **FTE's** | **2.20** | **3.87** | **(1.67)** | **-43.15%** |

**Situation Awareness and Infrastructure Security**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $187,460 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 3.87 FTEs in the Situation Awareness program during 2017. SERC finished 2017 with 2.20 FTEs in the Situation Awareness program, a difference of 1.67 FTEs.

**Meeting & Travel Expense (Actual $17,724 under budget)**

- Due to the number of open positions, and the greater emphasis on hosting meetings in the Charlotte office, travel expenses decreased, causing the under run.

**Indirect Expenses (Actual $102,316 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs. Indirect Expenses for Situation Awareness and Infrastructure Security were under budget due to Situation Awareness and Infrastructure Security’s ratio of FTEs being lower than budgeted, partially offset by overall Indirect Expenses being greater than budget.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| TECHNICAL COMMITTEES AND MEMBER FORUMS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | 3,675 | - | 3,675 | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 3,675 | - | 3,675 | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 631,545 | 647,648 | (16,103) | -2.49% |
| Payroll Taxes | 36,892 | 47,926 | (11,034) | -23.02% |
| Employee Benefits | 45,756 | 68,201 | (22,445) | -32.91% |
| Savings & Retirement | 81,946 | 84,273 | (2,327) | -2.76% |
| **Total Personnel Expenses** | 796,139 | 848,048 | (51,909) | -6.12% |
| **Meeting Expenses** | | | | |
| Meetings | 20,375 | 13,600 | 6,775 | 49.82% |
| Travel | 45,790 | 57,986 | (12,196) | -21.03% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 66,165 | 71,586 | (5,421) | -7.57% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 170,187 | - | 170,187 | |
| Rent & Improvements | - | - | - | |
| Office Costs | 1,138 | - | 1,138 | |
| Professional Services | - | - | - | |
| Miscellaneous | 169 | - | 169 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 171,494 | - | 171,494 | |
| **Indirect Expenses** | (1,033,798) | (919,634) | (114,164) | 12.41% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | - | - | - | |
| **Change in Assets (A - B)** | 3,675 | - | 3,675 | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| **Change in Working Capital (A-B-C)** | **3,675** | **-** | **3,675** | |
| **FTE's** | **3.51** | **4.70** | **(1.19)** | **-25.32%** |

**Technical Committees and Member Forums**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $51,909 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 4.70 FTEs in the Technical Committees program during 2017 and finished the year with 3.51 FTEs.

**Meeting & Travel Expense (Actual $5,421 under budget)**

- Due to staff transitions, less staff traveled to meetings than was originally projected.

**Consultants and Contracts Expense (Actual $170,187 over budget)**

- ERAG expenses were budgeted in RAPA, but the actual costs were recorded in Technical Committees and Member Forums.

**Indirect Expenses (Actual $114,164 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| GENERAL and ADMINISTRATIVE | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | (1,334,355) | (1,334,355) | - | 0.00% |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | **$ (1,334,355)** | **$ (1,334,355)** | **$ -** | 0.00% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | 33,546 | 312,500 | (278,954) | -89.27% |
| **Total Funding (A)** | (1,300,809) | (1,021,855) | (278,954) | 27.30% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 1,815,201 | 2,319,639 | (504,438) | -21.75% |
| Payroll Taxes | 112,857 | 171,653 | (58,796) | -34.25% |
| Employee Benefits | 126,143 | 174,915 | (48,772) | -27.88% |
| Savings & Retirement | 243,620 | 272,395 | (28,775) | -10.56% |
| **Total Personnel Expenses** | 2,297,821 | 2,938,602 | (640,781) | -21.81% |
| **Meeting Expenses** | | | | |
| Meetings | 21,448 | 30,200 | (8,752) | -28.98% |
| Travel | 49,673 | 59,478 | (9,805) | -16.49% |
| Conference Calls | - | 44,544 | (44,544) | -100.00% |
| **Total Meeting Expenses** | 71,121 | 134,222 | (63,101) | -47.01% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 191,910 | 357,725 | (165,815) | -46.35% |
| Rent & Improvements | 632,057 | 590,983 | 41,074 | 6.95% |
| Office Costs | 85,349 | 53,044 | 32,305 | 60.90% |
| Professional Services | 82,341 | 60,644 | 21,697 | 35.78% |
| Miscellaneous | 118,293 | 16,700 | 101,593 | 608.34% |
| Depreciation | 356,415 | 234,882 | 121,533 | 51.74% |
| **Total Operating Expenses** | 1,466,365 | 1,313,978 | 152,387 | 11.60% |
| **Indirect Expenses** | (3,835,307) | (4,386,802) | 551,495 | -12.57% |
| **Other Non-Operating Expenses** | - | - | - | |
| **Total Expenses (B)** | - | - | - | |
| **Change in Assets (A - B)** | (1,300,809) | (1,021,855) | (278,954) | 27.30% |
| **Fixed Assets** | | | | |
| Depreciation | (356,415) | (234,882) | (121,533) | 51.74% |
| Computer & Software CapEx | - | 100,000 | (100,000) | -100.00% |
| Furniture & Fixtures CapEx | 6,394 | - | 6,394 | |
| Equipment CapEx | - | 143,000 | (143,000) | -100.00% |
| Leasehold Improvements | 27,171 | - | 27,171 | |
| **Incr(Dec) in Fixed Assets** | (322,850) | 8,118 | (330,968) | |
| Allocation of Fixed Assets | 322,850 | (8,118) | 330,968 | -4076.96% |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| **Change in Working Capital (A-B-C)** | **(1,300,809)** | **(1,021,855)** | **(278,954)** | 27.30% |
| **FTE's** | **8.06** | **13.25** | **(5.19)** | **-39.17%** |

**General and Administrative**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Miscellaneous Funding (Actual $278,954 under budget)**

- Funding was under budget due to the discontinuation of the Regional Entity Management Group (REMG), resulting in a loss of revenue from billing to other participating regions for shared expenses

**Personnel Expenses (Actual $640,781 under budget)**

- SERC budgeted 13.25 FTEs in General and Administrative during 2017. SERC finished 2017 with 8.06 FTEs in General and Administrative, a difference of 5.19 FTEs. BPRA staff was budgeted in G&A but expensed in IT/BPRA (5.58 FTEs).

**Meeting & Travel Expense (Actual $18,557 under budget)**

- Due to staff transitions, less staff traveled to meetings than was originally projected, and certain meeting expenses budgeted in G&A were charged to Regulatory/Governance.

**Conference Calls (Actual $44,544 under budget)**

- Conference calls expense is under budget due to the actual expense being charged to the IT/BPRA department.

**Consultants and Contracts Expense (Actual $165,815 under budget)**

- Consultant expenses associated with Corporate Strategic Initiatives (CSIs) were budgeted in G&A, but the actual expenses were recorded to departments responsible for implementing the CSIs.

**Office Costs Expense (Actual $32,305 over budget)**

- G&A exceeded the office cost budget due to the property tax bill that was budgeted in Finance but more appropriately expensed in G&A; and due to supplies purchased for new office space.

**Professional Services Expense (Actual $21,697 over budget)**

- SERC incurred costs associated with executive management searches for open positions causing an over run.

**Miscellaneous Expense (Actual $101,593 over budget)**

- Miscellaneous expense included an unbudgeted balance sheet adjustment.

**Depreciation Expense (Actual $121,533 over budget)**

- Depreciation exceeded budget which did not consider depreciation for current year fixed asset purchases.

**Indirect Expenses (Actual $551,495 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs.

**Fixed Assets (Actual $330,968 under budget)**

- The reduction of net fixed assets due to depreciation was greater than expected, as noted above.
- Actual costs for Computer & Software, and Equipment purchases budgeted in General and Administrative were charged to IT and Compliance Operations, Enforcement and Organization Registration.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| LEGAL and REGULATORY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | - | - | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 475,299 | 461,191 | 14,108 | 3.06% |
| Payroll Taxes | 28,594 | 34,128 | (5,534) | -16.22% |
| Employee Benefits | 17,948 | 38,911 | (20,963) | -53.87% |
| Savings & Retirement | 55,252 | 56,654 | (1,402) | -2.47% |
| **Total Personnel Expenses** | 577,093 | 590,884 | (13,791) | -2.33% |
| **Meeting Expenses** | | | | |
| Meetings | 77,992 | 46,722 | 31,270 | 66.93% |
| Travel | 31,056 | 20,263 | 10,793 | 53.26% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 109,048 | 66,985 | 42,063 | 62.79% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 741 | 42,400 | (41,659) | -98.25% |
| Rent & Improvements | - | - | - | |
| Office Costs | 4,013 | 3,370 | 643 | 19.08% |
| Professional Services | 25,284 | 40,000 | (14,716) | -36.79% |
| Miscellaneous | 447 | - | 447 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 30,485 | 85,770 | (55,285) | -64.46% |
| | | | | |
| **Indirect Expenses** | (716,626) | (743,639) | 27,013 | -3.63% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | - | - | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | - | - | - | |
| | | | | |
| **FTE's** | **2.45** | **2.55** | **(0.10)** | **-3.92%** |

**Legal and Regulatory**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Meeting & Travel Expense (Actual $42,063 over budget)**

- The over run in meeting expense was partially due to certain meeting expenses budgeted in G&A that were charged to Regulatory/Governance. The overage was also impacted by Board and Committee governance activities which were higher than planned in the budget.

**Consultants & Contracts (Actual $41,659 under budget)**

- Regulatory projects planned for 2017 were delayed, resulting in lower than expected Consultants & Contracts expenses versus budget.

**Professional Services (Actual $14,716 under budget)**

- Legal services were lower than budget as a portion of actual expenses were charged to Human Resources and resulted in Professional Services being under budget.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| INFORMATION TECHNOLOGY | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | - | - | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 646,418 | - | 646,418 | |
| Payroll Taxes | 48,620 | - | 48,620 | |
| Employee Benefits | 57,721 | - | 57,721 | |
| Savings & Retirement | 20,043 | - | 20,043 | |
| **Total Personnel Expenses** | 772,802 | - | 772,802 | |
| **Meeting Expenses** | | | | |
| Meetings | 1,297 | - | 1,297 | |
| Travel | 12,110 | 1,000 | 11,110 | 1111.00% |
| Conference Calls | 30,512 | - | 30,512 | |
| **Total Meeting Expenses** | 43,919 | 1,000 | 42,919 | 4291.90% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 1,078,633 | 962,556 | 116,077 | 12.06% |
| Rent & Improvements | - | - | - | |
| Office Costs | 426,102 | 180,955 | 245,147 | 135.47% |
| Professional Services | - | - | - | |
| Miscellaneous | 36 | - | 36 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 1,504,771 | 1,143,511 | 361,260 | 31.59% |
| | | | | |
| **Indirect Expenses** | (2,321,492) | (1,144,511) | (1,176,981) | 102.84% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | - | - | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | 89,859 | - | 89,859 | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 285,628 | - | 285,628 | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | 375,487 | - | 375,487 | |
| | | | | |
| Allocation of Fixed Assets | (375,487) | - | (375,487) | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | - | - | - | |
| | | | | |
| **FTE's** | **5.58** | **-** | **5.58** | |

**Information Technology & Business Process and Risk Assessment**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $772,802 over budget)**

- SERC budgeted all IT/BPRA personnel expenses in G&A but charged actual expenses to the IT/BPRA department which ended the year with 5.58 FTEs.

**Meeting & Travel (Actual $42,919 over budget)**

- SERC budgeted most of its IT/BPRA meeting expenses in G&A but charged actual expenses to the IT/BPRA department.

**Consultants and Contracts (Actual $116,077 over budget)**

- Expenses exceeded budget due to unbudgeted Consortium User Group (CUG) expenses and the use of a consultant to assist in documenting SERC's processes, partially offset by software purchases budgeted in Consultants and Contractors, but expensed in Office Costs.

**Office Costs (Actual $245,147 over budget)**

- Office Costs exceeded budget due to additional purchases of computers and related equipment, together with planned software purchases budgeted as Consultant and Contractor expense but expensed in Office Costs.

**Indirect Expenses (Actual $1,176,981 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs.

**Fixed Assets (Actual $375,487 over budget)**

- Computer & Software purchases were budgeted in General and Administrative but recorded in IT/BPRA, and exceeded budget primarily due to Consortium User Group (CUG) software development.
- Equipment purchases exceeded budget due to a data center relocation, upgrades to the sound systems in SERC's conference rooms, and a phone system upgrade, a portion of which was budgeted in General and Administrative, but actual costs were recorded in IT/BPRA.

SERC Reliability Corporation
Statement of Activities
From 1/1/2017 through 12/31/2017

| HUMAN RESOURCES | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | - | - | - | |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 290,750 | 236,165 | 54,585 | 23.11% |
| Payroll Taxes | 16,872 | 17,476 | (604) | -3.46% |
| Employee Benefits | 77,868 | 23,218 | 54,650 | 235.38% |
| Savings & Retirement | 62,305 | 29,501 | 32,804 | 111.20% |
| **Total Personnel Expenses** | 447,795 | 306,360 | 141,435 | 46.17% |
| **Meeting Expenses** | | | | |
| Meetings | 6,167 | 1,700 | 4,467 | 262.76% |
| Travel | 15,854 | 1,200 | 14,654 | 1221.17% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 22,021 | 2,900 | 19,121 | 659.34% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 29,244 | 150,500 | (121,256) | -80.57% |
| Rent & Improvements | - | - | - | |
| Office Costs | 15,654 | 180 | 15,474 | 8596.67% |
| Professional Services | 140,650 | 37,807 | 102,843 | 272.02% |
| Miscellaneous | 1,225 | - | 1,225 | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 186,773 | 188,487 | (1,714) | -0.91% |
| | | | | |
| **Indirect Expenses** | (656,589) | (497,747) | (158,842) | 31.91% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | - | - | - | |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | - | - | - | |
| | | | | |
| **FTE's** | **1.90** | **1.90** | **-** | **0.00%** |

**Human Resources**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $141,435 over budget)**

- Third party benefits administration costs were budgeted in professional fees and expensed to employee benefits and savings and retirement, as appropriate. Recruiting costs were not sufficiently budgeted, adding to the benefits overage. In addition actual salaries were higher than budget and included an unbudgeted intern.

**Meeting & Travel Expenses (Actual $19,121 over budget)**

- The department incurred meeting and travel expenses associated with training, board and committee meetings that were not budgeted.

**Consultants and Contracts (Actual $121,256 under budget)**

- Planned compensation studies and management development expenses were less than budgeted.

**Office Costs (Actual $15,474 over budget)**

- Actual HR software and payroll processing costs were higher than anticipated.

**Professional Services (Actual $102,843 over budget)**

- SERC incurred additional costs for candidate search services related to filling key executive positions, causing an over run in Professional Services.

**Indirect Expenses (Actual $158,842 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs.

**SERC Reliability Corporation**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

| ACCOUNTING and FINANCE | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | - | - | - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | $ - | $ - | $ - | |
| | | | | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 5,369 | 1,000 | 4,369 | 436.90% |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | 5,369 | 1,000 | 4,369 | 436.90% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 217,720 | 311,150 | (93,430) | -30.03% |
| Payroll Taxes | 12,973 | 23,025 | (10,052) | -43.66% |
| Employee Benefits | 23,245 | 39,438 | (16,193) | -41.06% |
| Savings & Retirement | 29,866 | 40,577 | (10,711) | -26.40% |
| **Total Personnel Expenses** | 283,804 | 414,190 | (130,386) | -31.48% |
| **Meeting Expenses** | | | | |
| Meetings | 420 | 350 | 70 | 20.00% |
| Travel | 2,067 | 3,000 | (933) | -31.10% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | 2,487 | 3,350 | (863) | -25.76% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 180,794 | - | 180,794 | |
| Rent & Improvements | - | - | - | |
| Office Costs | 47,228 | 21,895 | 25,333 | 115.70% |
| Professional Services | 20,504 | 37,288 | (16,784) | -45.01% |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | 248,526 | 59,183 | 189,343 | 319.93% |
| | | | | |
| **Indirect Expenses** | (534,817) | (476,723) | (58,094) | 12.19% |
| | | | | |
| **Other Non-Operating Expenses** | - | - | - | |
| | | | | |
| **Total Expenses (B)** | - | - | - | |
| | | | | |
| **Change in Assets (A - B)** | 5,369 | 1,000 | 4,369 | 436.90% |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | - | - | - | |
| | | | | |
| **Total Inc(Dec) in Fixed Assets (C)** | - | - | - | |
| | | | | |
| **TOTAL BUDGET (B + C)** | - | - | - | |
| | | | | |
| **Change in Working Capital (A-B-C)** | **5,369** | **1,000** | **4,369** | 436.90% |
| | | | | |
| **FTE's** | **2.03** | **2.90** | **(0.87)** | **-30.00%** |

**Accounting and Finance**
**Variance Explanations as of December 31, 2017**
**Variances > +/- $10,000 and 10%**

**Personnel Expenses (Actual $130,386 under budget)**

- SERC budgeted 2.90 FTEs in Accounting and Finance in 2017. SERC finished 2017 with 2.03 FTEs, resulting in Personnel Expenses being less than budgeted. SERC used contractors to assist during the recruitment of new hires to fill vacant positions.

**Consultants & Contractors Expense (Actual $180,794 over budget)**

- SERC utilized temporary contract assistance during the recruitment of new hires to fill vacant positions.

**Office Costs Expense (Actual $25,333 over budget)**

- Office Costs included fees for Accounting and Finance software which were originally budgeted in Professional Services, this was partially offset by property taxes budgeted in Accounting & Finance but more appropriately charged to G&A.

**Professional Services Expense (Actual $16,784 under budget)**

- Professional fees budgeted included fees for Accounting and Finance software which were actually charged to Office Costs.

**Indirect Expenses (Actual $58,094 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2017 based on the number of FTEs in those programs.

# SERC RELIABILITY CORPORATION

Evaluation | Analysis | Assistance | Operating Experience

Financial Statements and Supplemental Information
for the Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

GreerWalker

GreerWalker

INDEPENDENT AUDITORS' REPORT

To the Finance and Audit Committee of SERC Reliability Corporation:

We have audited the accompanying financial statements of SERC Reliability Corporation (the "Corporation") which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles 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 these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards 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 of 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 the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 SERC Reliability Corporation as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in the United States of America.

**GreerWalker LLP** | **greerwalker.com**
**Charlotte Office** The Carillon | 227 West Trade St., Suite 1100 | Charlotte, NC 28202 | USA | Tel 704.377.0239
**Greenville Office** Wells Fargo Center | 15 South Main St., Suite 800 | Greenville, SC 29601 | USA | Tel 864.752.0080

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules on pages 10 through 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Prior Period Financial Statements***

The financial statements of SERC Reliability Corporation as of December 31, 2016, were audited by other auditors whose report dated April 24, 2017, expressed an unmodified opinion on those statements.

GreerWalker LLP

Certified Public Accountants
April 23, 2017
Charlotte, NC

## SERC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

| ASSETS | 2017 | 2016 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 5,407,587 | $ 5,584,071 |
| Accounts receivable, net | 22,477 | 142,868 |
| Prepaid expenses and other assets | 84,762 | 61,092 |
| Total current assets | 5,514,826 | 5,788,031 |
| PROPERTY AND EQUIPMENT, NET | 802,796 | 713,078 |
| INVESTMENTS - DEFERRED COMPENSATION | 304,472 | 244,302 |
| TOTAL | $ 6,622,094 | $ 6,745,411 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 202,901 | $ 261,206 |
| Accrued expenses | 483,929 | 142,878 |
| Accrued salaries and related benefits | 2,178,254 | 2,239,062 |
| Deferred revenue | 761,784 | 231,753 |
| Total current liabilities | 3,626,868 | 2,874,899 |
| NON-CURRENT LIABILITIES: | | |
| Deferred compensation | 304,472 | 244,302 |
| Deferred revenue | 50,000 | 452,515 |
| Deferred rent | 478,236 | 472,675 |
| Total non-current liabilities | 832,708 | 1,169,492 |
| NET ASSETS: | | |
| Unrestricted | 802,796 | 713,078 |
| Unrestricted and designated operating reserves | 1,359,722 | 1,987,942 |
| Total net assets | 2,162,518 | 2,701,020 |
| TOTAL | $ 6,622,094 | $ 6,745,411 |

See notes to financial statements.

## SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| FUNDING: | | |
| Member assessments | $ 15,706,023 | $ 13,730,986 |
| Penalty sanctions | 195,000 | 648,500 |
| Workshops | 122,098 | 201,135 |
| Interest | 5,369 | 4,376 |
| Miscellaneous | 138,641 | 481,069 |
| Total | 16,167,131 | 15,066,066 |
| EXPENSES: | | |
| Personnel expenses: | | |
| Salaries | 9,274,910 | 9,802,321 |
| Payroll taxes | 600,321 | 560,651 |
| Employee benefits | 829,720 | 958,338 |
| Savings and retirement | 1,162,438 | 1,187,505 |
| Total personnel expenses | 11,867,389 | 12,508,815 |
| Meeting expenses: | | |
| Meetings | 330,069 | 251,568 |
| Travel | 422,033 | 423,897 |
| Conference calls | 30,512 | 38,386 |
| Total meeting expenses | 782,614 | 713,851 |
| Operating expenses: | | |
| Consultants and contracts | 2,033,311 | 2,033,635 |
| Rent and improvements | 633,197 | 586,001 |
| Office costs | 638,883 | 402,337 |
| Professional services | 268,779 | 191,808 |
| Depreciation | 356,415 | 387,470 |
| Miscellaneous | 125,045 | 18,174 |
| Total operating expenses | 4,055,630 | 3,619,425 |
| Total expenses | 16,705,633 | 16,842,091 |
| CHANGE IN UNRESTRICTED NET ASSETS | (538,502) | (1,776,025) |
| UNRESTRICTED NET ASSETS, BEGINNING OF YEAR | 2,701,020 | 4,477,045 |
| UNRESTRICTED NET ASSETS, END OF YEAR | $ 2,162,518 | $ 2,701,020 |

See notes to financial statements.

## SERC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ (538,502) | $ (1,776,025) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 356,415 | 387,470 |
| Loss on disposal of property and equipment | 1,104 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 120,391 | 80,799 |
| Prepaid expenses and other assets | (23,670) | (42,865) |
| Accounts payable | (58,305) | (142,878) |
| Accrued expenses | 341,051 | - |
| Accrued salaries and related benefits | (60,808) | 514,049 |
| Deferred revenue | 127,516 | (58,691) |
| Deferred rent | 5,561 | 34,334 |
| Net cash provided by (applied to) operating activities | 270,753 | (1,003,807) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (447,237) | (190,602) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (176,484) | (1,194,409) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 5,584,071 | 6,778,480 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 5,407,587 | $ 5,584,071 |

See notes to financial statements.

# SERC RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - SERC Reliability Corporation (the "Corporation") is a non-profit corporation which qualifies as a Regional Reliability Organization under the Energy Policy Act of 2005. The Corporation's mission is to promote the reliability of the electricity supply for the southeastern United States. The activities of the Corporation are directed by its Board of Directors. The Corporation's members are electricity suppliers, brokers and consumers from various ownership segments of the electricity supply industry, investor-owned utilities, rural electric cooperatives, municipal utilities, independent power producers, power marketers and customers. These entities account for virtually all the electricity supplied in the southeastern United States.

Basis of Accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Corporation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Corporation had only unrestricted net assets as of December 31, 2017 and 2016, including unrestricted net assets that have been designated by the Board of Directors as an operating reserve.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Cash and Cash Equivalents - The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include funds invested overnight in accordance with the terms of repurchase agreements with its bank whereby the Corporation is transferred an undivided fractional interest in a pool of certain government securities with an agreement to sell the interest back to the bank the next business day. The Corporation maintains cash deposits with financial institutions that, at times, may exceed federally insured limits.

Property and Equipment - Property and equipment with a cost of $5,000 or more and an estimated useful life greater than one year, are capitalized at cost. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements and 3 years for computer equipment and software. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Accounts Receivable - Accounts receivable arise primarily from amounts billed to other members. By their nature, accounts receivable involve risk, including the credit risk of nonpayment. Management's determination of the need for an allowance for doubtful accounts is based on evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. Any amounts deemed uncollectible are charged directly to bad debt expense. As of December 31, 2017 and 2016, management has determined that an allowance for doubtful accounts is not necessary.

Fair Value Measurement - Generally accepted accounting principles in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Revenue Recognition - All income is recognized in the period when earned. The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation ("NERC") based on the budget submitted by the Corporation and approved by NERC and the Federal Energy Regulatory Commission ("FERC"). The revenue is received in four equal quarterly installments received at the beginning of each quarter. Based on past history with NERC, the Corporation believes that its revenue risk exposure is limited.

Deferred Revenue - Deferred revenue represents amounts billed or collected from members in advance of the periods in which such amounts are earned. The Corporation follows a revenue recognition policy that is used in its industry whereby certain penalty assessments that have been invoiced and, in certain cases, collected, remain as deferred revenue until the accounting period in which such penalties become part of the budget process to determine regular member assessments.

Deferred Rent - The Corporation recognizes operating lease expense on a straight-line basis over the term of the respective lease. When the terms of the operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Corporation establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. The deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

Income Taxes - The Corporation is a tax-exempt organization under Section 501(c)(6) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

The Corporation records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of December 31, 2017 and 2016.

Reclassifications - Certain amounts in the 2016 financial statements have been reclassified to conform with 2017 presentation. Such reclassifications had no effect on the previously reported change in net assets.

Subsequent Events - In preparing its financial statements, the Corporation has evaluated subsequent events through April 23, 2017, which is the date the financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Software | $ 1,410,755 | $ 1,454,765 |
| Leasehold improvements | 423,140 | 449,069 |
| Computer equipment | 285,798 | 280,618 |
| Equipment | 285,628 | - |
| Furniture and fixtures | 6,394 | - |
| Subtotal | 2,411,715 | 2,184,452 |
| Less accumulated depreciation | 1,608,919 | 1,471,374 |
| Total, net | $ 802,796 | $ 713,078 |

3. LEASE COMMITMENTS

During the year ended December 31, 2014, the Corporation entered into an operating lease for office space which commenced on April 1, 2014 and continues through January 31, 2025. The lease provides free rent for the first 10 months of the lease period and annual rent payments ranging from approximately $460,000 to approximately $612,000.

On January 15, 2016, the Corporation entered into an amendment to the current operating lease for expansion of office space. The amended lease continues through the original expiration date January 31, 2025. The amended lease provides for additional annual rent payments ranging from approximately $75,000 to approximately $88,000.

On October 12, 2017, the Corporation entered into an operating sublease for expansion of office space which commenced November 3, 2017 and continues through March 31, 2020. The lease provides free rent through December 31, 2017 and annual rent payments ranging from approximately $43,000 to approximately $171,000.

Total rent expense for the years ended December 31, 2017 and 2016 was approximately $605,000 and $572,000, respectively.

The following is a schedule of the approximate future minimum lease payments under all long-term leases as of December 31, 2017:

| | |
|---|---|
| During the year ending December 31: | |
| 2018 | $ 782,000 |
| 2019 | 797,000 |
| 2020 | 684,000 |
| 2021 | 655,000 |
| 2022 | 670,000 |
| Thereafter | 1,444,000 |
| Total | $ 5,032,000 |

4. LINE OF CREDIT

The Corporation has a line of credit with a bank that allows for borrowings up to a maximum of $1,500,000. Interest accrues at the prime rate (4.50% as of December 31, 2017) with all accrued interest and principal due in a single payment upon expiration of the note in September 2018. The line of credit is secured by the assets of the Corporation.

The Corporation had a line of credit with a different bank that allowed for borrowings up to a maximum of $1,000,000 that expired in August 2017.

There were no outstanding borrowings under the lines of credit as of December 31, 2017 and 2016.

5. RETIREMENT PLANS

*401(k) plan* - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation may make discretionary matching contributions to the plan limited to 6% of each eligible employee's compensation, as defined. In addition, the plan provides that the Corporation may make additional discretionary non-elective contributions in an amount to be determined by the Board of Directors each year. The Corporation also makes safe harbor non-elective contributions to the plan equal to 3% of each eligible employee's compensation, as defined. During the years ended December 31, 2017 and 2016, contribution expense related to the plan totaled approximately $1,082,000 and $1,165,000, respectively.

*Deferred compensation plan* - The Corporation has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b) for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. All contributions are immediately vested in the plan. During the years ended December 31, 2017 and 2016, contribution expense related to the plan totaled $49,600 and $5,675, respectively. As part of the plan, the Corporation reports assets and liabilities of equal amounts attributable to the amount deferred and contributed and the related investment earnings. The Corporation's investments related to the deferred compensation consist of equity mutual funds and money market funds, which are classified as level 1 securities in accordance with the fair value measurement framework under generally accepted accounting principles in the United States of America (see Note 1). The balance in the deferred compensation plan is $304,472 and $244,302 at December 31, 2017 and 2016, respectively.

6. FUNCTIONAL EXPENSES

The following is an allocation of expenses by functional category for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Program expenses: | | |
| Reliability standards | $ 267,110 | $ 347,195 |
| Compliance enforcement | 5,426,570 | 6,033,130 |
| Reliability assessment | 1,082,994 | 1,034,404 |
| Training and education | 385,764 | 402,201 |
| Situation awareness | 444,566 | 587,080 |
| | 7,607,004 | 8,404,010 |
| Committee and member forums | 1,033,798 | 1,091,436 |
| General and administrative expenses: | | |
| General and administrative | 4,135,048 | 4,060,111 |
| Legal and regulatory | 416,885 | 532,211 |
| Information technology | 2,321,492 | 1,850,314 |
| Human resources | 656,589 | 421,012 |
| Accounting and finance | 534,817 | 482,997 |
| | 8,064,831 | 7,346,645 |
| Total | $ 16,705,633 | $ 16,842,091 |

## SERC RELIABILITY CORPORATION

STATUTORY FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance |
|---|---|---|---|
| FUNDING: | | | |
| Member assessments | $ 15,706,023 | $ 15,706,023 | $ - |
| Penalty sanctions | 195,000 | 195,000 | - |
| Workshops | 122,098 | 176,025 | (53,927) |
| Interest | 5,369 | 1,000 | 4,369 |
| Miscellaneous | 138,641 | 383,500 | (244,859) |
| Total | 16,167,131 | 16,461,548 | (294,417) |
| EXPENSES: | | | |
| Personnel expenses: | | | |
| Salaries | 9,274,910 | 10,095,783 | (820,873) |
| Payroll taxes | 600,321 | 747,086 | (146,765) |
| Employee benefits | 829,720 | 1,087,450 | (257,730) |
| Savings and retirement | 1,162,438 | 1,278,181 | (115,743) |
| Total personnel expenses | 11,867,389 | 13,208,500 | (1,341,111) |
| Meeting expenses: | | | |
| Meetings | 330,069 | 265,768 | 64,301 |
| Travel | 422,033 | 534,977 | (112,944) |
| Conference calls | 30,512 | 44,544 | (14,032) |
| Total meeting expenses | 782,614 | 845,289 | (62,675) |
| Operating expenses: | | | |
| Consultants and contracts | 2,033,311 | 2,120,181 | (86,870) |
| Rent and improvements | 633,197 | 590,983 | 42,214 |
| Office costs | 638,883 | 282,011 | 356,872 |
| Professional services | 268,779 | 175,739 | 93,040 |
| Depreciation | 356,415 | 234,882 | 121,533 |
| Miscellaneous | 125,045 | 16,700 | 108,345 |
| Total operating expenses | 4,055,630 | 3,420,496 | 635,134 |
| Total expenses | 16,705,633 | 17,474,285 | (768,652) |
| CHANGE IN NET ASSETS | $ (538,502) | $ (1,012,737) | $ 474,235 |

See independent auditors' report.

## SERC RELIABILITY CORPORATION

STATUTORY FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

| | 2016 YTD Actual | 2016 YTD Budget | 2016 YTD Variance |
|---|---|---|---|
| FUNDING: | | | |
| Member assessments | $ 13,730,986 | $ 13,730,986 | $ - |
| Penalty sanctions | 648,500 | 648,500 | - |
| Workshops | 201,135 | 210,075 | (8,940) |
| Interest | 4,376 | 1,000 | 3,376 |
| Miscellaneous | 481,069 | 444,000 | 37,069 |
| Total | 15,066,066 | 15,034,561 | 31,505 |
| EXPENSES: | | | |
| Personnel expenses: | | | |
| Salaries | 9,802,321 | 9,457,718 | 344,603 |
| Payroll taxes | 560,651 | 642,524 | (81,873) |
| Employee benefits | 958,338 | 993,030 | (34,692) |
| Savings and retirement | 1,187,505 | 1,299,662 | (112,157) |
| Total personnel expenses | 12,508,815 | 12,392,934 | 115,881 |
| Meeting expenses: | | | |
| Meetings | 251,568 | 247,421 | 4,147 |
| Travel | 423,897 | 488,466 | (64,569) |
| Conference calls | 38,386 | 44,544 | (6,158) |
| Total meeting expenses | 713,851 | 780,431 | (66,580) |
| Operating expenses: | | | |
| Consultants and contracts | 2,033,635 | 1,497,173 | 536,462 |
| Rent and improvements | 586,001 | 517,917 | 68,084 |
| Office costs | 402,337 | 310,879 | 91,458 |
| Professional services | 191,808 | 155,200 | 36,608 |
| Depreciation | 387,470 | 483,480 | (96,010) |
| Miscellaneous | 18,174 | 5,000 | 13,174 |
| Total operating expenses | 3,619,425 | 2,969,649 | 649,776 |
| Total expenses | 16,842,091 | 16,143,014 | 699,077 |
| CHANGE IN NET ASSETS | $ (1,776,025) | $ (1,108,453) | $ (667,572) |

See independent auditors' report.

## SERC RELIABILITY CORPORATION

STATUTORY FINANCIAL STATEMENTS BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2017

| | 300 Reliability Standard Dev | 400 & 500 Comp Enforce/ Org Reg & Cert | 800 Reliability Assessment | 900 Training & Education | 1000 SIT Aware | 1100 Committee & Mbr. Forums | 2000 General & Facilities | 2200 Legal & Regulatory | 2300 IT | 2400 Human Resources | 2500 Accounting & Finance | 2017 YTD Actual | 2017 YTD Budget | 2017 YTD Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FUNDING: | | | | | | | | | | | | | | |
| Member assessments | $ 607,334 | $ 11,611,268 | $ 2,895,142 | $ 656,290 | $ 1,270,344 | $ - | $ (1,334,355) | $ - | $ - | $ - | $ - | $ 15,706,023 | $ 15,706,023 | $ - |
| Penalty sanctions | 6,670 | 134,617 | 31,859 | 6,670 | 15,184 | - | - | - | - | - | - | 195,000 | 195,000 | - |
| Workshops | - | - | - | 118,423 | - | 3,675 | - | - | - | - | - | 122,098 | 176,025 | (53,927) |
| Interest | - | - | - | - | - | - | - | - | - | - | 5,369 | 5,369 | 1,000 | 4,369 |
| Miscellaneous | - | 104,488 | - | 606 | - | - | 33,547 | - | - | - | - | 138,641 | 383,500 | (244,859) |
| Total | 614,004 | 11,850,373 | 2,927,001 | 781,989 | 1,285,528 | 3,675 | (1,300,808) | - | - | - | 5,369 | 16,167,131 | 16,461,548 | (294,417) |
| EXPENSES: | | | | | | | | | | | | | | |
| Personnel expenses: | | | | | | | | | | | | | | |
| Salaries | 215,126 | 3,942,338 | 581,259 | 112,136 | 347,118 | 631,545 | 1,815,201 | 475,299 | 646,418 | 290,750 | 217,720 | 9,274,910 | 10,095,783 | (820,873) |
| Payroll taxes | 12,143 | 262,455 | 41,272 | 4,664 | 22,979 | 36,892 | 112,857 | 28,594 | 48,620 | 16,872 | 12,973 | 600,321 | 747,086 | (146,765) |
| Employee benefits | 19,126 | 370,537 | 55,527 | 4,700 | 31,149 | 45,756 | 126,143 | 17,948 | 57,721 | 77,868 | 23,245 | 829,720 | 1,087,450 | (257,730) |
| Savings and retirement | 20,352 | 498,176 | 102,810 | 13,680 | 34,388 | 81,946 | 243,620 | 55,252 | 20,043 | 62,305 | 29,866 | 1,162,438 | 1,278,181 | (115,743) |
| Total personnel expenses | 266,747 | 5,073,506 | 780,868 | 135,180 | 435,634 | 796,139 | 2,297,821 | 577,093 | 772,802 | 447,795 | 283,804 | 11,867,389 | 13,208,500 | (1,341,111) |
| Meeting expenses: | | | | | | | | | | | | | | |
| Meetings | 288 | 23,572 | 64,464 | 113,546 | 500 | 20,375 | 21,448 | 77,992 | 1,297 | 6,167 | 420 | 330,069 | 265,768 | 64,301 |
| Travel | - | 197,495 | 42,384 | 18,328 | 7,276 | 45,790 | 49,673 | 31,056 | 12,110 | 15,854 | 2,067 | 422,033 | 534,977 | (112,944) |
| Conference calls | - | - | - | - | - | - | - | - | 30,512 | - | - | 30,512 | 44,544 | (14,032) |
| Total meeting expenses | 288 | 221,067 | 106,848 | 131,874 | 7,776 | 66,165 | 71,121 | 109,048 | 43,919 | 22,021 | 2,487 | 782,614 | 845,289 | (62,675) |
| Operating expenses: | | | | | | | | | | | | | | |
| Consultants and contracts | - | 117,222 | 149,000 | 115,580 | - | 170,187 | 191,910 | 741 | 1,078,633 | 29,244 | 180,794 | 2,033,311 | 2,120,181 | (86,870) |
| Rent and improvements | - | - | - | - | 1,140 | - | 632,057 | - | - | - | - | 633,197 | 590,983 | 42,214 |
| Office costs | 75 | 11,682 | 46,411 | 1,215 | 16 | 1,138 | 85,349 | 4,013 | 426,102 | 15,654 | 47,228 | 638,883 | 282,011 | 356,872 |
| Professional services | - | - | - | - | - | - | 82,341 | 25,284 | - | 140,650 | 20,504 | 268,779 | 175,739 | 93,040 |
| Depreciation | - | - | - | - | - | - | 356,415 | - | - | - | - | 356,415 | 234,882 | 121,533 |
| Miscellaneous | - | 3,093 | (133) | 1,915 | - | 169 | 118,293 | 447 | 36 | 1,225 | - | 125,045 | 16,700 | 108,345 |
| Total operating expenses | 75 | 131,997 | 195,278 | 118,710 | 1,156 | 171,494 | 1,466,365 | 30,485 | 1,504,771 | 186,773 | 248,526 | 4,055,630 | 3,420,496 | 635,134 |
| Total expenses | 267,110 | 5,426,570 | 1,082,994 | 385,764 | 444,566 | 1,033,798 | 3,835,307 | 716,626 | 2,321,492 | 656,589 | 534,817 | 16,705,633 | 17,474,285 | (768,652) |
| CHANGE IN NET ASSETS | $ 346,894 | $ 6,423,803 | $ 1,844,007 | $ 396,225 | $ 840,962 | $ (1,030,123) | $ (5,136,115) | $ (716,626) | $ (2,321,492) | $ (656,589) | $ (529,448) | $ (538,502) | $ (1,012,737) | $ 474,235 |

See independent auditors' report.

## SERC RELIABILITY CORPORATION

STATUTORY FINANCIAL STATEMENTS BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2016

| FUNDING: | 300 Reliability Standard Dev | 400 & 500 Comp Enforce/ Org Reg & Cert | 800 Reliability Assessment | 900 Training & Education | 1000 SIT Aware | 1100 Committee & Mbr. Forums | 2000 General & Facilities | 2200 Legal & Regulatory | 2300 IT | 2400 Human Resources | 2500 Accounting & Finance | 2016 YTD Actual | 2016 YTD Budget | 2016 YTD Variance |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Member assessments | $ 588,776 | $ 10,377,385 | $ 1,891,766 | $ 1,021,554 | $ 978,789 | $ - | $ (1,127,284) | $ - | $ - | $ - | $ - | $ 13,730,986 | $ 13,730,986 | $ - |
| Penalty sanctions | 25,115 | 468,257 | 83,716 | 28,286 | 43,126 | - | - | - | - | - | - | 648,500 | 648,500 | - |
| Workshops | - | - | - | 201,135 | - | - | - | - | - | - | - | 201,135 | 210,075 | (8,940) |
| Interest | - | - | - | - | - | - | - | - | - | - | 4,376 | 4,376 | 1,000 | 3,376 |
| Miscellaneous | - | 148,442 | - | - | - | - | 321,147 | - | 880 | - | 10,600 | 481,069 | 444,000 | 37,069 |
| Total | 613,891 | 10,994,084 | 1,975,482 | 1,250,975 | 1,021,915 | - | (806,137) | - | 880 | - | 14,976 | 15,066,066 | 15,034,561 | 31,505 |
| EXPENSES: | | | | | | | | | | | | | | |
| Personnel expenses: | | | | | | | | | | | | | | |
| Salaries | 267,424 | 4,304,932 | 651,226 | 137,490 | 454,625 | 714,201 | 2,110,868 | 322,237 | 297,734 | 256,398 | 285,186 | 9,802,321 | 9,457,718 | 344,603 |
| Payroll taxes | 13,486 | 242,903 | 43,279 | 7,660 | 29,199 | 41,344 | 115,224 | 18,492 | 19,143 | 13,774 | 16,147 | 560,651 | 642,524 | (81,873) |
| Employee benefits | 26,038 | 454,376 | 100,158 | 11,236 | 46,642 | 72,724 | 128,114 | 37,185 | 36,213 | 37,090 | 8,562 | 958,338 | 993,030 | (34,692) |
| Savings and retirement | 39,039 | 597,684 | 85,622 | 19,017 | 44,695 | 103,285 | 223,828 | 26,109 | 27,863 | 35,033 | (14,670) | 1,187,505 | 1,299,662 | (112,157) |
| Total personnel expenses | 345,987 | 5,599,895 | 880,285 | 175,403 | 575,161 | 931,554 | 2,578,034 | 404,023 | 380,953 | 342,295 | 295,225 | 12,508,815 | 12,392,934 | 115,881 |
| Meeting expenses: | | | | | | | | | | | | | | |
| Meetings | 125 | 24,732 | 11,836 | 110,314 | 702 | 22,999 | 72,497 | 65 | 394 | 7,806 | 98 | 251,568 | 247,421 | 4,147 |
| Travel | 1,083 | 238,293 | 44,854 | 5,524 | 10,998 | 57,693 | 50,927 | 9,496 | 2,502 | 1,080 | 1,447 | 423,897 | 488,466 | (64,569) |
| Conference calls | - | - | - | - | - | - | 20,003 | - | 18,383 | - | - | 38,386 | 44,544 | (6,158) |
| Total meeting expenses | 1,208 | 263,025 | 56,690 | 115,838 | 11,700 | 80,692 | 143,427 | 9,561 | 21,279 | 8,886 | 1,545 | 713,851 | 780,431 | (66,580) |
| Operating expenses: | | | | | | | | | | | | | | |
| Consultants and contracts | - | 153,107 | 92,350 | 110,310 | - | 75,845 | 108,600 | 36,116 | 1,309,668 | 38,519 | 109,120 | 2,033,635 | 1,497,173 | 536,462 |
| Rent and improvements | - | - | - | - | - | - | 586,001 | - | - | - | - | 586,001 | 517,917 | 68,084 |
| Office costs | - | 15,404 | 3,714 | 650 | 325 | 1,185 | 197,006 | 1,682 | 137,328 | 8,026 | 37,017 | 402,337 | 310,879 | 91,458 |
| Professional services | - | - | - | - | - | - | 47,608 | 80,933 | - | 22,940 | 40,327 | 191,808 | 155,200 | 36,608 |
| Depreciation | - | - | - | - | - | - | 387,470 | - | - | - | - | 387,470 | 483,480 | (96,010) |
| Miscellaneous | - | 1,699 | 1,365 | - | (106) | 2,160 | 11,965 | (104) | 1,086 | 346 | (237) | 18,174 | 5,000 | 13,174 |
| Total operating expenses | - | 170,210 | 97,429 | 110,960 | 219 | 79,190 | 1,338,650 | 118,627 | 1,448,082 | 69,831 | 186,227 | 3,619,425 | 2,969,649 | 649,776 |
| Total expenses | 347,195 | 6,033,130 | 1,034,404 | 402,201 | 587,080 | 1,091,436 | 4,060,111 | 532,211 | 1,850,314 | 421,012 | 482,997 | 16,842,091 | 16,143,014 | 699,077 |
| CHANGE IN NET ASSETS | $ 266,696 | $ 4,960,954 | $ 941,078 | $ 848,774 | $ 434,835 | $ (1,091,436) | $ (4,866,248) | $ (532,211) | $ (1,849,434) | $ (421,012) | $ (468,021) | $ (1,776,025) | $ (1,108,453) | $ (667,572) |

See independent auditors' report.

# ATTACHMENT 7

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## FOR

## SOUTHWEST POWER POOL REGIONAL ENTITY

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## SOUTHWEST POWER POOL, INC.

SPP Southwest Power Pool Regional Entity

Deborah K. Currie
Manager of Regulatory Interface and Process Improvement

Southwest Power Pool Regional Entity
201 Worthen Dr.
Little Rock, AR 72223
*P* 501.688.8228
*F* 501.482.2025

April 4, 2018 ***Via Electronic Mail***

Scott Jones, Senior Vice President, Chief Financial and Administrative Officer
Andy Sharp, Controller
Svet Nudelman, Senior Financial and Budget Advisor
North American Electric Reliability Corporation
3353 Peachtree Road, NE
Suite 600, North Tower
Atlanta, GA 30326

Subject: Southwest Power Pool Regional Entity 2017 Actual Cost-to-Budget Comparison

Dear Mr. Jones, Mr. Sharp, and Ms. Nudelman:

Attached is the Southwest Power Pool, Inc.'s (SPP, Inc.) submission of SPP Regional Entity's (SPP RE) 2017 Actual Cost-to-Budget Comparison (2017 True Up Filing). For 2017, SPP RE received approximately $9.5 million in statutory funds and incurred approximately $10.9 million in statutory expense (compared to $10.9 million budget).

The $3.4 thousand funding variance results from interest earned on the cash balance (zero was budgeted from this funding source). The SPP RE performs only statutory activities, and therefore no statutory funding was used for non-statutory activities. The net impact on SPP RE's cash position for the year was a $54 thousand positive variance (compared to the budgeted $1.4 million negative variance).

The significant expense variances at the aggregate statutory level are explained below, while the explanation for the expense variances by statutory program area are provided in the Attachment 1.

## Aggregate Expense Variances

- **Personnel Expenses** (Actual - $5.7 million or 9% over budget) – Personnel expenses were higher than budget primarily due to the dissolution of SPP RE and the anticipated termination of SPP RE's Regional Delegation Agreement no later December 31, 2018. The SPP RE trustees approved a transition plan to ensure continued operations until the dissolution date. SPP RE employees as of December 31, 2017 received retention pay and had the option to elect an early payout of 2017 performance pay that would have been paid in March 2018. Payroll taxes for these expenses were taxed at the IRS supplemental rate of 25%. These expenses caused salaries, payroll taxes, and savings & retirement expenses to exceed budget. Further, due to the dissolution of SPP RE, positions that were open, or became open during the year were not filled. As a result, employee benefits trailed budget primarily due to a smaller number of SPP RE employees needing continuing education credits to maintain their licenses and certifications.

- **Travel and Meeting Expenses** (Actual - $405K or 38% under budget) –Travel expenses were less than budgeted due to unfilled budgeted staff positions as well as a planned reduction in staff travel.

- **Operating Expenses** (Actual - $1.4 million or 15% over budget) – Operating expenses exceeded budget primarily due to the completion of the Engineering Data Validation Tool. This project was initially budgeted for in 2015, but due to a work stoppage and vendor change, project completion was delayed. SPP RE collected funds in 2015 for the project and budgeted an additional $150k in 2017.

- **SPP, Inc. Indirect Expense** (Actual - $3.4 million or 9% under budget) – SPP Inc. Indirect Expenses trailed budget primarily due to actual SPP, Inc. corporate overhead costs being slightly below the estimated budget amount (3% escalation factor applied to the 2015 actual expenses).

- **Total Expenses** (Actual $10.9 million or a 0% budget variance) – SPP RE ended the year at approximately the 2017 budgeted amount. This enabled SPP RE to complete its intended activities for 2017. SPP RE performed 25 audits, 7 Spot Checks, 3 Self-Certifications, updated 34 IRAs, processed 25 technical feasibility exceptions, identified 121 possible violations, processed 198 violations, reviewed completion of 76 mitigation plans and 54 mitigating activities, and examined 24 categorized events.

**SPP, Inc. Shared Staff and Indirect Support Staff**

The SPP governing documents, approved by NERC and FERC, allow for the use of SPP, Inc. staff not directly assigned to the SPP RE in the performance or support of some of the responsibilities that are performed by the SPP RE. There are two groups of SPP, Inc. staff that support the SPP RE. First, there is a group that performs some of the primary duties delegated to the SPP RE referred to as “shared staff.” Shared staff consists of a portion of the SPP RTO engineering staff that performs the technical studies that form the basis for the SPP Regional Assessments published by NERC. Second, there is another group that supplies administrative services to the SPP RE such as accounting, computer support, human resources support, building services support, etc. referred to as “indirect support staff.” In general, indirect support staff does not directly charge time and expenses to the SPP RE; these costs are billed through a primarily fixed administrative charge referred to as “SPP, Inc. Indirect Overhead Expense Charge.” Neither group participates in compliance or enforcement decisions of the SPP RE.

Shared staff members charge time and expenses directly to the SPP RE accounts and their hours are included in the official total full time equivalent headcount of the SPP RE for the purposes of reporting to NERC and FERC. Shared staff members record specific hours worked in the performance or support of the SPP RE’s statutory functions in SPP, Inc.’s time tracking system. These hours are posted by the shared staff members and reviewed and approved by their specific manager or supervisor. SPP RE staff review the hours posted by the shared staff members. This procedure results in actual hours spent by shared staff on SPP RE statutory functions being charged directly to the particular SPP RE direct function at the shared staff member’s compensation rate. In addition, an allocation of overhead costs is added to the directly assignable staff's hourly rate for these employees. These direct charges are included in the SPP RE's Business Plan and Budget. For 2017, shared staff charged SPP RE 9,396 hours, or 5.0 FTEs based on SPP's standard assumption that total number of hours in a year is 1,880. SPP RE budgeted 5.25 shared staff FTEs for 2017.

The costs of indirect support staff and other overhead charges (office space, computers, portable electronic devices, etc.) (SPP, Inc. Indirect Expenses), were assessed to the SPP RE based on an annual allocation of SPP's shared services support costs via an appropriate measure (headcount, square footage, number of devices, etc.) The SPP, Inc. Indirect Expenses assessed to the SPP RE are included in the SPP RE's Business Plan and Budget. The SPP, Inc. support costs included in the calculations are reviewed in detail to help ensure that SPP RTO specific costs are excluded from the calculation.

Due to the timing of the budget schedule, the estimated indirect expense charge for 2017 was based on actual 2015 costs, escalated by 3%. The calculation for the rate that was used in the development of the 2017 budget and the calculation for the actual 2017 costs are shown in Attachments 2 and 3, respectively.

If you have any questions related to the submitted materials please feel free to contact me at 501.688.8228 or dcurrie.re@spp.org.

Sincerely,

*Deborah K. Currie*

Deborah K. Currie
Manager, Regulatory Interface and Process Improvement

**Attachment I**

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| Total Statutory | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 9,092,553 | 9,092,553 | - | |
| Penalty Sanctions | 369,750 | 369,750 | - | |
| **Total ERO Funding** | **$ 9,462,303** | **$ 9,462,303** | **$ -** | |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | 3,415 | - | 3,415 | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 9,465,718** | **$ 9,462,303** | **$ 3,415** | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 4,716,479 | 4,385,605 | 330,874 | 8% |
| Payroll Taxes | 486,995 | 335,499 | 151,496 | 45% |
| Employee Benefits | 292,441 | 358,263 | (65,822) | -28% |
| Savings & Retirement | 219,662 | 175,424 | 44,237 | 25% |
| **Total Personnel Expenses** | **$ 5,715,576** | **$ 5,254,791** | **$ 460,785** | 9% |
| **Meeting Expenses** | | | | |
| Meetings | 106,989 | 120,000 | (13,012) | -11% |
| Travel | 297,943 | 537,000 | (239,057) | -45% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 404,932** | **$ 657,000** | **$ (252,068)** | -38% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 1,123,137 | 1,020,710 | 102,427 | 10% |
| Rent & Improvements | - | - | - | |
| Office Costs | 13,270 | 10,000 | 3,270 | 33% |
| Professional Services | 288,927 | 212,100 | 76,827 | 36% |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ 1,425,333** | **$ 1,242,810** | **$ 182,523** | 15% |
| **Total Direct Expenses** | **$ 7,545,841** | **$ 7,154,601** | **$ 391,240** | 5% |
| SPP Inc. Indirect Expenses | **$ 3,373,780** | **$ 3,710,910** | **$ (337,130)** | -9% |
| SPP RE Indirect Expenses (1) | **$ -** | **$ -** | **$ -** | |
| **Total Indirect Expenses** | **$ 3,373,780** | **$ 3,710,910** | **$ (337,130)** | -9% |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ 10,919,621** | **$ 10,865,511** | **$ 54,110** | 0% |
| **Change in Assets (A - B)** | **(1,453,903)** | **(1,403,208)** | **(50,695)** | 4% |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **-** | **-** | **-** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **-** | **-** | **-** | |
| **TOTAL BUDGET (B + C)** | **$ 10,919,621** | **$ 10,865,511** | **$ 54,110** | 0% |
| **Change in Working Capital (A-B-C)** | **$ (1,453,903)** | **$ (1,403,208)** | **$ (50,695)** | 4% |
| **FTEs (2)** | **28.7** | **33.25** | **(4.5)** | -14% |

(1) SPP RE Indirect Expenses which represent direct expenses for SPP RE Administrative Services, are included in direct expenses.

(2) Actual FTE equal RE Direct Staff FTEs (number of days employed at RE during 2017 divided by 365) plus Shared Staff FTEs (2017 billed hours divided by 1880)

**Attachment I**

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| RELIABILITY STANDARDS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 74,769 | $ 74,769 | - | 0% |
| Penalty Sanctions | 1,608 | 1,608 | - | 0% |
| **Total ERO Funding** | **$ 76,377** | **$ 76,377** | **$ -** | 0% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 76,377** | **$ 76,377** | **$ -** | **0%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 16,586 | 18,969 | (2,383) | -13% |
| Payroll Taxes | 1,269 | 1,451 | (182) | -13% |
| Employee Benefits | 1,107 | 1,107 | - | 0% |
| Savings & Retirement | 663 | 759 | (95) | -13% |
| **Total Personnel Expenses** | **$ 19,625** | **$ 22,286** | **$ (2,661)** | **-12%** |
| **Meeting Expenses** | | | | |
| Meetings | - | - | - | |
| Travel | 19,127 | 25,000 | (5,873) | -23% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 19,127** | **$ 25,000** | **$ (5,873)** | **-23%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Direct Expenses** | **$ 38,752** | **$ 47,286** | **$ (8,534)** | **-18%** |
| SPP Inc. Indirect Expenses | 14,679 | 13,951 | 728 | 5% |
| SPP RE Indirect Expenses | 15,153 | 15,140 | 14 | 0% |
| **Total Indirect Expenses** | **$ 29,832** | **$ 29,091** | **$ 741** | **3%** |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ 68,584** | **$ 76,377** | **$ (7,793)** | **-10%** |
| **Change in Assets (A - B)** | **$ 7,793** | **$ -** | **$ 7,793** | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **$ -** | **$ -** | **$ -** | |
| **TOTAL BUDGET (B + C)** | **$ 68,584** | **$ 76,377** | **$ (7,793)** | **-10%** |
| **Change in Working Capital (A-B-C)** | **$ 7,793** | **$ -** | **$ 7,793** | |
| **FTE's** | **0.125** | **0.125** | **-** | **0%** |

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

## Explanation of 2017 Variance – Reliability Standards

The Reliability Standards program area had no expense categories with variances > +/- 10% and >$10,000.

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION (Includes Critical Infrastructure Protection) | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 7,846,675 | 7,846,675 | - | 0% |
| Penalty Sanctions | 279,724 | 279,724 | | 0% |
| **Total ERO Funding** | **$ 8,126,399** | **$ 8,126,399** | **$ -** | 0% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 8,126,399** | **$ 8,126,399** | **$ -** | **0%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 2,874,548 | 2,665,150 | 209,398 | 8% |
| Payroll Taxes | 400,547 | 203,884 | 196,663 | 96% |
| Employee Benefits | 208,454 | 234,563 | (26,109) | -11% |
| Savings & Retirement | 159,938 | 106,606 | 53,332 | 50% |
| **Total Personnel Expenses** | **$ 3,643,488** | **$ 3,210,203** | **$ 433,285** | **13%** |
| **Meeting Expenses** | | | | |
| Meetings | 65,593 | 35,000 | 30,593 | 87% |
| Travel | 173,217 | 282,000 | (108,783) | -39% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 238,810** | **$ 317,000** | **$ (78,190)** | **-25%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 779,914 | 778,610 | 1,304 | 0% |
| Rent & Improvements | | - | - | |
| Office Costs | 10,563 | - | 10,563 | |
| Professional Services | | 11,000 | (11,000) | -100% |
| Miscellaneous | | | - | |
| Depreciation | | - | - | |
| **Total Operating Expenses** | **$ 790,477** | **$ 789,610** | **$ 867** | **0%** |
| **Total Direct Expenses** | **$ 4,672,774** | **$ 4,316,813** | **$ 355,961** | **8%** |
| SPP Inc. Indirect Expenses | 2,201,823 | 2,427,437 | (225,614) | -9% |
| SPP RE Indirect Expenses | 1,827,236 | 1,382,149 | 445,087 | 32% |
| **Total Indirect Expenses** | **$ 4,029,059** | **$ 3,809,586** | **$ 219,473** | **6%** |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ 8,701,833** | **$ 8,126,399** | **$ 575,434** | **7%** |
| **Change in Assets (A - B)** | **$ (575,434)** | **$ -** | **$ (575,434)** | |
| **Fixed Assets** | | | | |
| Depreciation | 0.00 | 0.00 | 0.00 | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **$ -** | **$ -** | **$ -** | |
| **TOTAL BUDGET (B + C)** | **$ 8,701,833** | **$ 8,126,399** | **$ 575,434** | **7%** |
| **Change in Working Capital (A-B-C)** | **$ (575,434)** | **$ -** | **$ (575,434)** | |
| **FTE's** | **18.75** | **21.75** | **(3.00)** | **-14%** |

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

## Explanation of 2017 Variance – Compliance Operations, Enforcement and Organization Registration

### Personnel Expenses

Personnel expenses exceeded budget primarily due to the dissolution of SPP RE no later than December 31, 2018. The SPP RE Trustees approved a transition plan in 2017 that included retention pay and an option for SPP RE employees to elect an early payout of 2017 performance pay that would have been paid in March 2018. Payroll taxes for these expenses were taxed at the IRS supplemental rate of 25%. These expenses caused salaries, payroll taxes, and savings & retirement expenses to exceed budget.

Due to the dissolution of SPP RE, positions that were open, or became open during the year were not filled. As a result, employee benefits trailed budget primarily due to a smaller number of SPP RE employees needing continuing education credits to maintain their licenses and certifications.

### Meeting Expenses

Meeting expenses exceeded budget primarily because meeting expenses from other program areas are included in this program area since many meetings held at the corporate campus serve more than one purpose. For instance, a series of meetings with individual Registered Entities may occur following one of SPP RE's annual workshops.

### Travel Expenses

Travel expenses trailed budget primarily due to unfilled budgeted positions and planned travel reductions after the SPP RE transition announcement was made.

### SPP RE Indirect Expenses

SPP RE indirect expenses exceeded budget primarily due to the positive budget variance for the General and Administrative function. See General & Administrative discussion for variance explanations.

**Attachment I**

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 2,453,341 | 2,453,341 | - | 0% |
| Penalty Sanctions | 86,811 | 86,811 | - | 0% |
| **Total ERO Funding** | **$ 2,540,152** | **$ 2,540,152** | **$ -** | 0% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 2,540,152** | **$ 2,540,152** | **$ -** | **0%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | 505,439 | 895,372 | (389,933) | -44% |
| Payroll Taxes | 38,666 | 68,496 | (29,830) | -44% |
| Employee Benefits | 49,833 | 62,778 | (12,945) | -21% |
| Savings & Retirement | 20,218 | 35,815 | (15,597) | -44% |
| **Total Personnel Expenses** | **$ 614,156** | **$ 1,062,461** | **$ (448,305)** | **-42%** |
| **Meeting Expenses** | | | | |
| Meetings | | - | - | |
| Travel | 43,769 | 110,000 | (66,231) | -60% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 43,769** | **$ 110,000** | **$ (66,231)** | **-60%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | 343,223 | 181,000 | 162,223 | 90% |
| Rent & Improvements | | - | - | |
| Office Costs | | - | - | |
| Professional Services | | - | - | |
| Miscellaneous | | - | - | |
| Depreciation | | - | - | |
| **Total Operating Expenses** | **$ 343,223** | **$ 181,000** | **$ 162,223** | **90%** |
| **Total Direct Expenses** | **$ 1,001,148** | **$ 1,353,461** | **$ (352,313)** | **-26%** |
| SPP Inc. Indirect Expenses | 600,070 | 753,343 | (153,273) | -20% |
| SPP RE Indirect Expenses | 391,487 | 433,348 | (41,861) | -10% |
| **Total Indirect Expenses** | **$ 991,558** | **$ 1,186,691** | **$ (195,134)** | **-16%** |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ 1,992,705** | **$ 2,540,152** | **$ (547,447)** | **-22%** |
| **Change in Assets (A - B)** | **$ 547,447** | **$ -** | **$ 547,447** | |
| **Fixed Assets** | | | | |
| Depreciation | 0.00 | 0.00 | 0.00 | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **$ -** | **$ -** | **$ -** | |
| **TOTAL BUDGET (B + C)** | **$ 1,992,705** | **$ 2,540,152** | **$ (547,447)** | **-22%** |
| **Change in Working Capital (A-B-C)** | **$ 547,447** | **$ -** | **$ 547,447** | |
| **FTE's** | **5.11** | **6.75** | **(1.64)** | **-24%** |

**Attachment I**

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

**<u>Explanation of 2017 Variance – Reliability Assessments and Performance Analysis</u>**

<u>Personnel Expenses</u>

Personnel expenses including salaries, payroll taxes, employee benefits and savings & retirement trailed budget primarily due to unfilled budgeted positions.

<u>Travel Expenses</u>

Travel expenses trailed budget primarily due to unfilled budgeted positions and planned travel reductions after the SPP RE transition announcement was made.

<u>Consultants and Contractors</u>

Consultant and Contract Expenses exceeded budget primarily due to the completion of the Engineering Data Validation IT Tool project. This project was initiated in 2015, but due to work stoppage and a vendor change project completion did not occur in 2016. However, funds previously collected were not re-assessed.

<u>SPP, Inc. Indirect Expenses</u>

SPP RE indirect expenses trailed budget primarily due to actual fixed costs being lower than budgeted and a slightly lower than budgeted use of Engineering Shared Staff (5.0 FTEs actual compared to 5.25 FTEs budgeted).

**Attachment I**

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| TRAINING, EDUCATION and OPERATOR CERTIFICATION | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | 79,211 | 79,211 | - | 0% |
| Penalty Sanctions | - | - | | |
| **Total ERO Funding** | **$ 79,211** | **$ 79,211** | **$ -** | 0% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ 79,211** | **$ 79,211** | **$ -** | **0%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | - | - | - | |
| Payroll Taxes | - | - | - | |
| Employee Benefits | - | - | - | |
| Savings & Retirement | - | - | - | |
| **Total Personnel Expenses** | **$ -** | **$ -** | **$ -** | |
| **Meeting Expenses** | | | | |
| Meetings | 38,047 | 60,000 | (21,953) | -37% |
| Travel | - | | - | |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 38,047** | **$ 60,000** | **$ (21,953)** | **-37%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | - | - | - | |
| Rent & Improvements | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Direct Expenses** | **$ 38,047** | **$ 60,000** | **$ (21,953)** | **-37%** |
| SPP Inc. Indirect Expenses | 58,715 | - | 58,715 | |
| SPP RE Indirect Expenses | 14,878 | 19,211 | (4,333) | -23% |
| **Total Indirect Expenses** | **$ 73,593** | **$ 19,211** | **$ 54,383** | **283%** |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ 111,641** | **$ 79,211** | **$ 32,430** | **41%** |
| **Change in Assets (A - B)** | **$ (32,430)** | **$ -** | **$ (32,430)** | |
| **Fixed Assets** | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **$ -** | **$ -** | **$ -** | |
| **TOTAL BUDGET (B + C)** | **$ 111,641** | **$ 79,211** | **$ 32,430** | **41%** |
| **Change in Working Capital (A-B-C)** | **$ (32,430)** | **$ -** | **$ (32,430)** | |
| **FTE's** | **0.50** | **-** | **0.50** | |

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

## Explanation of 2017 Variance – Training, Education and Operator Certification

Meeting Expenses

Meeting expenses trailed budget primarily due to the lower cost for the number of workshops held at SPP's corporate campus.

**Attachment I**

# Southwest Power Pool
# Regional Entity
# Statement of Activities
# From 1/1/2017 through 12/31/2017

| SITUATION AWARENESS and INFRASTRUCTURE SECURITY | | 2017 Actual | | 2017 Budget | | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|---|---|---|
| **Funding** | | | | | | | |
| **ERO Funding** | | | | | | | |
| Assessments | | 41,765 | | 41,765 | | - | 0% |
| Penalty Sanctions | | 1,608 | | 1,608 | | | 0% |
| **Total ERO Funding** | $ | 43,372 | $ | 43,372 | $ | - | 0% |
| Federal Grants | | - | | - | | - | |
| Membership Fees | | - | | - | | - | |
| Testing | | - | | - | | - | |
| Services & Software | | - | | - | | - | |
| Workshop Fees | | - | | - | | - | |
| Interest | | - | | - | | - | |
| Miscellaneous | | - | | - | | - | |
| **Total Funding (A)** | $ | **43,372** | $ | **43,372** | $ | **-** | **0%** |
| **Expenses** | | | | | | | |
| **Personnel Expenses** | | | | | | | |
| Salaries | | 18,440 | | 18,969 | | (529) | -3% |
| Payroll Taxes | | 1,411 | | 1,451 | | (40) | -3% |
| Employee Benefits | | 1,107 | | 1,107 | | - | 0% |
| Savings & Retirement | | 738 | | 759 | | (21) | -3% |
| **Total Personnel Expenses** | $ | **21,696** | $ | **22,286** | $ | **(590)** | **-3%** |
| **Meeting Expenses** | | | | | | | |
| Meetings | | - | | - | | - | |
| Travel | | - | | - | | - | |
| Conference Calls | | - | | - | | - | |
| **Total Meeting Expenses** | $ | - | $ | - | $ | - | |
| **Operating Expenses** | | | | | | | |
| Consultants & Contracts | | | | - | | - | |
| Rent & Improvements | | - | | - | | - | |
| Office Costs | | - | | - | | - | |
| Professional Services | | - | | - | | - | |
| Miscellaneous | | - | | - | | - | |
| Depreciation | | - | | - | | - | |
| **Total Operating Expenses** | $ | - | $ | - | $ | - | |
| **Total Direct Expenses** | $ | **21,696** | $ | **22,286** | $ | **(590)** | **-3%** |
| SPP Inc. Indirect Expenses | | 14,679 | | 13,951 | | 728 | 5% |
| SPP RE Indirect Expenses | | 8,484 | | 7,135 | | 1,348 | 19% |
| **Total Indirect Expenses** | $ | **23,163** | $ | **21,086** | $ | **2,076** | **10%** |
| **Other Non-Operating Expenses** | $ | - | $ | - | $ | - | |
| **Total Expenses (B)** | $ | **44,858** | $ | **43,372** | $ | **1,486** | **3%** |
| **Change in Assets (A - B)** | $ | **(1,486)** | $ | **1** | $ | **(1,486)** | |
| **Fixed Assets** | | | | | | | |
| Depreciation | | 0.00 | | 0.00 | | 0.00 | |
| Computer & Software CapEx | | - | | - | | - | |
| Furniture & Fixtures CapEx | | - | | - | | - | |
| Equipment CapEx | | - | | - | | - | |
| Leasehold Improvements | | - | | - | | - | |
| **Incr(Dec) in Fixed Assets** | $ | - | $ | - | $ | - | |
| Allocation of Fixed Assets | | - | | - | | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | $ | - | $ | - | $ | - | |
| **TOTAL BUDGET (B + C)** | $ | **44,858** | $ | **43,372** | $ | **1,486** | **3%** |
| **Change in Working Capital (A-B-C)** | $ | **(1,486)** | $ | **1** | $ | **(1,486)** | |
| **FTE's** | | **0.125** | | **0.125** | | **-** | **0%** |

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

**Explanation of 2017 Variance – Situational Awareness and Infrastructure Security**

The Situational Awareness and Infrastructure Security program area had no expense categories with variances > +/- 10% and >$10,000.

**Attachment I**

# Southwest Power Pool
## Regional Entity
## Statement of Activities
## From 1/1/2017 through 12/31/2017

| GENERAL and ADMINISTRATIVE | 2017 Actual | 2017 Budget | 2017 Variance from Budget Over(Under) | Variance % |
|---|---|---|---|---|
| **Funding** | | | | |
| **ERO Funding** | | | | |
| Assessments | (1,403,208) | (1,403,208) | - | 0% |
| Penalty Sanctions | | | | |
| **Total ERO Funding** | **$ (1,403,208)** | **$ (1,403,208)** | **$ -** | 0% |
| Federal Grants | - | - | - | |
| Membership Fees | - | - | - | |
| Testing | - | - | - | |
| Services & Software | - | - | - | |
| Workshop Fees | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding (A)** | **$ (1,403,208)** | **$ (1,403,208)** | **$ -** | **0%** |
| **Expenses** | | | | |
| Salaries | 1,301,466 | 787,145 | 514,321 | 65% |
| Payroll Taxes | 45,102 | 60,217 | (15,115) | -25% |
| Employee Benefits | 31,939 | 58,708 | (26,769) | -46% |
| Savings & Retirement | 38,105 | 31,486 | 6,619 | 21% |
| **Total Personnel Expenses** | **$ 1,416,612** | **$ 937,555** | **$ 479,056** | **51%** |
| **Meeting Expenses** | | | | |
| Meetings | 3,348 | 25,000 | (21,652) | -87% |
| Travel | 61,830 | 120,000 | (58,170) | -48% |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ 65,179** | **$ 145,000** | **$ (79,821)** | **-55%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | | 61,100 | (61,100) | -100% |
| Rent & Improvements | | - | - | |
| Office Costs | 2,708 | 10,000 | (7,292) | -73% |
| Professional Services | 288,927 | 201,100 | 87,827 | 44% |
| Miscellaneous | | - | - | |
| Depreciation | | - | - | |
| **Total Operating Expenses** | **$ 291,634** | **$ 272,200** | **$ 19,434** | **7%** |
| **Total Direct Expenses** | **$ 1,773,425** | **$ 1,354,755** | **$ 418,669** | **31%** |
| SPP Inc. Indirect Expenses | 483,814 | 502,228 | (18,414) | -4% |
| SPP RE Indirect Expenses | (2,257,239) | (1,856,983) | (400,255) | 22% |
| **Total Indirect Expenses** | **$ (1,773,425)** | **$ (1,354,755)** | **$ (418,669)** | **31%** |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses (B)** | **$ -** | **$ 0** | **$ -** | **0%** |
| **Change in Assets (A - B)** | **$ (1,403,208)** | **$ (1,403,208)** | **$ -** | **0%** |
| **Fixed Assets** | | | | |
| Depreciation | 0.00 | 0.00 | 0.00 | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | |
| Allocation of Fixed Assets | - | - | - | |
| **Total Inc(Dec) in Fixed Assets (C)** | **$ -** | **$ -** | **$ -** | |
| **TOTAL BUDGET (B + C)** | **$ -** | **$ 0** | **$ -** | **0%** |
| **Change in Working Capital (A-B-C)** | **$ (1,403,208)** | **$ (1,403,208)** | **$ -** | 0% |
| **FTE's** | **4.12** | **4.50** | **(0.38)** | 0% |

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

**Explanation of 2017 Variance – General and Administrative**

Personnel Expenses

Salaries exceeded budget primarily due to the dissolution of SPP RE no later than December 31, 2018. The SPP RE Trustees approved a transition plan in 2017 that included retention pay and an option for SPP RE employees to elect an early payout of 2017 performance pay that would have been paid in March 2018. Payroll taxes trailed budget primarily due to RE Staff in this program area reaching the annual Social Security maximum withholding threshold.

Meeting Expenses

Meeting expenses trailed budget primarily due to workshop and audit expenses being recorded in other program areas.

Travel Expenses

Travel expenses trailed budget primarily due to unfilled budgeted positions and planned travel reductions after the SPP RE transition announcement was made.

Consultants and Contracts Expense

Consultant and Contract Expenses trailed budget primarily because these expenses are recorded in other program areas.

Professional Services Expense

Professional Services expense exceeded budget primarily because travel and meeting expenses for four trustees were higher than budgeted.

SPP RE Indirect Expenses

SPP RE indirect expenses exceeded budget primarily due to a larger percentage being allocated to this program area based on the relative share of functional program direct expenses.

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

## Other 2017 Explanations

Member Forums

Expenses incurred by SPP RE for forums are included in the direct expenses of the applicable program area.

Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance

Expenses incurred by SPP RE for legal, IT, HR, Accounting and Finance are accounted for within the SPP, Inc. Indirect Expenses.

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

**Attachment 2**

## CALCULATION OF THE BUDGETED SPP INC. INDIRECT EXPENSE CHARGE[1]
## 2017 Budget

| Expense Category[2] | Overhead Costs Allocation ($000) | | |
|---|---|---|---|
| Facilities | $ | 446 | |
| Information Technology | | 595 | |
| Human Resources/Benefits/Payroll | | 310 | |
| Corporate Services | | 1,169 | |
| 2015 Total Costs | | 2,520 | |
| Escalated by 3% | $ | 2,596 | **E** |

**<u>Shared Staff Overhead Allocation</u>**

| | | | |
|---|---|---|---|
| 2015 Overhead Allocation Escalated by 3% | | 850 | **A** |
| **Ending 2015 FTEs** | | **4** | **B** |
| 2017 Budgeted FTEs | | 5.25 | C |
| **2017 Total Cost** | | **1,115** | **D** |
| | | **D = (A / B) x C** | |
| **Budgeted SPP Inc. Indirect Costs** | **$** | **3,710,910** | **D+E** |

[1]Due to the timing of the budget process/schedule, the estimated indirect expense charge for 2017 is based on actual 2015 costs, escalated by 3%. Any variance between the estimated overhead expenses and the actual 2017 overhead expenses will be included in the annual 2017 Business Plan and Budget true-up filing.
[2] SPP RE cost allocation is based on an appropriate measure per expense category (square footage, number of devices, headcount, etc.)

**Southwest Power Pool**
**Regional Entity**
**Statement of Activities**
**From 1/1/2017 through 12/31/2017**

**Attachment 3**

**2017 Actual**

| **Expense Category**[1] | **Overhead Costs Allocation ($000)** | |
|---|---|---|
| Facilities | $ 497 | |
| Information Technology | 457 | |
| Human Resources/Benefits/Payroll | 319 | |
| Corporate Services | 1,038 | |
| 2017 Total Costs | 2,312 | **A** |

**<u>Shared Staff Overhead Allocation</u>**

| | | |
|---|---|---|
| 2017 Overhead | $1,062 | |
| **2017 Budgeted FTEs** | **5.25** | |
| 2017 Actual FTEs | 5 | |
| **2017 Total Cost** | **1,062** | **B** |

| | | |
|---|---|---|
| **Actual SPP Inc. Indirect Costs** | **3,373,780** | **A+B** |

[1] SPP RE cost allocation is based on an appropriate measure per expense category (square footage,

# Southwest Power Pool, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

# Southwest Power Pool, Inc.
## December 31, 2017 and 2016

## Contents

# Independent Auditor's Report

Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying financial statements of Southwest Power Pool, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in members' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Southwest Power Pool, Inc. as of December 31, 2017 and 2016, 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.

BKD, LLP

Little Rock, Arkansas
April 9, 2018

# Southwest Power Pool, Inc.

## Balance Sheets (*in Thousands*)

## December 31, 2017 and 2016

### Assets

| | 2017 | 2016 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 100,496 | $ 75,715 |
| Restricted cash deposits | 340,612 | 223,964 |
| Accounts receivable, net | 74,391 | 63,702 |
| Prepaid expenses and other | 8,539 | 9,291 |
| Total current assets | 524,038 | 372,672 |
| **Property and Equipment, at Cost** | | |
| Land | 4,812 | 4,812 |
| Building | 67,650 | 67,338 |
| Furniture and fixtures | 10,380 | 10,211 |
| Equipment and machinery | 52,007 | 46,210 |
| Software | 177,480 | 170,701 |
| Software in development | 2,844 | 5,205 |
| Equipment under capital lease | 4,876 | 4,876 |
| | 320,049 | 309,353 |
| Less accumulated depreciation and amortization | 240,275 | 216,663 |
| | 79,774 | 92,690 |
| **Investments (*Note 2*)** | 24,456 | 10,835 |
| **Other Assets, Net** | 5,499 | 4,628 |
| | $ 633,767 | $ 480,825 |

*See Notes to Financial Statements*

## Liabilities and Members' Deficit

| | 2017 | 2016 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ 75,844 | $ 66,927 |
| Customer deposits | 340,612 | 223,964 |
| Current maturities of long-term debt (*Note 4* ) | 21,469 | 21,410 |
| Current maturities of obligations under capital lease (*Note 5* ) | 1,890 | 1,817 |
| Accrued expenses | 98,801 | 54,310 |
| Deferred revenue | 3,928 | 5,127 |
| Total current liabilities | 542,544 | 373,555 |
| **Long-term Debt (*Note 4* )** | 214,479 | 235,948 |
| Less unamortized debt issuance costs | (803) | (898) |
| | 213,676 | 235,050 |
| **Obligation Under Capital Lease (*Note 5* )** | 1,966 | 3,856 |
| **Other Long-term Liabilities** | 32,302 | 35,044 |
| **Members' Deficit** | (156,721) | (166,680) |
| | $ 633,767 | $ 480,825 |

# Southwest Power Pool, Inc.

## Statements of Income (*in Thousands*)

## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Income** | | |
| Tariff fees and member assessments | $ 190,343 | $ 171,464 |
| Other member services | 6,278 | 5,131 |
| | 196,621 | 176,595 |
| **Operating Expenses** | | |
| Salaries and benefits | 94,650 | 90,186 |
| Employee travel | 2,023 | 1,919 |
| Administrative | 4,656 | 4,764 |
| Regulatory assessment | 21,663 | 18,648 |
| Meetings | 1,040 | 974 |
| Communications system | 3,504 | 3,915 |
| Maintenance | 16,099 | 14,775 |
| Consulting services | 12,620 | 15,065 |
| Depreciation | 27,716 | 58,025 |
| | 183,971 | 208,271 |
| **Operating Income (Loss)** | 12,650 | (31,676) |
| **Other Income (Expense)** | | |
| Investment income | 234 | 191 |
| Interest expense | (10,164) | (10,687) |
| Change in fair market value of interest rate swaps | 789 | 682 |
| Other expense | (1,483) | (431) |
| | (10,624) | (10,245) |
| **Income (Loss) Before Unrealized Gain and Change in Funded Status of Employee Benefit Plans** | 2,026 | (41,921) |
| **Unrealized Gain on Investments** | 1,499 | 659 |
| **Change in Funded Status of Employee Benefit Plans** | 6,434 | 3,998 |
| **Net Income (Loss)** | $ 9,959 | $ (37,264) |

# Southwest Power Pool, Inc.

## Statements of Members' Deficit (*in Thousands*)

## Years Ended December 31, 2017 and 2016

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Balance, Beginning of Year** | $ | (166,680) | $ | (129,416) |
| Net income (loss) | | 9,959 | | (37,264) |
| **Balance, End of Year** | $ | (156,721) | $ | (166,680) |

# Southwest Power Pool, Inc.

## Statements of Cash Flows (*in Thousands*)

## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Activities** | | |
| Net income (loss) | $ 9,959 | $ (37,264) |
| Items not requiring cash | | |
| Depreciation and amortization | 27,813 | 58,120 |
| Change in funded status of employee benefit plans | (6,434) | (3,998) |
| Unrealized gain on investments | (1,499) | (659) |
| Loss on disposal of fixed assets | 6 | - |
| Impairment loss | - | 82 |
| Change in fair market value of interest rate swaps | (789) | (682) |
| Changes in assets and liabilities | | |
| Accounts receivable | (10,689) | (23,912) |
| Prepaid expenses and other | 752 | (871) |
| Other assets | (871) | 431 |
| Accounts payable | 8,917 | 36,318 |
| Accrued expenses | 43,293 | 10,027 |
| Other long-term liabilities | 4,479 | 4,456 |
| Net cash provided by operating activities | 74,937 | 42,048 |
| **Investing Activities** | | |
| Acquisition of property and equipment | (14,807) | (14,317) |
| Purchase of investments | (12,216) | (825) |
| Proceeds from sale of investments | 94 | - |
| Net cash used in investing activities | (26,929) | (15,142) |
| **Financing Activities** | | |
| Repayments of long-term debt | (21,409) | (23,603) |
| Repayments of capital lease obligation | (1,818) | (591) |
| Repayment of borrowings under line of credit | - | (16,000) |
| Borrowings under line of credit | - | 14,000 |
| Issuance of long-term debt | - | 33,000 |
| Net cash provided by (used in) financing activities | (23,227) | 6,806 |
| **Increase in Cash and Cash Equivalents** | 24,781 | 33,712 |
| **Cash and Cash Equivalents, Beginning of Year** | 75,715 | 42,003 |
| **Cash and Cash Equivalents, End of Year** | $ 100,496 | $ 75,715 |
| **Supplemental Cash Flows Information** | | |
| Interest paid on long-term debt (net of interest capitalized of $63 and $121 in 2017 and 2016, respectively) | $ 10,074 | $ 10,591 |
| Property and equipment purchases in accounts payable and accrued liabilities | $ 3,149 | $ 1,991 |

# Southwest Power Pool, Inc.
## Notes to Financial Statements (*in Thousands*)
## December 31, 2017 and 2016

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

Southwest Power Pool, Inc. (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than 17.5 million ultimate customers across all or parts of 14 states. The Company's membership consists of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, reliability coordination, regional scheduling, market operations and regional transmission expansion planning. Market operations encompass day-ahead and real-time markets, transmission congestion rights, reliability unit commitment, operating reserve market and consolidated balancing authority.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents and Deposits*

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2017 and 2016, the Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds set aside for disputed invoices.

### *Investments*

The Company's investments include equity and fixed income mutual funds and government securities. These investments are recorded at fair value, with unrealized gains and losses reported as nonoperating income. Dividends, interest income and realized gains and losses are reported as investment income. The Company's investments are intended to be utilized in funding benefits associated with the Company's postretirement health care plan and 457f deferred compensation plan in addition to maintaining collections under Schedule 12 to be utilized for the annual FERC assessment.

### *Income Taxes*

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law. However, the Company is subject to federal income tax on any unrelated business taxable income.

Notes to Financial Statements (*in Thousands*)

### *Accounts Receivable*

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date are subject to interest at a rate set by FERC. No allowance for doubtful accounts was recorded at December 31, 2017. The Company had recorded an allowance for doubtful accounts of $822 at December 31, 2016.

### *Property and Equipment*

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

| | |
|---|---|
| Building | 20 years |
| Building improvements | Shorter of useful life or remaining life of building |
| Furniture and fixtures | 5 years |
| Vehicles | 5 years |
| Equipment and machinery | 3 years |
| Software | 3 years |

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $63 and $121 in 2017 and 2016, respectively.

The Company capitalizes development costs, including interest, for internal use software costs. These costs are included in software in development. Management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

### *Long-Lived Asset Impairment*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value.

No asset impairment was recognized during the year ended December 31, 2017. In 2016, the Company recorded an impairment loss of $82 for previously capitalized costs associated with the development of an engineering software tool. The amount is recorded as an impairment loss in the accompanying Statement of Income and is included in other income (expense).

### *Revenue Recognition*

Revenues, consisting of member assessments, tariff administrative fees, contract services and miscellaneous revenues are recognized when earned, and expenses are recognized when incurred.

### *Customer Deposits*

Customers may be required to make deposits with the Company prior to the performance of transmission services, market transactions and engineering studies. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds set aside for disputed invoices are also recorded as customer deposits under current liabilities.

### *Tariff Fees and Member Assessments*

An administrative charge is applied to all transmission service under the Company's Open Access Transmission Tariff (tariff) to cover the expenses related to its administration. The charge is calculated in accordance with the terms of the Company's tariff. The administrative rate used for the calculation is established by the board of directors.

Members are assessed monthly based on their prior year average 12-month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the board of directors.

A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2017 and 2016, all members paid a $6 membership fee.

The Company also bills transmission customers and transmission owners a charge under Schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers the annual charges the Company pays to FERC.

### *Deferred Revenue*

Revenues for contract services received in advance are recognized over the periods to which the revenues relate.

### *Other Member Services*

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis. The Company also provides engineering study services for long-term transmission service and generation interconnection requests.

### *Withdrawing Members*

Members wishing to withdraw their membership from the Company must provide 24 months' written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal and the member's share of long-term obligations and related interest. Withdrawing members may also be responsible for all financial obligations incurred and costs allocated to its load for transmission facilities approved prior to their withdrawal. As of December 31, 2017, the Company had not been notified by any member of their intent to withdraw their membership from the Company.

## Notes to Financial Statements (*in Thousands*)

### *Concentration of Credit Risk*

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2017 and 2016, the Company maintained cash balances, including transaction accounts and short-term investment accounts that are not insured by the Federal Deposit Insurance Corporation. At December 31, 2017 and 2016, the Company did not have transaction accounts exceeding federal insurance limits. The Company's investment accounts were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

The Company considers its accounts receivable to be highly probable of collection. No allowance for doubtful accounts was recorded at December 31, 2017. The Company had recorded an allowance of $822 at December 31, 2016.

The Company requires its customers to meet certain minimum standards of financial condition and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a customer, the Company requires the posting of defined financial security instruments to cover potential liabilities.

## Note 2: Investment and Investment Returns

Investments at December 31 consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| **Mutual Funds** | | |
| Equity | $ 9,359 | $ 7,789 |
| Fixed income | 3,430 | 3,046 |
| Total mutual funds | 12,789 | 10,835 |
| **U.S. Government Securities** | | |
| Treasury Notes | 11,667 | - |
| Total Government Securities | 11,667 | - |
| | $ 24,456 | $ 10,835 |

Notes to Financial Statements (*in Thousands*)

Total investment return is comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividends reported at fair value | $ 234 | $ 191 |
| Net realized and unrealized gains on investments reported at fair value | 1,499 | 659 |
| | $ 1,733 | $ 850 |

Interest, dividends and realized gains and losses are reported as investment income, while unrealized gains and losses are reported separately in the Statements of Income.

## Note 3: Line of Credit

The Company has a $30,000 revolving line of credit expiring in 2019. At December 31, 2017 and 2016, no amounts were borrowed against this line. The agreement has a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus a credit margin. The interest rate at December 31, 2017, was 2.82%. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2017.

## Notes to Financial Statements (*in Thousands*)

## Note 4: Long-term Debt and Interest Rate Swaps

### *Long-term Debt*

| | 2017 | 2016 |
|---|---|---|
| Variable Rate Term Note due 2027 (A) | $ 2,930 | $ 3,136 |
| 4.82% Series 2010-A and B Senior Notes due 2042 (B) | 59,518 | 60,722 |
| 3.55% Series 2010-C Senior Notes due 2024 (C) | 43,750 | 50,750 |
| 3.00% Series 2012-D-1 Senior Notes due 2024 (D) | 31,250 | 36,250 |
| 3.25% Series 2012-D-2 Senior Notes due 2024 (E) | 33,750 | 38,750 |
| 3.80% Series 2014-E Senior Notes due 2025 (F) | 37,000 | 37,000 |
| Floating Series Note - 2024 (G) | 27,750 | 30,750 |
| | 235,948 | 257,358 |
| Less unamortized debt issuance costs | 803 | 898 |
| Less current maturities | 21,469 | 21,410 |
| | $ 213,676 | $ 235,050 |

(A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts quarterly based on LIBOR plus 0.85%. At December 31, 2017 and 2016, the interest rate was 2.25% and 1.75%, respectively. The note is secured by a first mortgage on the Company's operation facility.

(B) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commenced on March 30, 2013. The interest rate is fixed at 4.82%. The notes are unsecured.

(C) Due March 30, 2024; principal and interest are payable quarterly based on a 13-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.55%. The notes are unsecured.

(D) Due March 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.00%. The notes are unsecured.

(E) Due September 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on December 30, 2014. The interest rate is fixed at 3.25%. The notes are unsecured.

(F) Due December 30, 2025; principal and interest are payable quarterly based on an 11 year and 9 months amortization. Principal payments commence on March 30, 2024. The interest rate is fixed at 3.80%. The notes are unsecured.

(G) Due March 30, 2024; principal and interest are payable monthly based on an eight-year amortization. Payments commenced on June 30, 2016. The interest rate adjusts monthly based on LIBOR plus 1.75%. At December 31, 2017 and 2016, the interest rate was 3.11% and 2.37%, respectively. The note is unsecured.

## Notes to Financial Statements (*in Thousands*)

Aggregate annual maturities of long term debt at December 31, 2017, are:

| | | |
|---|---|---|
| 2018 | $ | 21,469 |
| 2019 | | 22,281 |
| 2020 | | 22,596 |
| 2021 | | 23,414 |
| 2022 | | 23,735 |
| Thereafter | | 122,453 |
| | $ | 235,948 |

Certain of the Company's term notes require compliance with financial and nonfinancial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2017.

### *Variable-to-Fixed Interest Rate Swap*

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements.

On September 15, 2006, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of $2,907 and $3,111 at December 31, 2017 and 2016, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

The Company entered into another interest rate swap agreement on March 10, 2014, with Regions Bank. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 3.225% on notional amounts of $27,750 and $30,750 at December 31, 2017 and 2016, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan G).

The table below presents certain information regarding the Company's interest rate swap agreements.

| | 2017 | 2016 |
|---|---|---|
| Fair value of interest rate swap agreements | $ 1,717 | $ 2,506 |
| Balance sheet location of fair value amounts | Other Long-term Liabilities | Other Long-term Liabilities |
| Gain recognized in statement of income | $ 789 | $ 682 |
| Location of gain recognized in statement of income | Change in Fair Market Value of Interest Rate Swaps | Change in Fair Market Value of Interest Rate Swaps |

Notes to Financial Statements (*in Thousands*)

## Note 5: Capital Lease Obligation

The Company entered into a capital lease obligation on February 1, 2015, in the amount of $6,901 to finance data storage equipment. The term of the financing is five years and expires on November 1, 2019. At December 31, 2017 and 2016, accumulated depreciation for equipment purchased under the capital lease was $4,740 and $3,115, respectively. Future minimum payments on the capital lease obligation at December 31, 2017, are:

| | | |
|---|---|---|
| 2018 | $ | 2,015 |
| 2019 | | 2,015 |
| Total minimum lease payments | | 4,030 |
| Less: Amount representing interest | | 174 |
| Present value of minimum lease payments | $ | 3,856 |
| Current portion of minimum lease payments | $ | 1,890 |
| Long-term portion of minimum lease payments | | 1,966 |
| Total | $ | 3,856 |

## Note 6: Employee Benefit Plans

### *Pension and Other Postretirement Benefit Plans*

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately $4,590 to the plan in 2018.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the noncontributory defined postretirement health care plan. Eligible retirees are provided monies through a tax-free health reimbursement account to pay for individual Medicare supplemental health insurance plans or other eligible health care expenses.

## Notes to Financial Statements (*in Thousands*)

The Company uses a December 31 measurement date for the plans. Information about the plans' funded status is as follows:

| | Pension Benefits | | | | Postretirement Health Care Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| Benefit obligation | $ | 85,888 | $ | 76,969 | $ | 9,474 | $ | 9,426 |
| Fair value of plan assets | | 70,183 | | 57,739 | | - | | - |
| Funded status | $ | (15,705) | $ | (19,230) | $ | (9,474) | $ | (9,426) |

Amounts recognized in the balance sheets:

| | Pension Benefits | | | | Postretirement Health Care Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| Other long-term liabilities | $ | (15,705) | $ | (19,230) | $ | (9,474) | $ | (9,426) |

Amounts recognized in members' equity not yet recognized as components of net periodic benefit cost as of December 31, 2017 and 2016, consist of:

| | Pension Benefits | | | | Postretirement Health Care Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| Net loss | $ | 13,324 | $ | 18,681 | $ | 4,501 | $ | 5,538 |
| Prior service credit | | (24) | | (23) | | (1,322) | | (1,405) |
| Transition obligation | | 49 | | 66 | | 13 | | 18 |
| | $ | 13,349 | $ | 18,724 | $ | 3,192 | $ | 4,151 |

The accumulated benefit obligation for the defined benefit pension plan was $68,960 and $61,476 at December 31, 2017 and 2016, respectively.

Other significant balances and costs are:

| | Pension Benefits | | | | Postretirement Health Care Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| Employer contributions | $ | 5,200 | $ | 5,380 | $ | - | $ | - |
| Benefits paid | | 786 | | 713 | | 101 | | 91 |
| Benefit costs | | 7,049 | | 7,182 | | 1,108 | | 1,210 |

In 2017, no amounts were funded by the Company into the investment account holding assets intended to be utilized in providing benefits for eligible retirees. The Company transferred $250 into the investment account in 2016.

## Notes to Financial Statements (*in Thousands*)

The following amounts have been recognized in the Statements of Income for the years ended December 31, 2017 and 2016:

| | Pension Benefits | | Postretirement Health Care Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Amounts arising during the period | | | | |
| Net gain | $ 4,759 | $ 2,092 | $ 819 | $ 783 |
| Amounts recognized as benefit components of net periodic cost of the period | | | | |
| Net loss | 785 | 985 | 255 | 315 |
| Net prior service credit | 1 | 1 | (83) | (83) |
| Net transition obligation | 16 | 16 | 4 | 4 |

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are $338, $1 and $16, respectively. The estimated net loss, prior service cost and net obligation for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year are $197, $83 and $4, respectively.

Weighted-average assumptions used to determine benefit obligations and costs:

| | Pension Benefits | | Postretirement Health Care Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Discount rate benefit obligation | 5.0% | 5.0% | 5.0% | 5.0% |
| Expected return on plan assets | 7.0% | 7.0% | N/A | N/A |
| Rate of compensation increase | 4.0% | 4.0% | N/A | N/A |

The Company has estimated the long term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits in the next year was assumed for 2017 and 2016. The rate was assumed to decrease gradually to 5% by the year 2022 and remain at that level thereafter.

Notes to Financial Statements (*in Thousands*)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

| | Pension Benefits | Postretirement Health Care Benefits |
|---|---|---|
| 2018 | $ 1,016 | $ 149 |
| 2019 | 1,199 | 187 |
| 2020 | 1,292 | 202 |
| 2021 | 1,491 | 221 |
| 2022 | 1,796 | 246 |
| 2023-2027 | 15,556 | 1,933 |

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plan must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually.

At December 31, 2017 and 2016, plan assets by category are as follows:

| | Pension Plan Assets | |
|---|---|---|
| | 2017 | 2016 |
| Fixed income securities | 32% | 27% |
| Equity securities | 63 | 67 |
| Cash and equivalents | 5 | 6 |
| | 100% | 100% |

### *Pension Plan Assets*

Following is a description of the valuation methodologies used for the pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of the assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, closed-end mutual funds and common and foreign company stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include open-end mutual funds, corporate debt obligations, foreign corporate debt obligations and foreign government securities.

# Southwest Power Pool, Inc.
## Notes to Financial Statements (*in Thousands*)
## December 31, 2017 and 2016

In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2017 and 2016, the Company does not hold any plan assets valued using Level 3 inputs.

The fair values of the Company's pension plan assets at December 31, 2017 and 2016, by asset category are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **2017** | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Money market mutual funds** | $ 3,598 | $ 3,598 | $ - | $ - |
| **Mutual funds** | | | | |
| Equity funds | 37,621 | 24,386 | 13,235 | - |
| Fixed income funds | 12,522 | 7,741 | 4,781 | - |
| Other funds | 2,190 | 320 | 1,870 | - |
| | 52,333 | 32,447 | 19,886 | - |
| **Domestic common stock** | | | | |
| Financials | 2,736 | 2,736 | - | - |
| Healthcare | 1,502 | 1,502 | - | - |
| Industrials | 895 | 895 | - | - |
| Telecommunications | 701 | 701 | - | - |
| Other | 601 | 601 | - | - |
| | 6,435 | 6,435 | - | - |
| **Corporate debt obligations** | 7,615 | - | 7,615 | - |
| **Foreign government securities** | 201 | - | 201 | - |
| Total | $ 70,182 | $ 42,480 | $ 27,702 | $ - |
| **2016** | | | | |
| **Money market mutual funds** | $ 3,518 | $ 3,518 | $ - | $ - |
| **Mutual funds** | | | | |
| Equity funds | 28,500 | 19,766 | 8,734 | - |
| Fixed income funds | 8,795 | 5,785 | 3,010 | - |
| Other Funds | 1,363 | 255 | 1,109 | - |
| | 38,658 | 25,805 | 12,853 | - |
| **Domestic common stock** | | | | |
| Energy | 3,456 | 3,456 | - | - |
| Financials | 1,536 | 1,536 | - | - |
| Healthcare | 1,961 | 1,961 | - | - |
| Other | 1,858 | 1,858 | - | - |
| | 8,811 | 8,811 | - | - |
| **Foreign stocks** | 303 | 303 | - | - |
| **Corporate debt obligations** | 5,945 | - | 5,945 | - |
| **Foreign government securities** | 505 | - | 505 | - |
| Total | $ 57,739 | $ 38,436 | $ 19,302 | $ - |

### *Defined Contribution Plans*

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company matches contributions at 4.75% for those employees deferring 6% of compensation, with the match fluctuating from 1% to 4.75% for each percentage of compensation contributed under 6%. Contributions to the plan were $2,752 and $2,600 for 2017 and 2016, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Accumulated contributions and earnings of $2,597 and $1,924 are recorded in other long-term liabilities at December 31, 2017 and 2016, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan was intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. There were accrued benefits of $938 and $460 recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2017 and 2016, respectively.

## Note 7: Related Party Transactions

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled $21,137 and $19,661 as of December 31, 2017 and 2016, respectively. The Company recognized revenues of $137,780 and $124,652, including assessments and tariff administrative fees, from members for the years ended December 31, 2017 and 2016, respectively.

The Southwest Power Pool Regional State Committee (RSC) was incorporated on April 7, 2004, in the state of Arkansas. The RSC is comprised of commissioners from public service commissions or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004 order regarding the Company's RTO application, stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's board of directors for approval. The Company includes in its annual budget funds sufficient to cover 100% of the operating costs of the RSC. During 2017 and 2016, the Company incurred $202 and $257, respectively, in expenses attributable to the RSC operations. Management of the Company expects such expenditures for 2018 to be approximately $381.

## Note 8: Open Access Transmission and Market Operations

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 43 providers in 14 states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owners on a monthly basis. Billings for these transmission services are not included in the statements of income. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's Statements of Income.

For the years ended December 31, 2017 and 2016, the Company billed transmission customers $2,130,538 and $2,009,809, respectively. For the years ended December 31, 2017 and 2016, the Company remitted to transmission owners $1,914,880 and $1,850,198, respectively. At December 31, 2017 and 2016, the Company was due to collect from customers and remit to owners transmission service charges of $178,581 and $161,852, respectively.

The Company's Integrated Marketplace includes a day-ahead market with transmission congestion rights, a reliability unit commitment process, a real-time balancing market, an operating reserve market and a consolidated balancing authority. Weekly settlements of market participants' energy transactions are not reflected in the Company's Statements of Income since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis. At December 31, 2017 and 2016, the Company held $56,757 and $19,694, respectively, in cash collections from the settlement of auction revenue rights in accordance with terms of the Company's tariff. These funds are disbursed annually in June for collections from the previous twelve months. A corresponding liability is reflected in accrued expenses on the Balance Sheets.

## Note 9: Commitments and Contingencies

### *Litigation and Regulatory Matters*

The Company is engaged in various legal and regulatory proceedings at both the federal and state levels. The Company is also subject to claims and lawsuits that arise primarily in the ordinary course of business.

It is the opinion of management that the disposition or ultimate resolution of such proceedings, claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

## Note 10: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Notes to Financial Statements (*in Thousands*)**

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **December 31, 2017** | | | | |
| Cash equivalents | $ 15,112 | $ 15,112 | $ - | $ - |
| Mutual funds | | | | |
| Equity | 9,359 | - | 9,359 | - |
| Fixed income | 3,430 | - | 3,430 | - |
| U.S. Government Securities | | | | |
| Treasury Notes | 11,667 | 11,667 | - | - |
| Interest rate swap agreements | (1,717) | - | (1,717) | - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **December 31, 2016** | | | | |
| Cash equivalents | $ 29,799 | $ 29,799 | $ - | $ - |
| Mutual funds | | | | |
| Equity | 7,789 | - | 7,789 | - |
| Fixed income | 3,046 | - | 3,046 | - |
| Interest rate swap agreements | (2,506) | - | (2,506) | - |

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying Balance Sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

## *Investments*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2017 and 2016, the Company does not hold any assets valued using Level 3 inputs.

## Notes to Financial Statements (*in Thousands*)

### *Interest Rate Swap Agreements*

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

### *Cash Equivalents*

The fair value of money market mutual funds included in cash equivalents is estimated using quoted prices in active markets for identical assets or liabilities and, therefore, is classified within Level 1 of the valuation hierarchy.

The Company has no assets or liabilities measured and recognized in the accompanying Balance Sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying Balance Sheets at amounts other than fair value.

### *Restricted Cash Deposits*

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

### *Customer Deposits*

The carrying amount is a reasonable estimate of fair value.

### *Long-term Debt and Capital Lease Obligations*

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 100,496 | $ 100,496 | $ 75,715 | $ 75,715 |
| Restricted cash deposits | $ 340,612 | $ 340,612 | $ 223,964 | $ 223,964 |
| Investments | $ 24,456 | $ 24,456 | $ 10,835 | $ 10,835 |
| **Financial liabilities** | | | | |
| Customer deposits | $ 340,612 | $ 340,612 | $ 223,964 | $ 223,964 |
| Capital lease obligations | $ 3,856 | $ 3,902 | $ 5,673 | $ 5,791 |
| Long-term debt | $ 235,948 | $ 238,802 | $ 257,358 | $ 256,665 |
| Swap agreements | $ 1,717 | $ 1,717 | $ 2,506 | $ 2,506 |

### Note 11: Subsequent Events

Subsequent events have been evaluated through the April 9, 2018, which is the date the financial statements were available to be issued.

# ATTACHMENT 8

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## TEXAS RELIABILITY ENTITY, INC.

TEXAS RE
Ensuring electric reliability for Texans

April 30, 2018

Svet Nudelman
Andy Sharp
Meg Leonard
North American Electric Reliability Corporation
3343 Peachtree Road, NE Floor East Tower – Suite 400
Atlanta, GA 30326

Subject: Texas Reliability Entity (Texas RE) 2017 Actual Cost-to-Budget Comparison

Dear Mr. Sharp, Ms. Leonard and Ms. Nudelman,

Texas Reliability Entity (Texas RE) has completed the 2017 True-Up Analysis. The budget comparisons are for the 2017 Texas RE budget, formally approved by FERC.

Texas RE did not use Statutory funds for Non-statutory purposes.

Texas RE's policy is to allocate indirect expenses to statutory programs based on the pro-rata share of FTEs to total statutory program FTEs.

Texas RE maintains a $2,000,000 cash reserve balance according to the policy approved by the Texas RE Board of Directors.

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are in the following pages.

**INCOME**

Total Statutory Income is equal to the budgeted amount in 2017 for assessments and penalty sanctions. Interest income is greater than budget by $11,320. Texas RE's banking accunt was converted to the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. The change in the account type allowed for higher interest and dividend collections. .

**EXPENSES**

The 2017 total expenses and fixed asset activity are 5.5% less than total budget.

Personnel Expenses are $305,573 or 3.3% below budget due to medical insurance not increasing as much as projected. Unused relocation, education reimbursement and training money added to the variance. The State Unemployment Insurance rate increased from .45% to 1.39% on the first $9,000 of wages per employee. When the 2017 budget was prepared, the rate was .45%. This tax increase had an impact on all departments and programs.

Travel and Meeting Expenses are $121,061 or 27.6% less than budget. The spring and fall workshops were in the Texas RE Conference Center. The budget included costs for one outside facility for one of the workshops. Travel for the CMEP team and Administrative Services was less than anticipated due to cost savings efforts.

Other Operating Expenses are $197,505 or 7.7% less than budget. The Consultants and Contracts budget includes executive coaching for all directors and managers that was not conducted in 2017. Rent and Improvements are less than budget due to cost of utilities and common area maintenance not increasing as expected. Office costs are less than budget due to Software, maintenance and leased equipment. Some of the anticipated maintenance was either not renewed or the price decreased at renewal. Professional services are less than budget due to security services scheduled for fourth quarter that was determined unnecessary.

**FIXED ASSETS**

Fixed Assets and Depreciation are $47,681 or 21.0% greater than budget. Depreciation is greater than budget due to audio-visual equipment purchased after the 2017 budget was prepared.

Although Texas RE ended the year $672k or 5.5% under budget, Texas RE completed its intended activities for 2017.

In 2017 Texas RE completed 26 audits of which 16 were both O&P and CIP combined (3 were MRRE audits consisting of 25 entites across 7 regions), 9 audits were O&P only (1 being an MRRE audit consisting of 41 entities) and 1 was an MRRE CIP audit only (41 entities). The MRRE audits brought the total to 128 equivalent audits that required Texas RE staff involvement. The 17 audits that included CIP are as follows: 5 audits with High Impact CCAs (1 MRRE), 7 audits with Medium Impact CCAs (3 MRREs) and 5 audits with Low Impact CCAs. In addition, Texas RE completed 1 O&P Spot Check and 1 O&P Self Certification.

Texas RE processed 21 technical feasibility exceptions (TFEs) in 2017; 12 were processed as a material change and 9 were approved. None were terminated or disapproved.

Texas RE identified 410 non-compliance matters and completely resolved 221 violations. The Texas RE caseload increased from 101 to 290.

Texas RE verified mitigation plans or mitigation activities for 165 possible violations (141 related to mitigation activities and 24 related to mitigation plans).

In 2017, 64 events were examined as follows: 52 – non-qualified events (below threshold for Categories 1-5), 11 Category 1 events and 1 Category 5 event (Hurricane Harvey). There were no Category 2, 3 or 4 level events.

In 2017, Texas RE processed 24 entity registrations, 11 entity deactivations/de-registrations and 2 entity name changes. In 2017, Texas RE did not conduct any TOP certifications; Texas RE performed 1 certification reviews.

If you have any questions on the report or the attached spreadsheet, please call me at the number below.

Thank you.

*Judy*

*Judy A. Foppiano, CPA*
CFO & Director of Corporate Services
***Texas Reliability Entity, Inc.***
805 Los Cimas Parkway, Suite 200
Austin, Texas 78746
Judy.foppiano@texasre.org
512.583.4959 (Direct)

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability Entity, Inc.
2017 Statutory & Non-Statutory Statement of Activities and Fixed Assets
Audited

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 9,595,256 | $ 9,595,256 | $ - | |
| Penalty Sanctions | 50,000 | 50,000 | - | |
| State (Non-Statutory) Funding | 1,059,945 | 1,059,945 | - | |
| Interest & Membership Dues | 13,491 | 2,000 | 11,491 | |
| **Total Revenue** | **$ 10,718,692** | **$ 10,707,201** | **$ 11,491** | **0.1%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 7,454,158 | $ 7,405,722 | $ 48,436 | |
| Payroll Taxes | 494,979 | 473,312 | 21,667 | |
| Employee Benefits | 1,020,778 | 1,329,663 | (308,885) | |
| Savings & Retirement | 929,131 | 1,010,074 | (80,943) | |
| **Total Personnel Expenses** | **$ 9,899,045** | **$ 10,218,771** | **$ (319,726)** | **-3.1%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 18,546 | $ 49,080 | $ (30,534) | |
| Travel | 279,813 | 367,845 | (88,032) | |
| Conference Expenses | 20,652 | 24,750 | (4,098) | |
| **Total Meeting & Travel Expenses** | **$ 319,011** | **$ 441,675** | **$ (122,664)** | **-27.8%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 399,021 | $ 454,634 | $ (55,613) | |
| Rent & Improvements | 832,070 | 710,081 | 121,989 | |
| Office Costs | 716,112 | 814,809 | (98,697) | |
| Professional Services | 479,873 | 527,100 | (47,227) | |
| Depreciation | 304,892 | 287,410 | 17,482 | |
| **Total Operating Expenses** | **$ 2,731,967** | **$ 2,794,034** | **$ 62,066** | **2.2%** |
| **Total Direct Expense** | **$ 12,950,023** | **$ 13,454,479** | **$ 504,457** | **3.7%** |
| **Indirect Expenses** | **$ -** | **$ -** | **$ -** | **0.0%** |
| **Total Expenses** | **$ 12,950,023** | **$ 13,454,480** | **$ 504,457** | **3.7%** |
| **Change in Assets** | **$ (2,231,331)** | **$ (2,747,279)** | **$ (492,966)** | **17.9%** |
| **Fixed Assets** | | | | |
| Depreciation | $ (282,000) | $ (267,279) | $ (14,721) | |
| Computer & Software CapEx | - | 40,000 | (40,000) | |
| Furniture & Fixture CapEx | - | - | - | |
| Allocaton of Fixed Assets | - | - | - | |
| Leasehold Improvement CapEx | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ (282,000)** | **$ (227,279)** | **$ (54,721)** | **24.1%** |
| **TOTAL BUDGET** | **$ 12,668,023** | **$ 13,227,201** | **$ (559,178)** | **-4.2%** |
| **Change in Working Captial** | **$ (1,949,331)** | **$ (2,520,000)** | **$ 570,669** | **-22.6%** |
| FTE's | 61.10 | 65.00 | -3.90 | |

TEXAS RE
Ensuring electric reliability for Texans

Texas Reliability ntity, Inc.
2017 Statutory Statement of Activities & Fixed Assets
Audited

## Statutory Summary

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 9,595,256 | $ 9,595,256 | $ - | |
| Penalty Sanctions | 50,000 | 50,000 | - | |
| Interest & Membership Dues | 13,320 | 2,000 | 11,320 | |
| **Total Revenue** | $ 9,658,576 | $ 9,647,256 | $ 11,320 | 0.1% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 6,793,894 | $ 6,739,715 | $ 54,180 | 0.8% |
| Payroll Taxes | 451,136 | 438,778 | 12,358 | 2.8% |
| Employee Benefits | 981,115 | 1,283,357 | (302,242) | -23.6% |
| Savings & Retirement | 842,801 | 912,670 | (69,869) | -7.7% |
| **Total Personnel Expenses** | **$ 9,068,946** | **$ 9,374,519** | **$ 305,573** | **3.3%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 18,075 | $ 49,080 | $ (31,005) | -63.2% |
| Travel | 279,087 | 366,045 | (86,958) | -23.8% |
| Conference Expenses | 20,652 | 23,750 | (3,098) | -13.0% |
| **Total Meeting & Travel Expenses** | **$ 317,814** | **$ 438,875** | **$ (121,061)** | **-27.6%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 396,717 | $ 433,199 | $ (36,482) | -8.4% |
| Rent & Improvements | 606,349 | 629,212 | (22,863) | -3.6% |
| Office Costs | 629,110 | 732,000 | (102,890) | -14.1% |
| Professional Services | 469,460 | 519,450 | (49,990) | -9.6% |
| Depreciation | 282,000 | 267,279 | 14,721 | 5.5% |
| **Total Operating Expenses** | **2,383,635** | **2,581,140** | **(197,505)** | **-7.7%** |
| **Total Direct Expense** | **$ 11,770,395** | **$ 12,394,535** | **$ (624,141)** | **-5.0%** |
| **Indirect Allocation** | **$ -** | **$ -** | **-** | **0.0%** |
| **Total Expenses** | **$ 11,770,395** | **$ 12,394,535** | **$ (624,141)** | **-5.0%** |
| **Change in Assets** | **$ (2,111,819)** | **$ (2,747,279)** | **$ 635,461** | **-23.1%** |
| **Fixed Assets** | | | | |
| Depreciation | $ (282,000) | $ (267,279) | $ (14,721) | 5.5% |
| Computer & Software CapEx | 7,040 | 40,000 | (32,960) | -82.4% |
| Furniture & Fixture CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvement CapEx | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ (274,960)** | **$ (227,279)** | **$ (47,681)** | **21.0%** |
| **TOTAL BUDGET** | **$ 11,495,435** | **$ 12,167,256** | **$ (671,821)** | **-5.5%** |
| **Change in Working Captial** | **$ (1,836,859)** | **$ (2,520,000)** | **$ 683,141** | **-27.1%** |
| **FTE's** | **56.0** | **60.00** | **(4.00)** | |

Texas Reliability Entity, Inc.
2017 Statement of Activities and Fixed Assets
Audited

## Reliability Standards

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 311,198 | $ 311,198 | $ - | 0.0% |
| Penalty Sanctions | 1,622 | 1,622 | - | 0.0% |
| Interest & Membership Dues | 473 | 65 | 408 | 627.7% |
| **Total Revenue** | **$ 313,293** | **$ 312,884** | **$ 408** | **0.1%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 203,227 | $ 198,994 | $ 4,233 | 2.1% |
| Payroll Taxes | 12,911 | 12,372 | 540 | 4.4% |
| Employee Benefits | 34,112 | 39,470 | (5,358) | -13.6% |
| Savings & Retirement | 26,178 | 27,935 | (1,757) | -6.3% |
| **Total Personnel Expenses** | **$ 276,429** | **$ 278,770** | **$ (2,341)** | **-0.8%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ - | $ - | $ - | 0.0% |
| Travel | 5,319 | 13,950 | (8,631) | -61.9% |
| Conference Expenses | 6,448 | 1,700 | 4,748 | 279.3% |
| **Total Meeting & Travel Expenses** | **$ 11,767** | **$ 15,650** | **$ (3,883)** | **-24.8%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ - | $ - | $ - | 0.0% |
| Rent & Improvements | - | - | - | 0.0% |
| Office Costs | - | 100 | (100) | -100.0% |
| Professional Services | - | - | - | 0.0% |
| Depreciation | - | - | - | 0.0% |
| **Total Operating Expenses** | **$ -** | **$ 100** | **$ (100)** | **-100.0%** |
| **Total Direct Expenses** | **$ 288,196** | **$ 294,520** | **$ (6,324)** | **-2.1%** |
| **Indirect Allocation** | **$ 167,270** | **$ 159,019** | **$ 8,251** | **5.2%** |
| **Total Expenses** | **$ 455,466** | **$ 453,539** | **$ 1,927** | **0.4%** |
| **Change in Assets** | **$ (142,173)** | **$ (140,655)** | **$ (1,518)** | **1.1%** |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Allocaton of Fixed Assets | (10,012) | (7,371) | (2,641) | |
| **Incr(Dec) in Fixed Assets** | **$ (10,012)** | **$ (7,371)** | **$ (2,641)** | **35.8%** |
| **TOTAL BUDGET** | **$ 445,454** | **$ 446,168** | **$ (714)** | **-0.2%** |
| **Change in Working Captial** | **$ (132,161)** | **$ (133,284)** | **$ 1,123** | **-0.8%** |
| FTE's | 1.50 | 1.50 | | |

**Reliability Standards**

Variances > +/- $10,000 and 10%

Total Personnel Expenses are under budget 0.8%. Salaries are slightly over budget due an unbudgeted bonus which also had an impact on payroll taxes. Health Insurance was lower than budget.

Meeting and Travel expense is 24.8% or $3,883 less than budget.

Operating expenses are 100% or $100 less than budget.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Depreciation and Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Depreciation is greater than budget due to audio-visual equipment purchased after the 2017 budget was prepared.

Total Budget for Reliability Standards is 0.2% less than budget.

Texas Reliability Entity, Inc.
2017 Statement of Activities and Fixed Assets
Audited

**CMEP**

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 7,520,606 | $ 7,520,606 | $ - | 0.0% |
| Penalty Sanctions | 39,189 | 39,189 | - | 0.0% |
| Interest & Membership Dues | 10,167 | 1,568 | 8,599 | 548.4% |
| **Total Revenue** | **$ 7,569,962** | **$ 7,561,363** | **$ 8,599** | **0.1%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 3,618,224 | $ 3,653,924 | $ (35,700) | -1.0% |
| Payroll Taxes | 265,663 | 257,246 | 8,417 | 3.3% |
| Employee Benefits | 541,132 | 693,090 | (151,958) | -21.9% |
| Savings & Retirement | 475,450 | 513,071 | (37,621) | -7.3% |
| **Total Personnel Expenses** | **$ 4,900,469** | **$ 5,117,331** | **$ 216,862** | **4.2%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 220 | $ 2,080 | $ (1,860) | -89.4% |
| Travel | 113,792 | 165,587 | (51,795) | -31.3% |
| Conference Expenses | 6,448 | 300 | 6,148 | 2049.3% |
| **Total Meeting & Travel Expenses** | **$ 120,460** | **$ 167,967** | **$ (47,507)** | **-28.3%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 150,240 | $ 205,000 | $ (54,760) | -26.7% |
| Rent & Improvements | - | - | - | 0.0% |
| Office Costs | 16,605 | 16,770 | (165) | -1.0% |
| Professional Services | - | - | - | 0.0% |
| Depreciation | - | - | - | 0.0% |
| **Total Operating Expenses** | **$ 166,845** | **$ 221,770** | **$ (54,925)** | **-24.8%** |
| **Total Direct Expenses** | **$ 5,187,774** | **$ 5,507,068** | **$ (319,294)** | **-5.8%** |
| **Indirect Allocaton** | **$ 3,596,308** | **$ 3,842,957** | **$ (246,649)** | **-6.4%** |
| **Total Expenses** | **$ 8,784,082** | **$ 9,350,025** | **$ (565,943)** | **-6.1%** |
| **Change in Assets** | **$ (1,214,120)** | **$ (1,788,662)** | **$ 574,542** | **-32.1%** |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixture CapEx | - | - | - | |
| Allocation of Fixed Assets | (215,254) | (178,138) | (37,116) | 20.8% |
| Leasehold Improvement CapEx | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ (215,254)** | **$ (178,138)** | **$ (37,116)** | **20.8%** |
| **TOTAL BUDGET** | **$ 8,568,828** | **$ 9,171,887** | **$ (603,059)** | **-6.6%** |
| **Change in Working Captial** | **$ (998,866)** | **$ (1,610,524)** | **$ 611,658** | **-38.0%** |
| FTE's | 32.25 | 36.25 | | |

## CMEP

Variances > +/- $10,000 and 10%

This department ended the year 6.6% less than budget due to staff vacancies and timing of staff turnover throughout the year.

Personnel expenses for CMEP are 4.2% less than budget due to vacancies and timing of replacements in the department during the year. The vacancies have an impact on salaries, taxes, benefits and retirement expense. Not all employees participated fully in the retirement plan and forfeitures were used as available to fund the employer portion of the retirement plans.

Meeting and Travel expense is 28.3% less than budget due to less travel resulting from the FTE vacancies and cost savings efforts. The cost saving effort is reflected in the large increase in conference call expenses due to participating in meetings by conference call.

Total Operating Expenses are 24.8% less than budget. Contracts and Consultants are less than budget because the OATI service contract was less than budget.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Depreciation and Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Depreciation is greater than budget due to audio-visual equipment purchased after the 2017 budget was prepared.

Texas Reliability Entity, Inc.
2017 Statement of Activities and Fixed Assets
Audited

**RAPA**

| **Revenue** | **2017 Actual** | **2017 Budget** | **2017 Variance from Budget** | **%** |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 1,296,656 | $ 1,296,656 | $ - | 0.0% |
| Penalty Sanctions | 6,757 | 6,757 | - | 0.0% |
| Interest & Membership Dues | 1,970 | 270 | 1,700 | 629.6% |
| **Total Revenue** | **$ 1,305,383** | **$ 1,303,683** | **$ 1,700** | **0.1%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 888,805 | $ 888,746 | $ 59 | 0.0% |
| Payroll Taxes | 61,383 | 56,290 | $ 5,093 | 9.0% |
| Employee Benefits | 136,637 | 162,570 | $ (25,933) | -16.0% |
| Savings & Retirement | 118,068 | 124,787 | $ (6,719) | -5.4% |
| **Total Personnel Expenses** | **$ 1,204,892** | **$ 1,232,393** | **$ (27,500)** | **-2.2%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 500 | $ - | $ 500 | 0.0% |
| Travel | 64,843 | 78,858 | (14,015) | -17.8% |
| Conference Expenses | - | - | - | 0.0% |
| **Total Meeting & Travel Expenses** | **$ 65,343** | **$ 78,858** | **$ (13,515)** | **-17.1%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ - | $ - | $ - | 0.0% |
| Rent & Improvements | - | - | - | 0.0% |
| Office Costs | 50,431 | 41,360 | 9,071 | 21.9% |
| Professional Services | - | - | - | 0.0% |
| Depreciation | - | - | - | 0.0% |
| **Total Operating Expenses** | **$ 50,431** | **$ 41,360** | **$ 9,071** | **21.9%** |
| **Total Direct Expense** | **$ 1,320,667** | **$ 1,352,611** | **$ (31,944)** | **-2.4%** |
| **Indirect Allocation** | **$ 696,959** | **$ 662,579** | **$ 34,380** | **5.2%** |
| **Total Expenses** | **$ 2,017,626** | **$ 2,015,190** | **$ 2,436** | **0.1%** |
| **Change in Assets** | **$ (712,243)** | **$ (711,507)** | **$ (736)** | **0.1%** |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | 0.0% |
| Computer & Software CapEx | - | - | - | 0.0% |
| Furniture & Fixture CapEx | - | - | - | 0.0% |
| Allocation of Fixed Assets | (41,716) | (30,713) | (11,003) | 35.8% |
| Leasehold Improvement CapEx | - | - | - ` | |
| **Incr(Dec) in Fixed Assets** | **$ (41,716)** | **$ (30,713)** | **$ (11,003)** | **35.8%** |
| **TOTAL BUDGET** | **$ 1,975,910** | **$ 1,984,478** | **$ (8,568)** | **-0.4%** |
| **Change in Working Captial** | **$ (670,527)** | **$ (680,793)** | **$ 10,266** | **-1.5%** |
| FTE's | 6.25 | 6.25 | | |

**RAPA**

Variances > +/- $10,000 and 10%

This department ended the year 0.4% less than budget.

Personnel expenses are 2.2% less than budget. Health Insurance was lower than budget. Not all employees participated fully in the retirement plan and forfeitures were used as available to fund the employer portion of the retirement plans.

Meeting and Travel expenses are 17.1% less than budget due to cost saving efforts from directors and employees.

Operating Expenses are 21.9% greater than budget due to the cost increase for maintenance for the PI Software.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Depreciation and Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Depreciation is greater than budget due to audio-visual equipment purchased after the 2017 budget was prepared.

Texas Reliability Entity, Inc.
2017 Statement of Activities and Fixed Assets
Audited

## Training & Education

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ 466,796 | $ 466,796 | $ - | 0.0% |
| Penalty Sanctions | 2,432 | 2,432 | - | 0.0% |
| Interest & Membership Dues | 709 | 97 | 612 | 630.9% |
| **Total Revenue** | **$ 469,937** | **$ 469,325** | **$ 612** | **0.1%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 173,295 | $ 188,474 | $ (15,179) | -8.1% |
| Payroll Taxes | 12,297 | 12,788 | (491) | -3.8% |
| Employee Benefits | 38,859 | 43,494 | (4,634) | -10.7% |
| Savings & Retirement | 21,306 | 26,467 | (5,161) | -19.5% |
| **Total Personnel Expenses** | **$ 245,758** | **$ 271,223** | **$ (25,466)** | **-9.4%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 2,921 | $ 30,000 | $ (27,079) | -90.3% |
| Travel | 2,269 | 3,270 | (1,001) | -30.6% |
| Conference Expenses | 4,069 | 20,000 | (15,931) | -79.7% |
| **Total Meeting & Travel Expenses** | **$ 9,258** | **$ 53,270** | **$ (44,012)** | **-82.6%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 2,346 | $ 5,000 | $ (2,654) | -53.1% |
| Rent & Improvements | - | - | - | 0.0% |
| Office Costs | 4,955 | 6,760 | (1,805) | -26.7% |
| Professional Services | - | 1,000 | (1,000) | -100.0% |
| Depreciation | - | - | - | 0.0% |
| **Total Operating Expenses** | **$ 7,301** | **$ 12,760** | **$ (5,459)** | **-42.8%** |
| **Total Direct Expense** | **$ 262,317** | **$ 337,253** | **$ (74,936)** | **-22.2%** |
| **Indirect Allocation** | **$ 250,905** | **$ 238,528** | **$ 12,377** | **5.2%** |
| **Total Expenses** | **$ 513,222** | **$ 575,781** | **$ (62,559)** | **-10.9%** |
| **Change in Assets** | **$ (43,285)** | **$ (106,456)** | **$ 63,171** | **-59.3%** |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | 0.0% |
| Computer & Software CapEx | - | - | - | 0.0% |
| Furniture & Fixture CapEx | - | - | - | 0.0% |
| Allocation of Fixed Assets | (15,018) | (11,057) | (3,961) | 35.8% |
| Leasehold Improvement CapEx | - | - | - | 0.0% |
| **Incr(Dec) in Fixed Assets** | **$ (15,018)** | **$ (11,057)** | **$ (3,961)** | **35.8%** |
| **TOTAL BUDGET** | **$ 498,204** | **$ 564,724** | **$ (66,520)** | **-11.8%** |
| **Change in Working Captial** | **$ (28,267)** | **$ (95,399)** | **$ 67,132** | **-70.4%** |
| FTE's | 2.25 | 2.25 | | |

## Training and Education

Variances > +/- $10,000 and 10%

The Training and Education department is 11.8% under total budget.

Personnel expenses are 9.4% under budget due to salary expense for replacement staff being lower than the budgeted amount. Health Insurance was lower than budget. Not all employees participated fully in the retirement plan and forfeitures were used as available to fund the employer portion of the retirement plans.

Meeting and Travel Expenses are 82.6% under budget. The spring and fall workshops were in the Texas RE conference Center. The budget included costs for one outside facility for one of the workshops. With workshops hosted in the Texas RE conference center, travel was not required causing the budget under-run. The costs for GotoWebinar was renegotiated to a lower rate after the 2017 budget was prepared causing Conference Call expenses to be less.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Depreciation and Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Depreciation is greater than budget due to audio-visual equipment purchased after the 2017 budget was prepared

Texas Reliability Entity, Inc.
2017 Statement of Activities and Fixed Assets
Audited

## Administrative Services

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| Assessments | $ - | $ - | $ - | 0.0% |
| Penalty Sanctions | - | - | - | 0.0% |
| Interest & Membership Dues | - | - | - | 0.0% |
| **Total Revenue** | **$ -** | **$ -** | **$ -** | **0.0%** |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 1,910,343 | $ 1,809,577 | $ 100,767 | 5.6% |
| Payroll Taxes | 98,882 | 100,082 | (1,200) | -1.2% |
| Employee Benefits | 230,374 | 344,734 | (114,359) | -33.2% |
| Savings & Retirement | 201,798 | 220,410 | (18,612) | -8.4% |
| **Total Personnel Expenses** | **$ 2,441,398** | **$ 2,474,803** | **$ (33,405)** | **-1.3%** |
| | | | | |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 14,434 | $ 17,000 | $ (2,566) | -15.1% |
| Travel | 92,864 | 104,380 | (11,516) | -11.0% |
| Conference Expenses | 3,688 | 1,750 | 1,938 | 110.7% |
| **Total Meeting & Travel Expenses** | **$ 110,986** | **$ 123,130** | **$ (12,144)** | **-9.9%** |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 244,131 | $ 223,199 | $ 20,932 | 9.4% |
| Rent & Improvements | 606,349 | 629,212 | (22,863) | -3.6% |
| Office Costs | 557,119 | 667,010 | (109,891) | -16.5% |
| Professional Services | 469,460 | 518,450 | (48,990) | -9.4% |
| Depreciation | 282,000 | 267,279 | 14,721 | 5.5% |
| **Total Operating Expenses** | **$ 2,159,058** | **$ 2,305,151** | **$ (146,093)** | **-6.3%** |
| | | | | |
| **Total Direct Expenses** | **$ 4,711,442** | **$ 4,903,084** | **$ (191,642)** | **-3.9%** |
| | | | | |
| **Indirect Allocaton** | **$ (4,711,442)** | **$ (4,903,084)** | **$ 191,642** | **-3.9%** |
| | | | | |
| **Total Expenses** | **$ -** | **$ -** | **$ -** | **0.0%** |
| | | | | |
| **Change in Assets** | **$ -** | **$ -** | **$ -** | **0.0%** |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | $ (282,000) | $ (267,279) | $ (14,721) | 5.5% |
| Computer & Software CapEx | 7,040 | 40,000 | (32,960) | -82.4% |
| Furniture & Fixture CapEx | - | - | - | 0.0% |
| Allocation of Fixed Assets | 274,960 | 227,279 | 47,681 | 21.0% |
| Leasehold Improvement CapEx | - | - | - | 0.0% |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **-** | **0.0%** |
| | | | | |
| **TOTAL BUDGET** | **$ -** | **$ -** | **$ -** | **0.0%** |
| | | | | |
| **Change in Working Captial** | **$ -** | **$ -** | **$ -** | **0.0%** |
| | | | | |
| FTE's | 13.75 | 13.75 | | |

**Administrative Services**

Variances > +/- $10,000 and 10%

Total Personnel expenses are under budget 1.3%. Salaries are greater than budget due to market compensation adjustments not included in the budget. Employee Benefits budget includes relocation, education reimbursement and training money that was not utilized. Not all employees participated fully in the retirement plan and forfeitures were used as available to fund the employer portion of the retirement plans.

Total Meeting and Travel expense is 9.9% less than budget due to participation in conference calls rather than traveling to attend meetings. The cost saving effort is reflected in the large increase in conference call expenses due to participating in meetings by conference call. Travel expense was also impacted by a vacant board position in the fourth quarter.

Operating expenses are 6.3% less than budget.

- Consultants and Contracts is greater than budget due to conducting a search for the vacancy on the Board of Directors and an outside service being used while a position was vacant in the accounting department.
- Utilities and Common Area Maintenance are less than budget causing Rent and Improvements to be under budget.
- Office costs are less than budget due to software and software maintenance, internet expense, computer supplies, and leased equipment being less than budget. Some of the anticipated maintenance was either not renewed or the price decreased at renewal.
- Professional services are less than budget because security services scheduled for fourth quarter was determined unnecessary. Board fees are less than budget due a vacant Board of Directors position in fourth quarter.
- Depreciation is greater than budget due to furniture, equipment and upgrades in audio-visual equipment purchased after the 2017 budget was prepared.
- All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.
- Depreciation and Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

**General and Administrative**
Variances > +/- $10,000 and 10%

Personnel Expenses are 9.7% greater than budget. Salaries are greater than budget due to market compensation adjustments not included in the budget. Employee Benefits include relocation, education reimbursement and training not used in 2017.

Meeting and Travel Expenses are 5.5% less than budget.

Operating Expenses are 1.3% less than budget. Consultants and Contracts is greater than budget due to conducting a search for the vacancy on the Board of Directors. Utilities and Common Area Maintenance are less than budget causing Rent and Improvements to be under budget.
Office Costs are less than budget due to office supplies and equipment repair being less than projected. Professional services are less than budget due to fewer special meetings attended by Board of Directors and a vacant Board of Directors postion in the fourth quarter. Depreciation is greater than budget due to furniture, equipment and upgrades in audio-visual equipment purchased after the 2017 budget was prepared.

**Legal and Regulatory**
Variances > +/- $10,000 and 10%

Personnel Expenses are 5.2% greater than budget.

Meeting and Travel Expenses are 39.9% less than budget due to airfare cost savings.

Operating Expenses are 6.8% greater than budget due to Legal fees for outside counsel not included in the budget.

**Information Technology**
Variances > +/- $10,000 and 10%

Personnel expenses are less than budget by 9.3%. The favorable variance is due to FTE turnover in the department. The replacement salaries were lower than budget. This impacted taxes, benefits and savings and retirement.

Meeting and Travel expense is 17.6% less than budget. Security training for an employee requiring travel was not utilitized.

Operating Expenses are 20.0% less than budget. Rent for the disaster recovery site increased after the budget was prepared. Professional services are less than budget due to security services scheduled for fourth quarter that was determined unnecessary.

**Human Resources**
Variances > +/- $10,000 and 10%

All Personnel expenses are included in G & A.
Meeting and Travel Expense is 17.5% greater than budget due to more travel reimbursement for interviewees than budgeted.
Operating Expenses are 27.1% less than budget. Consultants and contracts are less than budget due to not including benefits in the custom survey and the all compensation survey.

**Accounting and Finance**
Variances > +/- $10,000 and 10%

Personnel expenses are 17.3% less than budget due to one position being vacant part of the year.
Training, which is included in employee benefits, was less than budget due to Abila and Drillpoint training that did not occur.

Travel is less than budget due to the CFO not traveling to the FERC budget meeting in Washington, D.C. in May 2017.

Operating Costs are 58.7% greater than budget. Consultants and contracts are greater than budget due to using a consultant for accounting work while a position was vacant.

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## State (Non-Statutory)

| Revenue | 2017 Actual | 2017 Budget | 2017 Variance from Budget | % |
|---|---|---|---|---|
| ERO Funding | | | | |
| State (Non-Statutory) Funding | $ 1,059,945 | $ 1,059,945 | - | 0.0% |
| Interest & Membership Dues | 171 | - | 171 | 0.0% |
| **Total Revenue** | $ 1,060,116 | $ 1,059,945 | $ 171 | **0.0%** |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 660,263 | $ 666,007 | $ (5,744) | -0.9% |
| Payroll Taxes | 43,843 | 34,534 | 9,309 | 27.0% |
| Employee Benefits | 39,663 | 46,306 | (6,644) | -14.3% |
| Savings & Retirement | 86,330 | 97,404 | (11,074) | -11.4% |
| **Total Personnel Expenses** | **$ 830,099** | **$ 844,251** | **$ (14,153)** | **-1.7%** |
| **Meeting & Travel Expenses** | | | | |
| Meetings | $ 471 | $ - | $ 471 | 0.0% |
| Travel | 726 | 1,800 | (1,074) | -59.7% |
| Conference Expenses | - | 1,000 | (1,000) | -100.0% |
| **Total Meeting & Travel Expenses** | **$ 1,197** | **$ 2,800** | **$ (1,603)** | **-57.3%** |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 2,305 | $ 21,435 | $ (19,130) | -89.2% |
| Rent & Improvements | 225,721 | 80,869 | 144,852 | 179.1% |
| Office Costs | 87,002 | 82,809 | 4,193 | 5.1% |
| Professional Services | 10,412 | 7,650 | 2,762 | 36.1% |
| Depreciation | 22,892 | 20,131 | 2,761 | 13.7% |
| **Total Operating Expenses** | **348,332** | **212,894** | **135,438** | **63.6%** |
| **Total Direct Expenses** | **$ 1,179,627** | **$ 1,059,945** | **$ 119,682** | **11.3%** |
| **Indirect Allocation** | | | | |
| **Total Expenses** | **$ 1,179,627** | **$ 1,059,945** | **$ 119,682** | **11.3%** |
| **Change in Assets** | **$ (119,511)** | **$ -** | **$ (119,511)** | **0.0%** |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | 0.0% |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixture CapEx | - | - | - | |
| Allocation of Fixed Assets | - | - | - | |
| Leasehold Improvement CapEx | - | - | - | |
| **Incr(Dec) in Fixed Assets** | **$ -** | **$ -** | **$ -** | **0.0%** |
| **TOTAL BUDGET** | **$ 1,179,627** | **$ -** | **$ 1,179,627** | |
| **Change in Working Captial** | **$ (1,299,139)** | **$ -** | **$ (119,511)** | **0.0%** |
| FTE's | 4.80 | 5.00 | -0.20 | |

**Texas Reliability Entity, Inc.**
**Penalty Sanctions**
**For year ended December 31, 2017**

| Date Invoiced | Date Rec'd | | Amount | Year to Recognize for BP&B | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2016 | 2017 | 2018 | 2019 |
| | | **Subtotal 2011** | **$ 1,225,830** | | | | |
| | | **Subtotal 2012** | **$ 447,833** | | | | |
| | | **Subtotal 2013** | **$ 635,000** | | | | |
| | | **Subtotal 2014** | **$ 315,250** | | | | |
| 4/23/2015 | 5/7/2015 | | $ 52,000 | $ 52,000 | | | |
| 7/2/2015 | 8/20/2015 | | 50,000 | | $ 50,000 | | |
| | | **Subtotal 2015** | **$ 102,000** | | | | |
| | | **NO Fines & Penalty Monies received in 2016** | **$ -** | | | | |
| 4/5/2017 | 5/8/2017 | | $ 205,000 | | | $ 205,000 | |
| 4/5/2017 | 4/17/2017 | | 70,000 | | | $ 70,000 | |
| 10/4/2017 | 10/26/2017 | | 80,000 | | | | $ 80,000 |
| 10/16/2017 | 10/23/2017 | | 34,449 | | | | $ 34,449 |
| | | **Subtotal 2017** | **$ 389,449** | | | | |
| | | | **$ 3,115,362** | **$ 337,000** | **$ 50,000** | **$ 275,000** | **$ 114,449** |

| **Texas RE 2017 Penalties Reconciliation** | **12/31/2017** | **12/31/2016** | **Change in 2017** |
|---|---|---|---|
| Total Cumulative Penalties - GAAP/BKD Audit | $ 3,115,362 | $ 2,725,913 | $ 389,449 |
| Total Cumulative Penalties - True Up Report | $ 2,725,913 | $ 2,675,913 | $ 50,000 |
| | **$ 389,449** | **$ 50,000** | **$ 339,449** |

# Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

# Texas Reliability Entity, Inc.
## December 31, 2017 and 2016

## Contents

BKD LLP
CPAs & Advisors
14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

## Independent Auditor's Report

Board of Directors
Texas Reliability Entity, Inc.
Austin, Texas

We have audited the accompanying financial statements of Texas Reliability Entity, Inc. (Texas RE), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Texas Reliability Entity, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of Statutory and Nonstatutory Operating Activities* and the *Statutory and Nonstatutory Statement of Activity by Program* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
May 17, 2018

# Texas Reliability Entity, Inc.

## Statements of Financial Position

## December 31, 2017 and 2016

### Assets

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | $ | 3,422,005 | $ | 5,209,985 |
| Assets limited to use – cash | | 394,607 | | 72,082 |
| | | 3,816,612 | | 5,282,067 |
| Other current assets | | 350,962 | | 363,499 |
| Total current assets | | 4,167,574 | | 5,645,566 |
| **Property and Equipment, Net** | | 358,960 | | 656,813 |
| Total assets | $ | 4,526,534 | $ | 6,302,379 |

### Liabilities and Net Assets

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Current Liabilities** | | | | |
| Accounts payable | $ | 60,235 | $ | 130,272 |
| Accrued liabilities | | 842,683 | | 628,166 |
| Deferred rent | | 85,381 | | - |
| Total current liabilities | | 988,299 | | 758,438 |
| **Noncurrent Liabilities** | | | | |
| Deferred rent | | 250,240 | | 364,065 |
| Total noncurrent liabilities | | 250,240 | | 364,065 |
| Total liabiliites | | 1,238,539 | | 1,122,503 |
| **Unrestricted Net Assets** | | | | |
| Undesignated | | 2,893,388 | | 5,107,794 |
| Regulator designated | | 394,607 | | 72,082 |
| Total unrestricted net assets | | 3,287,995 | | 5,179,876 |
| Total liabilities and net assets | $ | 4,526,534 | $ | 6,302,379 |

# Texas Reliability Entity, Inc.

## Statements of Activities

## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Revenues, Gains and Other Support** | | |
| Statutory revenue | | |
| Assessments | $ 9,595,256 | $ 9,560,448 |
| Penalty sanctions | 389,449 | - |
| Protocol revenue | 1,059,945 | 1,029,073 |
| Interest income | 13,491 | 1,144 |
| Total revenues, gains and other support | 11,058,141 | 10,590,665 |
| **Expenses** | | |
| Salaries and related benefits | 9,899,045 | 9,505,294 |
| Facility and equipment costs | 1,028,577 | 979,378 |
| Outside services | 878,895 | 785,251 |
| Travel and meetings | 319,012 | 328,096 |
| Administrative and other | 519,600 | 459,487 |
| Depreciation | 304,893 | 306,913 |
| Total expenses | 12,950,022 | 12,364,419 |
| **Change in Unrestricted Net Assets** | (1,891,881) | (1,773,754) |
| **Unrestricted Net Assets, Beginning of Year** | 5,179,876 | 6,953,630 |
| **Unrestricted Net Assets, End of Year** | $ 3,287,995 | $ 5,179,876 |

# Texas Reliability Entity, Inc.

## Statements of Cash Flows

## Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (1,891,881) | $ (1,773,754) |
| Item not requiring cash | | |
| Depreciation | 304,893 | 306,913 |
| Changes in | | |
| Other current assets | 12,537 | (109,545) |
| Accounts payable | (70,037) | 96,899 |
| Accrued liabilities | 214,517 | 87,727 |
| Deferred rent | (28,444) | (16,290) |
| Net cash used in operating activities | (1,458,415) | (1,408,050) |
| **Investing Activities** | | |
| Capital expenditures for property and equipment and systems under development | (7,040) | (46,024) |
| Net cash used in investing activities | (7,040) | (46,024) |
| **Net Decrease in Cash and Cash Equivalents** | (1,465,455) | (1,454,074) |
| **Cash and Cash Equivalents, Beginning of Year** | 5,282,067 | 6,736,141 |
| **Cash and Cash Equivalents, End of Year** | $ 3,816,612 | $ 5,282,067 |

# Texas Reliability Entity, Inc.
## Notes to Financial Statements
## December 31, 2017 and 2016

### Note 1: Organization and Operations

Texas Reliability Entity, Inc. (Texas RE) is a Texas nonprofit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Texas RE was formed January 1, 2010, to be the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and to preserve and enhance reliability across the ERCOT region among all users, owners and operators of the bulk-power system (BPS). Texas RE became the Regional Entity for the ERCOT region on July 1, 2010, pursuant to its *Amended and Restated Delegation Agreement* with North American Electric Reliability Corporation (NERC), which was renewed and approved by the Federal Energy Regulatory Commission (FERC) for a five-year term effective January 1, 2016.

As the Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory” activities.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 75% of the Texas land area and 90% of Texas load.

In addition to Texas RE’s statutory activities as the Regional Entity, Texas RE has a contract with the PUCT and ERCOT to be the Reliability Monitor for the ERCOT region. As the Reliability Monitor, Texas RE monitors, investigates and reports to the PUCT regarding compliance with state reliability rules (the reliability-based ERCOT Protocols and Operating Guides), and coordinates and assists PUCT staff with related reliability-related matters. The PUCT is responsible for the enforcement of violations of the state reliability rules. Texas RE’s activities under this contract are permitted by NERC and FERC, by *Exhibit E* to the *Delegation Agreement*, and these activities are referred to herein as “nonstatutory” activities.

### *Membership and Governance*

Texas RE has the following six membership sectors under its Bylaws:

- System Coordination and Planning: An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA) or Resource Planner (RP).
- Transmission and Distribution: An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP) and/or Transmission Operator (TOP), and is not a Cooperative or Municipal Utility.
- Cooperative Utility: An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the state of Texas or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- Municipal Utility: An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- Generation: An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- Load-Serving and Marketing: An entity that secures wholesale transmission service or is engaged in the activity of buying and selling of wholesale electric power in the ERCOT region on a physical or financial basis, or qualifies under any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner or operator of the ERCOT region BPS the qualifies to join one of the six membership sectors listed in the Texas bylaws. Eligible entities must complete and submit a membership application and comply with the bylaws. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards development process, even if not a Texas RE member.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors
- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the *Bylaws and Delegation Agreement*, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE.  The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC).  The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for Standards development issues, through its elected Chair and Vice-Chair, who serve as directors.  The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS.  The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews and comments on Standards under development and Standards interpretation requests.

## Note 2: Summary of Significant Accounting Policies

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period.  Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Texas RE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2017, Texas RE's cash accounts, excluding its sweep account that had a balance of $3,511,220, exceeded federally insured limits by approximately $350,000. Texas RE places its cash with a high quality financial institution and management believes no significant risks exist with respect to uninsured balances.

### *Assets Limited to Use*

As stipulated by NERC policies, Texas RE records fines and penalties that are required to be used in future operations as assets limited to use. Assets limited to use (maintained in a financial institution) were $394,607 and $72,082 at December 31, 2017 and 2016, respectively.

### *Revenue Recognition*

Texas RE funds its statutory operations primarily from assessments NERC collects from load serving entities and pays to Texas RE in four quarterly payments, pursuant to the Delegation Agreement. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. All nonstatutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE recognizes revenue related to fines and penalties in the period in which they are earned (all appeals have been exhausted).

### *Related Party Transactions*

Texas RE compensates its independent board directors, which is a common practice in the industry in which Texas RE operates. The authority to compensate its independent board directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE independent board director compensation (totaling approximately $275,000 during 2017 and $240,000 during 2016) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their reasonable out-of-pocket expenses incurred related to their duties as a Texas RE independent board member.

### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|---|---|
| Equipment | 5 years |
| Computer hardware | 3 years |
| Computer software | 3 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 7.5 years |

### *Long-lived Asset Impairment*

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No asset impairment was recognized during the years ended December 31, 2017 and 2016.

### *Deferred Rent*

In 2010, Texas RE entered into an operating lease agreement that was modified in 2015 with the lease of additional space, which contains provisions for future increases in rent payments. In accordance with accounting principles generally accepted in the United States of America, Texas RE records monthly rent expense equal to the total of payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

### *Income Taxes*

Texas RE is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Texas RE is subject to federal income tax on any unrelated business taxable income.

Texas RE files tax returns in the U.S. federal jurisdiction. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

## Note 3: Expenses by Functional Classification

While the statements of activities presents expenses by natural classification, Texas RE's expenses by functional classification for the years ended December 31 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Program | $ 8,238,582 | $ 7,987,843 |
| General and administrative | 4,711,440 | 4,376,576 |
| Total | $ 12,950,022 | $ 12,364,419 |

Certain costs have been allocated among the program and general and management categories based on actual use or estimates made by management.

## Note 4: Property and Equipment

Property and equipment at December 31 consists of:

| | 2017 | 2016 |
|---|---|---|
| Equipment | $ 761,631 | $ 761,631 |
| Computer hardware | 754,361 | 754,361 |
| Computer software | 1,448,142 | 1,441,102 |
| Furniture | 402,859 | 402,859 |
| Leasehold improvement | 546,346 | 546,346 |
| Total property and equipment | 3,913,339 | 3,906,299 |
| Less accumulated depreciation | 3,554,379 | 3,249,486 |
| Total property and equipment, net | $ 358,960 | $ 656,813 |

### Note 5: Operating Leases

Texas RE leases office space, datacenter space and equipment under noncancellable agreements recorded as operating leases. Texas RE entered into an office lease on February 9, 2015, that includes tenant improvement allowances of $200,000, which have been recorded in property and equipment and deferred rent in the accompanying statements of financial position at December 31, 2017. The tenant improvement allowance is amortized as a reduction of rent expense on a straight-line basis over the life of the lease, with an unamortized value of $104,762 and $142,857 at December 31, 2017 and 2016, respectively.

Future minimum lease payments at December 31, 2017, were:

| | |
|---|---|
| 2018 | $ 749,173 |
| 2019 | 804,319 |
| 2020 | 594,340 |
| | $ 2,147,832 |

### Note 6: Employee Benefit Plans

Texas RE employees are sponsored under the Texas Reliability Entity, Inc. 401(k) Savings Plan (Plan) which is subject to the provisions of the *Employee Retirement Income Security Act of 1974*. The Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plan were $913,307 and $926,597, respectively, in 2017 and 2016.

### Note 7: Subsequent Events

Subsequent events have been evaluated through the date of May 17, 2018, which is the date the financial statements were available to be issued.

# Other Information

# Texas Reliability Entity, Inc.

## Schedule of Statutory and Nonstatutory Operating Activities

## Year Ended December 31, 2017

| | Statutory | Nonstatutory | Total |
|---|---|---|---|
| **Revenues, Gains and Other Support** | | | |
| Statutory revenue | $ 9,984,705 | $ - | $ 9,984,705 |
| Protocol revenue | - | 1,059,945 | 1,059,945 |
| Interest income | 13,320 | 171 | 13,491 |
| Total revenues, gains and other support | 9,998,025 | 1,060,116 | 11,058,141 |
| **Expenses** | | | |
| Salaries and related benefits | 9,068,946 | 830,099 | 9,899,045 |
| Facility and equipment costs | 786,515 | 242,062 | 1,028,577 |
| Outside services | 866,177 | 12,718 | 878,895 |
| Travel and meetings | 317,814 | 1,198 | 319,012 |
| Administrative and other | 448,944 | 70,656 | 519,600 |
| Depreciation | 282,000 | 22,893 | 304,893 |
| Total expenses | 11,770,396 | 1,179,626 | 12,950,022 |
| **Change in Unrestricted Net Assets** | (1,772,371) | (119,510) | (1,891,881) |
| **Unrestricted Net Assets, Beginning of Year** | 4,175,944 | 1,003,932 | 5,179,876 |
| **Unrestricted Net Assets, End of Year** | $ 2,403,573 | $ 884,422 | $ 3,287,995 |

# Texas Reliability Entity, Inc.

## Statutory and Nonstatutory Statement of Activity by Program

## Year Ended December 31, 2017

| | Reliability Standards | CMEP | Reliability Assessment and Performance Analysis/SAIS | Training and Education & Member Services | General and Administrative | Legal and Regulatory | Information Technology | Human Resources | Accounting and Finance | Statutory Total | State (Nonstatutory) Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Funding** | | | | | | | | | | | | |
| Assessments | $ 311,198 | $ 7,520,606 | $ 1,296,656 | $ 466,796 | $ - | $ - | $ - | $ - | $ - | $ 9,595,256 | $ - | $ 9,595,256 |
| Penalty sanctions | 12,631 | 305,244 | 52,628 | 18,946 | - | - | - | - | - | 389,449 | - | 389,449 |
| State (non-statutory) funding | - | - | - | - | - | - | - | - | - | - | 1,059,945 | 1,059,945 |
| Interest income | 432 | 10,440 | 1,800 | 648 | - | - | - | - | - | 13,320 | 171 | 13,491 |
| Total funding | 324,261 | 7,836,290 | 1,351,084 | 486,390 | - | - | - | - | - | 9,998,025 | 1,060,116 | 11,058,141 |
| **Expenses** | | | | | | | | | | | | |
| Personnel expenses | | | | | | | | | | | | |
| Salaries | 203,227 | 3,618,224 | 888,805 | 173,295 | 736,267 | 363,202 | 429,867 | 98,443 | 282,565 | 6,793,895 | 660,263 | 7,454,158 |
| Payroll taxes | 12,911 | 265,663 | 61,383 | 12,297 | 18,511 | 21,209 | 32,854 | 7,586 | 18,721 | 451,135 | 43,843 | 494,978 |
| Employee benefits | 34,112 | 541,132 | 136,637 | 38,859 | 20,329 | 43,240 | 112,640 | 23,054 | 31,111 | 981,114 | 39,663 | 1,020,777 |
| Savings and retirement | 26,179 | 475,450 | 118,068 | 21,306 | 33,582 | 46,722 | 55,757 | 28,435 | 37,303 | 842,802 | 86,330 | 929,132 |
| Total personnel expenses | 276,429 | 4,900,469 | 1,204,893 | 245,757 | 808,689 | 474,373 | 631,118 | 157,518 | 369,700 | 9,068,946 | 830,099 | 9,899,045 |
| Meeting and travel expenses | | | | | | | | | | | | |
| Meetings | - | 220 | 500 | 2,921 | 3,013 | - | - | 11,421 | - | 18,075 | 472 | 18,547 |
| Travel | 5,319 | 113,792 | 64,843 | 2,269 | 63,084 | 8,564 | 13,610 | 5,025 | 2,580 | 279,086 | 726 | 279,812 |
| Conference expenses | 6,448 | 6,448 | - | 4,069 | - | - | 3,688 | - | - | 20,653 | - | 20,653 |
| Total meeting and travel expenses | 11,767 | 120,460 | 65,343 | 9,259 | 66,097 | 8,564 | 17,298 | 16,446 | 2,580 | 317,814 | 1,198 | 319,012 |
| Operating expenses | | | | | | | | | | | | |
| Consultants and contracts | - | 150,240 | - | 2,346 | 122,768 | 1,792 | 30,619 | 61,619 | 27,332 | 396,716 | 2,305 | 399,021 |
| Rent and improvements | - | - | - | - | 599,187 | - | - | - | - | 599,187 | 225,703 | 824,890 |
| Office costs | - | 16,605 | 50,431 | 4,955 | 85,939 | 3,460 | 457,573 | 7,196 | 10,114 | 636,273 | 87,016 | 723,289 |
| Professional services | - | - | - | - | 341,711 | 33,858 | 48,330 | - | 45,561 | 469,460 | 10,412 | 479,872 |
| Depreciation | - | - | - | - | 282,000 | - | - | - | - | 282,000 | 22,893 | 304,893 |
| Total operating expenses | - | 166,845 | 50,431 | 7,301 | 1,431,605 | 39,110 | 536,522 | 68,815 | 83,007 | 2,383,636 | 348,329 | 2,731,965 |
| Total expenses | 288,196 | 5,187,774 | 1,320,667 | 262,317 | 2,306,391 | 522,047 | 1,184,938 | 242,779 | 455,287 | 11,770,396 | 1,179,626 | 12,950,022 |
| **Change in Unrestricted Net Assets** | $ 36,065 | $ 2,648,516 | $ 30,417 | $ 224,073 | $ (2,306,391) | $ (522,047) | $ (1,184,938) | $ (242,779) | $ (455,287) | $ (1,772,371) | $ (119,510) | $ (1,891,881) |

# ATTACHMENT 9

## 2017 ACTUAL COST-TO-BUDGET COMPARISON

## AND

## 2017 AUDITED FINANCIAL REPORT

## FOR

## WESTERN ELECTRICITY COORDINATING COUNCIL

# 2017 Audited Statement of Activities (SOA) and Variance Explanations

***Western Electricity Coordinating Council***

WECC

155 North 400 West, Suite 200
Salt Lake City, Utah 84103-1114

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## Overview

### Summary

The Western Electricity Coordinating Council's (WECC) audited change in statutory working capital for the year ended December 31, 2017, is under budget by $39,000. The major drivers of WECC's net 2017 statutory underrun are:

- An underrun of $155,000 in Personnel Expenses related to budgeted labor float assumptions compared to actual vacancy rates and underutilization of employee benefits;
- An underrun of $167,000 in Meetings primarily related to less-than-anticipated attendance at WECC outreach events;
- A net overrun of $402,000 in Consulting and Contracts related to the unbudgeted Gas/Electric Interdependence Study and a reduction in contract labor needed for compliance auditing; and
- An underrun of $122,000 in Professional Services primarily related to the change in Board Director compensation structure from meeting attendance to retainer-only, which reduced overall Board Director compensation. Additionally, insurance premiums were less-than-anticipated.

This document provides a summary of significant overall variances (greater than $10,000 and 10 percent) and any other noteworthy variances. For significant Program Area line-item variances, see the detailed statements of activities for each Program Area.

WECC completed all stated goals and key deliverables as described in the 2017 Business Plan and Budget, with two exceptions:

- The Reliability Assessment and Performance Analysis Program Area retired the Operational Practices Survey in 2017 and replaced it with Reliability Assurance Visits conducted in partnership with NERC.
- Human Resources postponed a full salary survey for non-executive positions until mid-2018. However, WECC did participate in Executive level and Regional Entity salary surveys in 2017.

### Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with North American Electric Reliability Corporation's (NERC) accounting methodology for allocation of overhead.

### Non-Statutory

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2017, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

## 2017 Audited SOA – Statutory and Non-Statutory

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Statutory and Non-Statutory | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) |
|---|---|---|---|
| **Funding** | | | |
| **WECC Funding** | | | |
| WECC Assessments | $ 25,282,000 | $ 25,282,000 | $ - |
| Penalty Sanctions | 1,059,500 | 1,059,500 | - |
| **Total ERO Funding** | **$ 26,341,500** | **$ 26,341,500** | **$ -** |
| Membership Fees | $ 2,268,986 | $ 1,766,860 | $ 502,126 |
| Grant Funding | - | - | - |
| Services & Software | - | - | - |
| Workshops | 436,835 | 590,126 | (153,291) |
| Interest | 241,861 | 75,000 | 166,861 |
| Miscellaneous | - | - | - |
| **Total Funding** | **$ 29,289,182** | **$ 28,773,486** | **$ 515,696** |
| **Expenses** | | | |
| **Personnel Expenses** | | | |
| Salaries | $ 15,100,145 | $ 15,056,759 | $ 43,387 |
| Payroll Taxes | 1,011,947 | 1,086,837 | (74,890) |
| Employee Benefits | 2,240,915 | 2,278,470 | (37,555) |
| Savings & Retirement | 1,290,467 | 1,303,838 | (13,371) |
| **Total Personnel Expenses** | **$ 19,643,474** | **$ 19,725,904** | **$ (82,430)** |
| **Meeting Expenses** | | | |
| Meetings | $ 561,796 | $ 729,963 | $ (168,167) |
| Travel | 1,257,780 | 1,313,014 | (55,234) |
| Conference Calls | 48,618 | 73,372 | (24,754) |
| **Total Meeting Expenses** | **$ 1,868,195** | **$ 2,116,349** | **$ (248,154)** |
| **Operating Expenses** | | | |
| Consultants & Contracts | $ 2,901,870 | $ 2,501,270 | $ 400,600 |
| Office Rent | 936,617 | 938,050 | (1,433) |
| Office Costs | 2,114,926 | 2,149,215 | (34,290) |
| Professional Services | 864,168 | 998,450 | (134,282) |
| Miscellaneous | - | - | - |
| Depreciation | 394,076 | 367,858 | 26,217 |
| **Total Operating Expenses** | **$ 7,211,656** | **$ 6,954,843** | **$ 256,812** |
| **Total Direct Expenses** | **$ 28,723,325** | **$ 28,797,096** | **$ (73,772)** |
| **Indirect Expenses** | $ - | $ - | $ - |
| **Other Non-Operating Expenses** | **$ 993** | **$ -** | **$ 993** |
| **Total Expenses** | **28,724,318** | **28,797,096** | **(72,779)** |
| **Change in Assets** | **$ 564,864** | **$ (23,610)** | **$ 588,475** |
| **Fixed Assets** | | | |
| Depreciation | $ (394,076) | $ (367,858) | $ (26,217) |
| Computer & Software CapEx | 57,317 | 35,000 | 22,317 |
| Furniture & Fixtures CapEx | - | - | - |
| Equipment CapEx | 35,308 | 77,000 | (41,692) |
| Leasehold Improvements | 21,280 | - | 21,280 |
| Allocation of Fixed Assets | - | - | - |
| **Incr(Dec) in Fixed Assets** | **$ (280,171)** | **$ (255,858)** | **$ (24,312)** |
| **Total Budget** | **$ 28,444,147** | **$ 28,541,238** | **$ (97,091)** |
| **Change in Working Capital** | **$ 845,035** | **$ 232,248** | **$ 612,787** |
| **FTEs** | 135.4 | 146.0 | (10.6) |
| **Headcount** | 135.0 | 146.0 | (11.0) |

## 2017 Audited SOA – Statutory

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Statutory Summary | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 25,282,000 | $ 25,282,000 | $ - | 0.0% |
| Penalty Sanctions | 1,059,500 | 1,059,500 | - | 0.0% |
| **Total ERO Funding** | **$ 26,341,500** | **$ 26,341,500** | **$ -** | 0.0% |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 435,210 | 587,876 | (152,666) | (26.0%) |
| Interest | 185,981 | 75,000 | 110,981 | 148.0% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 26,962,691** | **$ 27,004,376** | **$ (41,685)** | (0.2%) |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 14,650,317 | $ 14,681,223 | $ (30,906) | (0.2%) |
| Payroll Taxes | 981,365 | 1,056,810 | (75,445) | (7.1%) |
| Employee Benefits | 2,188,045 | 2,219,528 | (31,483) | (1.4%) |
| Savings & Retirement | 1,254,761 | 1,272,165 | (17,404) | (1.4%) |
| **Total Personnel Expenses** | **$ 19,074,489** | **$ 19,229,726** | **$ (155,237)** | (0.8%) |
| **Meeting Expenses** | | | | |
| Meetings | $ 559,808 | $ 726,768 | $ (166,960) | (23.0%) |
| Travel | 1,253,523 | 1,283,164 | (29,641) | (2.3%) |
| Conference Calls | 48,618 | 72,397 | (23,779) | (32.8%) |
| **Total Meeting Expenses** | **$ 1,861,949** | **$ 2,082,329** | **$ (220,380)** | (10.6%) |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 2,900,172 | $ 2,498,270 | $ 401,902 | 16.1% |
| Office Rent | 936,617 | 938,050 | (1,433) | (0.2%) |
| Office Costs | 1,559,310 | 1,554,255 | 5,055 | 0.3% |
| Professional Services | 864,168 | 986,450 | (122,282) | (12.4%) |
| Miscellaneous | - | - | - | |
| Depreciation | 394,075 | 367,858 | 26,217 | 7.1% |
| **Total Operating Expenses** | **$ 6,654,342** | **$ 6,344,883** | **$ 309,459** | 4.9% |
| **Total Direct Expenses** | **$ 27,590,780** | **$ 27,656,938** | **$ (66,158)** | (0.2%) |
| **Indirect Expenses** | $ (524,685) | $ (610,702) | $ 86,017 | (14.1%) |
| **Other Non-Operating Expenses** | **$ 993** | **$ -** | **$ 993** | |
| **Total Expenses** | **27,067,089** | **27,046,236** | **20,853** | 0.1% |
| **Change in Assets** | **$ (104,398)** | **$ (41,860)** | **$ (62,538)** | 149.4% |
| **Fixed Assets** | | | | |
| Depreciation | $ (394,075) | $ (367,858) | $ (26,217) | 7.1% |
| Computer & Software CapEx | 57,317 | 35,000 | 22,317 | 63.8% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 35,308 | 77,000 | (41,692) | (54.1%) |
| Leasehold Improvements | 21,280 | - | 21,280 | |
| Allocation of Fixed Assets | 7,294 | 6,550 | 744 | 11.4% |
| **Incr(Dec) in Fixed Assets** | **$ (272,875)** | **$ (249,308)** | **$ (23,567)** | 9.5% |
| **Total Budget** | **$ 26,794,213** | **$ 26,796,928** | **$ (2,715)** | (0.0%) |
| **Change in Working Capital** | **$ 168,478** | **$ 207,448** | **$ (38,970)** | (18.8%) |
| **FTEs** | 130.3 | 140.0 | (9.7) | |
| **Headcount** | 129.0 | 140.0 | (11.0) | |

## Significant Variance Explanations – Statutory Activities

**Funding**

- Workshops: $153,000 under budget
  - Attendance at outreach events was lower-than-anticipated; and
  - One compliance and two CIP workshops were canceled.
- Interest: $111,000 over budget
  - Returns on cash and invested balances were higher-than-anticipated.

**Expenses**

- Meetings: $167,000 under budget
  - Attendance at outreach events was lower-than-anticipated; and
  - One compliance and two CIP workshops were canceled.
- Conference Calls: $24,000 under budget
  - A contract was renegotiated and usage was less-than-anticipated.
- Consultants & Contracts: $402,000 over budget
  - Unbudgeted consulting fees were incurred for the Gas/Electric Interdependence Study; and
  - Budgeted consulting fees for researching Base Case Coordination System (BCCS) alternatives were not used.
- Professional Services: $122,000 under budget
  - WECC's Board Director compensation structure changed from compensation for meeting attendance to retainer-only, which reduced overall Board Director compensation; and
  - Insurance premiums were less-than-anticipated.

**Indirect Expenses**

- Indirect Expenses: $86,000 under budget
  - FTEs in the non-statutory program were less-than-budgeted and Corporate Services expenses were also less-than-budgeted. The allocation of indirect expenses to the non-statutory program is based on actual FTEs in each Program Area.

# Section A
# Statutory Programs

## *2017 Audited Statements of Activities and Variance Explanations*

## Reliability Standards Program

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Reliability Standards | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 847,225 | $ 847,225 | $ - | 0.0% |
| Penalty Sanctions | 32,768 | 32,768 | - | 0.0% |
| **Total ERO Funding** | **$ 879,993** | **$ 879,993** | **$ -** | 0.0% |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 6,038 | 2,320 | 3,718 | 160.3% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 886,031** | **$ 882,313** | **$ 3,718** | 0.4% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 459,758 | $ 440,237 | $ 19,521 | 4.4% |
| Payroll Taxes | 30,216 | 30,420 | (203) | (0.7%) |
| Employee Benefits | 43,343 | 36,238 | 7,105 | 19.6% |
| Savings & Retirement | 40,891 | 37,185 | 3,706 | 10.0% |
| **Total Personnel Expenses** | **$ 574,208** | **$ 544,080** | **$ 30,128** | 5.5% |
| **Meeting Expenses** | | | | |
| Meetings | $ - | $ 960 | $ (960) | (100.0%) |
| Travel | 11,900 | 19,175 | (7,275) | (37.9%) |
| Conference Calls | - | 3,601 | (3,601) | (100.0%) |
| **Total Meeting Expenses** | **$ 11,900** | **$ 23,736** | **$ (11,836)** | (49.9%) |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ - | $ - | $ - | |
| Office Rent | - | - | - | |
| Office Costs | 3,257 | 5,645 | (2,388) | (42.3%) |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ 3,257** | **$ 5,645** | **$ (2,388)** | (42.3%) |
| **Total Direct Expenses** | **$ 589,365** | **$ 573,461** | **$ 15,904** | 2.8% |
| **Indirect Expenses** | $ 297,545 | $ 305,349 | $ (7,804) | (2.6%) |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses** | **886,910** | **878,810** | **8,100** | 0.9% |
| **Change in Assets** | **$ (878)** | **$ 3,503** | **$ (4,381)** | (125.1%) |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (4,233) | (3,275) | (958) | 29.3% |
| **Incr(Dec) in Fixed Assets** | **$ (4,233)** | **$ (3,275)** | **$ (958)** | 29.3% |
| **Total Budget** | **$ 882,677** | **$ 875,535** | **$ 7,142** | 0.8% |
| **Change in Working Capital** | **$ 3,355** | **$ 6,778** | **$ (3,423)** | (50.5%) |
| **FTEs** | 3.0 | 3.0 | - | |
| **Headcount** | 3.0 | 3.0 | - | |

## Significant Variance Explanations – Reliability Standards Program

**Funding**
- No significant variances.

**Personnel Expenses**
- No significant variances.

**Meeting Expenses**
- No significant variances.

**Operating Expenses**
- No significant variances.

**Depreciation**
- No significant variances.

**Indirect Expenses**
- No significant variances.

**Allocation of Fixed Assets**
- No significant variances.

**Fixed Assets**
- No significant variances.

# Compliance Monitoring and Enforcement and Organization Registration and Certification Program

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Compliance Monitoring and Enforcement and Organization Registration and Certification | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 13,428,540 | $ 13,428,540 | $ - | 0.0% |
| Penalty Sanctions | 600,748 | 600,748 | - | 0.0% |
| **Total ERO Funding** | **$ 14,029,288** | **$ 14,029,288** | **$ -** | 0.0% |
| | | | | |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 109,093 | 42,526 | 66,567 | 156.5% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 14,138,381** | **$ 14,071,814** | **$ 66,567** | 0.5% |
| | | | | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 6,040,954 | $ 5,335,104 | $ 705,850 | 13.2% |
| Payroll Taxes | 422,137 | 415,384 | 6,753 | 1.6% |
| Employee Benefits | 818,612 | 693,285 | 125,326 | 18.1% |
| Savings & Retirement | 516,718 | 450,238 | 66,480 | 14.8% |
| **Total Personnel Expenses** | **$ 7,798,421** | **$ 6,894,011** | **$ 904,410** | 13.1% |
| | | | | |
| **Meeting Expenses** | | | | |
| Meetings | $ 4,951 | $ 9,810 | $ (4,859) | (49.5%) |
| Travel | 670,698 | 706,338 | (35,640) | (5.0%) |
| Conference Calls | - | 12,900 | (12,900) | (100.0%) |
| **Total Meeting Expenses** | **$ 675,649** | **$ 729,048** | **$ (53,399)** | (7.3%) |
| | | | | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 392,348 | $ 450,270 | $ (57,922) | (12.9%) |
| Office Rent | 313 | - | 313 | |
| Office Costs | 290,070 | 352,339 | (62,269) | (17.7%) |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ 682,730** | **$ 802,609** | **$ (119,879)** | (14.9%) |
| | | | | |
| **Total Direct Expenses** | **$ 9,156,801** | **$ 8,425,668** | **$ 731,133** | 8.7% |
| | | | | |
| **Indirect Expenses** | $ 5,375,631 | $ 5,598,091 | $ (222,460) | (4.0%) |
| | | | | |
| **Other Non-Operating Expenses** | **$ 993** | **$ -** | **$ 993** | |
| | | | | |
| **Total Expenses** | **14,533,425** | **14,023,759** | **509,666** | 3.6% |
| **Change in Assets** | **$ (395,044)** | **$ 48,055** | **$ (443,099)** | (922.1%) |
| | | | | |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| | | | | |
| Allocation of Fixed Assets | (76,469) | (60,045) | (16,424) | 27.4% |
| | | | | |
| **Incr(Dec) in Fixed Assets** | **$ (76,469)** | **$ (60,045)** | **$ (16,424)** | 27.4% |
| | | | | |
| **Total Budget** | **$ 14,456,956** | **$ 13,963,714** | **$ 493,242** | 3.5% |
| | | | | |
| **Change in Working Capital** | **$ (318,575)** | **$ 108,100** | **$ (426,675)** | (394.7%) |
| | | | | |
| **FTEs** | 54.2 | 55.0 | (0.8) | |
| **Headcount** | 56.0 | 55.0 | 1.0 | |

## Significant Variance Explanations – Compliance Monitoring and Enforcement

**Funding**

- Interest is over budget by $67,000 due to higher-than-anticipated returns on cash and invested balances.

**Personnel Expenses**

- Personnel Expenses are over budget by a net of $904,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, higher-than-anticipated insurance and retirement plan enrollment among existing employees, compensation market adjustments for certain positions, and unbudgeted recruiting fees for certain positions.

**Meeting Expenses**

- Conference Calls are under budget by $13,000 due to conference call expenses being budgeted in the individual programs but all actual expenses recorded in Corporate Services. Overall, Conference Calls are under budget by $25,000 due to a renegotiated contract and lower-than-anticipated usage.

**Operating Expenses**

- Consulting and Contracts are under budget by $58,000 due to a reduction in contract labor used for compliance auditing.
- Office Costs are under budget by $62,000 primarily due to less-than-anticipated computer license and maintenance expenditures for webCDMS.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- No significant variances.

**Allocation of Fixed Assets**

- Allocation of Fixed Assets is over budget by $16,000 due to an increase in depreciation and less-than-budgeted fixed asset additions in Corporate Services. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

**Fixed Assets**

- No significant variances.

# Reliability Assessment and Performance Analysis Program

Western Electricity Coordinating Council
2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Reliability Assessment and Performance Analysis

| | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 10,262,232 | $ 10,262,232 | $ - | 0.0% |
| Penalty Sanctions | 393,216 | 393,216 | - | 0.0% |
| **Total ERO Funding** | **$ 10,655,448** | **$ 10,655,448** | **$ -** | 0.0% |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 66,221 | 27,835 | 38,386 | 137.9% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 10,721,669** | **$ 10,683,283** | **$ 38,386** | 0.4% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 3,638,369 | $ 3,707,303 | $ (68,934) | (1.9%) |
| Payroll Taxes | 251,644 | 286,691 | (35,047) | (12.2%) |
| Employee Benefits | 434,320 | 445,792 | (11,472) | (2.6%) |
| Savings & Retirement | 333,079 | 313,141 | 19,939 | 6.4% |
| **Total Personnel Expenses** | **$ 4,657,412** | **$ 4,752,927** | **$ (95,515)** | (2.0%) |
| **Meeting Expenses** | | | | |
| Meetings | $ 63,414 | $ 112,698 | $ (49,284) | (43.7%) |
| Travel | 261,308 | 251,825 | 9,483 | 3.8% |
| Conference Calls | - | 34,800 | (34,800) | (100.0%) |
| **Total Meeting Expenses** | **$ 324,722** | **$ 399,323** | **$ (74,601)** | (18.7%) |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 1,964,427 | $ 1,536,000 | $ 428,427 | 27.9% |
| Office Rent | - | - | - | |
| Office Costs | 269,686 | 288,060 | (18,374) | (6.4%) |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | 147,190 | 143,411 | 3,779 | 2.6% |
| **Total Operating Expenses** | **$ 2,381,304** | **$ 1,967,471** | **$ 413,833** | 21.0% |
| **Total Direct Expenses** | **$ 7,363,437** | **$ 7,119,721** | **$ 243,717** | 3.4% |
| **Indirect Expenses** | $ 3,263,067 | $ 3,664,205 | $ (401,138) | (10.9%) |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses** | **10,626,504** | **10,783,926** | **(157,421)** | (1.5%) |
| **Change in Assets** | **$ 95,164** | **$ (100,643)** | **$ 195,807** | (194.6%) |
| **Fixed Assets** | | | | |
| Depreciation | $ (147,190) | $ (143,411) | $ (3,779) | 2.6% |
| Computer & Software CapEx | 4,680 | - | 4,680 | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (46,418) | (39,302) | (7,116) | 18.1% |
| **Incr(Dec) in Fixed Assets** | **$ (188,928)** | **$ (182,713)** | **$ (6,215)** | 3.4% |
| **Total Budget** | **$ 10,437,576** | **$ 10,601,213** | **$ (163,637)** | (1.5%) |
| **Change in Working Capital** | **$ 284,093** | **$ 82,070** | **$ 202,022** | 246.2% |
| **FTEs** | 32.9 | 36.0 | (3.1) | |
| **Headcount** | 35.0 | 36.0 | (1.0) | |

## Significant Variance Explanations – Reliability Assessment and Performance Analysis

**Funding**

- Interest is over budget by $38,000 due to higher-than-anticipated returns on cash and invested balances.

**Personnel Expenses**

- No significant variances.

**Meeting Expenses**

- Meetings are under budget by $49,000 due to fewer-than-anticipated work group meetings.
- Conference Calls are under budget by $35,000 due to conference call expenses being budgeted in the individual programs but all actual expenses recorded in Corporate Services. Overall, Conference Calls are under budget by $25,000 due to a renegotiated contract and lower-than-anticipated usage.

**Operating Expenses**

- Consultants and Contracts are over budget by a net of $428,000 due to:
  - Consulting on an unbudgeted Gas/Electric Interdependence study; and
  - Elimination of budgeted consulting for BCCS alternatives research.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- Indirect Expenses are under budget by $401,000 due to lower FTEs in this program area compared to the total budgeted, and budget underruns in Corporate Services. WECC's allocation of indirect expenses is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

# Training and Education Program

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Training and Education | | | | |
|---|---|---|---|---|
| | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 509,283 | $ 509,283 | $ - | 0.0% |
| Penalty Sanctions | 21,845 | 21,845 | - | 0.0% |
| **Total ERO Funding** | **$ 531,128** | **$ 531,128** | **$ -** | 0.0% |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 435,210 | 587,876 | (152,666) | (26.0%) |
| Interest | 2,617 | 1,546 | 1,071 | 69.3% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 968,955** | **$ 1,120,550** | **$ (151,595)** | (13.5%) |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 176,454 | $ 314,604 | $ (138,150) | (43.9%) |
| Payroll Taxes | 10,992 | 19,997 | (9,005) | (45.0%) |
| Employee Benefits | 11,308 | 25,322 | (14,013) | (55.3%) |
| Savings & Retirement | 15,109 | 26,573 | (11,465) | (43.1%) |
| **Total Personnel Expenses** | **$ 213,863** | **$ 386,496** | **$ (172,633)** | (44.7%) |
| **Meeting Expenses** | | | | |
| Meetings | $ 390,933 | $ 469,650 | $ (78,717) | (16.8%) |
| Travel | 5,164 | 20,796 | (15,632) | (75.2%) |
| Conference Calls | (1) | 5,706 | (5,707) | (100.0%) |
| **Total Meeting Expenses** | **$ 396,096** | **$ 496,152** | **$ (100,056)** | (20.2%) |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 12,409 | $ - | $ 12,409 | |
| Office Rent | - | - | - | |
| Office Costs | 37,354 | 27,910 | 9,444 | 33.8% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ 49,764** | **$ 27,910** | **$ 21,854** | 78.3% |
| **Total Direct Expenses** | **$ 659,723** | **$ 910,558** | **$ (250,835)** | (27.5%) |
| **Indirect Expenses** | $ 128,936 | $ 203,567 | $ (74,631) | (36.7%) |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses** | **788,658** | **1,114,125** | **(325,466)** | (29.2%) |
| **Change in Assets** | **$ 180,296** | **$ 6,425** | **$ 173,871** | 2,706.1% |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (1,834) | (2,183) | 349 | (16.0%) |
| **Incr(Dec) in Fixed Assets** | **$ (1,834)** | **$ (2,183)** | **$ 349** | (16.0%) |
| **Total Budget (Expenses plus Inc(Dec) in Fixed Assets** | **$ 786,824** | **$ 1,111,942** | **$ (325,117)** | (29.2%) |
| **Change in Working Capital (Total Funding less Total Budget)** | **$ 182,130** | **$ 8,608** | **$ 173,522** | 2,015.8% |
| **FTEs** | 1.3 | 2.0 | (0.7) | |
| **Headcount** | 1.0 | 2.0 | (1.0) | |

## Significant Variance Explanations – Training and Education

**Funding**

- Workshops revenue is under budget by $153,000 due to:
  - Lower-than-anticipated attendance at WECC training and outreach events; and
  - The cancelation of one compliance and two CIP workshops.

**Personnel Expenses**

- Personnel Expenses are under budget by a net of $173,000 due to a change in the FTE allocation to this Program Area and the corresponding rates of pay.

**Meeting Expenses**

- Meetings are under budget by $79,000 due to:
  - Lower-than-anticipated attendance at WECC training and outreach events; and
  - The cancelation of one compliance and two CIP workshops.
- Travel is under budget by $16,000 due to less-than-anticipated travel.

**Operating Expenses**

- Consultants and Contracts are over budget by $12,000 due to the unbudgeted use of consultants speaking at the Human Performance Conference.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- Indirect Expenses are under budget by $75,000 due to lower FTEs in this program area compared to the total budgeted and budget underruns in Corporate Services. WECC's allocation of indirect expenses is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

## Situation Awareness and Infrastructure Security Program

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Situation Awareness and Infrastructure Security | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ 234,720 | $ 234,720 | $ - | 0.0% |
| Penalty Sanctions | 10,923 | 10,923 | - | 0.0% |
| **Total ERO Funding** | **$ 245,643** | **$ 245,643** | **$ -** | 0.0% |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 2,013 | 773 | 1,240 | 160.4% |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 247,656** | **$ 246,416** | **$ 1,240** | 0.5% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 101,389 | $ 114,033 | $ (12,644) | (11.1%) |
| Payroll Taxes | 7,085 | 8,823 | (1,738) | (19.7%) |
| Employee Benefits | 16,018 | 11,344 | 4,674 | 41.2% |
| Savings & Retirement | 7,917 | 9,632 | (1,715) | (17.8%) |
| **Total Personnel Expenses** | **$ 132,409** | **$ 143,832** | **$ (11,423)** | (7.9%) |
| **Meeting Expenses** | | | | |
| Meetings | $ - | $ - | $ - | |
| Travel | - | - | - | |
| Conference Calls | - | - | - | |
| **Total Meeting Expenses** | **$ -** | **$ -** | **$ -** | |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ - | $ - | $ - | |
| Office Rent | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Direct Expenses** | **$ 132,409** | **$ 143,832** | **$ (11,423)** | (7.9%) |
| **Indirect Expenses** | $ 99,181 | $ 101,783 | $ (2,601) | (2.6%) |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses** | **231,590** | **245,615** | **(14,024)** | (5.7%) |
| **Change in Assets** | **$ 16,065** | **$ 801** | **$ 15,264** | 1,904.6% |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (1,411) | (1,092) | (319) | 29.2% |
| **Incr(Dec) in Fixed Assets** | **$ (1,411)** | **$ (1,092)** | **$ (319)** | 29.2% |
| **Total Budget** | **$ 230,179** | **$ 244,523** | **$ (14,343)** | (5.9%) |
| **Change in Working Capital** | **$ 17,476** | **$ 1,893** | **$ 15,583** | 823.0% |
| **FTEs** | 1.0 | 1.0 | - | |
| **Headcount** | - | 1.0 | (1.0) | |

## Significant Variance Explanations – Situation Awareness and Infrastructure Security

**Funding**

- No significant variances.

**Personnel Expenses**

- Salaries are under budget by $13,000 due to budgeted labor float rate assumptions compared with actual vacancy rates.

**Meeting Expenses**

- No significant variances.

**Operating Expenses**

- No significant variances.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- No significant variances.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

# Corporate Services

| Western Electricity Coordinating Council<br>2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital<br>Corporate Services | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ - | $ - | $ - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | **$ -** | **$ -** | **$ -** | |
| Membership Fees | $ - | $ - | $ - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | - | - | - | |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ -** | **$ -** | **$ -** | |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 4,233,393 | $ 4,769,942 | $ (536,550) | (11.2%) |
| Payroll Taxes | 259,291 | 295,495 | (36,204) | (12.3%) |
| Employee Benefits | 864,444 | 1,007,547 | (143,103) | (14.2%) |
| Savings & Retirement | 341,047 | 435,396 | (94,349) | (21.7%) |
| **Total Personnel Expenses** | **$ 5,698,176** | **$ 6,508,380** | **$ (810,205)** | (12.4%) |
| **Meeting Expenses** | | | | |
| Meetings | $ 100,509 | $ 133,650 | $ (33,141) | (24.8%) |
| Travel | 304,453 | 285,030 | 19,423 | 6.8% |
| Conference Calls | 48,619 | 15,390 | 33,229 | 215.9% |
| **Total Meeting Expenses** | **$ 453,581** | **$ 434,070** | **$ 19,511** | 4.5% |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 530,988 | $ 512,000 | $ 18,988 | 3.7% |
| Office Rent | 936,304 | 938,050 | (1,746) | (0.2%) |
| Office Costs | 958,943 | 880,301 | 78,642 | 8.9% |
| Professional Services | 864,168 | 986,450 | (122,282) | (12.4%) |
| Miscellaneous | - | - | - | |
| Depreciation | 246,885 | 224,447 | 22,439 | 10.0% |
| **Total Operating Expenses** | **$ 3,537,288** | **$ 3,541,248** | **$ (3,960)** | (0.1%) |
| **Total Direct Expenses** | **$ 9,689,045** | **$ 10,483,698** | **$ (794,653)** | (7.6%) |
| **Indirect Expenses** | $ (9,689,045) | $ (10,483,698) | $ 794,653 | (7.6%) |
| **Other Non-Operating Expenses** | $ - | $ - | $ - | |
| **Total Expenses** | $ - | $ - | $ - | |
| **Change in Assets** | $ - | $ - | $ - | |
| **Fixed Assets** | | | | |
| Depreciation | $ (246,885) | $ (224,447) | $ (22,439) | 10.0% |
| Computer & Software CapEx | 52,638 | 35,000 | 17,638 | 50.4% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 35,308 | 77,000 | (41,692) | (54.1%) |
| Leasehold Improvements | 21,280 | - | 21,280 | |
| Allocation of Fixed Assets | 137,659 | 112,447 | 25,212 | 22.4% |
| **Incr(Dec) in Fixed Assets** | $ - | $ - | $ - | |
| **Total Budget** | $ - | $ - | $ - | |
| **Change in Working Capital** | $ - | $ - | $ - | |
| **FTEs** | 37.8 | 43.0 | (5.2) | |
| **Headcount** | 34.0 | 43.0 | (9.0) | |

## Significant Variance Explanations – Technical Committees and Member Forums

**Funding**
- No significant variances.

**Personnel Expenses**
- No significant variances.

**Meeting Expenses**
- No significant variances.

**Operating Expenses**
- No significant variances.

**Depreciation**
- No significant variances.

**Indirect Expenses**
- No significant variances.

**Allocation of Fixed Assets**
- No significant variances.

**Fixed Assets**
- No significant variances.

## Significant Variance Explanations – General and Administrative

**Funding**

- No significant variances.

**Personnel Expenses**

- Personnel Expenses are under budget by a net of $897,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, lower-than-anticipated insurance and retirement plan enrollment among existing employees, and lower-than-anticipated training.

**Meeting Expenses**

- Meetings are under budget by $25,000 due to lower-than-anticipated costs for Board meetings.
- Conference Calls are $38,000 over budget due to conference call expenses being budgeted in the other Program Areas but all actual expense was recorded in Corporate Services. Overall, Conference Calls are under budget by $25,000 due to a renegotiated contract and lower-than-anticipated usage.

**Operating Expenses**

- Consultants and Contracts are over budget by $66,000 primarily due to unbudgeted leadership and organizational development consulting.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- Indirect Expenses allocated to the statutory program areas are under budget by $68,000 due to budget underruns in Corporate Services. WECC's allocation of indirect expenses is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- Leasehold Improvements are over budget by $21,000 primarily due to unbudgeted security system improvements to WECC's Salt Lake City office.

## Significant Variance Explanations – Legal and Regulatory

**Funding**

- No significant variances.

**Personnel Expenses**

- No significant variances.

**Meeting Expenses**

- Travel is over budget by $18,000 due to unbudgeted international outreach travel.

**Operating Expenses**

- Professional Services are under budget by $50,000 due to decreased use of outside legal counsel and less-than-anticipated insurance premiums.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- No significant variances.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

## Significant Variance Explanations – Information Technology

**Funding**

- No significant variances.

**Personnel Expenses**

- No significant variances.

**Meeting Expenses**

- No significant variances.

**Operating Expenses**

- Consulting and Contracts are under budget by $54,000 due to the completion of IT projects at lower-than-anticipated costs.
- Office Costs are $82,000 over budget primarily due to higher-than-anticipated cost of a phone system replacement. Additionally, the phone system replacement was budgeted in Equipment CapEx, but expensed in Office Costs.

**Depreciation**

- Depreciation is over budget by $12,000 due to differences between estimates used in the preparation of the 2017 budget and actual depreciation.

**Indirect Expenses**

- No significant variances.

**Allocation of Fixed Assets**

- Allocation of Fixed Assets to the statutory program areas is under budget by $36,000 due to an increase in depreciation and less-than-budgeted fixed asset additions in Corporate Services. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

**Fixed Assets**

- Computers and Software is over budget by $18,000 due to the higher-than-anticipated cost of an AgilePoint upgrade.
- Equipment CapEx is under budget by $42,000 due to less-than-anticipated costs for a server refresh. Additionally, the phone system replacement was budgeted in Equipment CapEx, but expensed in Office Costs.

## Significant Variance Explanations – Human Resources

**Funding**

- No significant variances.

**Personnel Expenses**

- Personnel Expenses are over budget by a net of $134,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, and higher-than-anticipated insurance and retirement plan enrollment among existing employees.

**Meeting Expenses**

- No significant variances.

**Operating Expenses**

- Professional Services are under budget by $12,000 due to a less-than-anticipated cost of the retirement plan audit.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- No significant variances.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

## Significant Variance Explanations – Finance and Accounting

**Funding**

- No significant variances.

**Personnel Expenses**

- Personnel Expenses are under budget by a net of $127,000 primarily due to the elimination of one position during the year and a change in the FTE allocation to this Program Area and corresponding rates of pay.

**Meeting Expenses**

- No significant variances.

**Operating Expenses**

- No significant variances.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- Indirect Expenses allocated to the statutory program areas are under budget by $11,000 due to budget underruns in Corporate Services. WECC's allocation of indirect expenses is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

# Section B
# Non-Statutory Programs

## *2017 Audited SOA and Variance Explanations*

# Western Renewable Energy Generation Information System (WREGIS)

Western Electricity Coordinating Council
2017 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital
Non-Statutory Summary

| | 2017 Actual | 2017 Budget | 2017 Variance Over(Under) | % |
|---|---|---|---|---|
| **Funding** | | | | |
| **WECC Funding** | | | | |
| WECC Assessments | $ - | $ - | $ - | |
| Penalty Sanctions | - | - | - | |
| **Total ERO Funding** | **$ -** | **$ -** | **$ -** | |
| Membership Fees | $ 2,268,986 | $ 1,766,860 | $ 502,126 | 28.4% |
| Grant Funding | - | - | - | |
| Services & Software | | | - | |
| Workshops | 1,625 | 2,250 | (625) | (27.8%) |
| Interest | 55,880 | - | 55,880 | |
| Miscellaneous | - | - | - | |
| **Total Funding** | **$ 2,326,491** | **$ 1,769,110** | **$ 557,381** | 31.5% |
| **Expenses** | | | | |
| **Personnel Expenses** | | | | |
| Salaries | $ 449,828 | $ 375,536 | $ 74,293 | 19.8% |
| Payroll Taxes | 30,581 | 30,027 | 554 | 1.8% |
| Employee Benefits | 52,871 | 58,942 | (6,072) | (10.3%) |
| Savings & Retirement | 35,705 | 31,673 | 4,032 | 12.7% |
| **Total Personnel Expenses** | **$ 568,985** | **$ 496,178** | **$ 72,807** | 14.7% |
| **Meeting Expenses** | | | | |
| Meetings | $ 1,988 | $ 3,195 | $ (1,207) | (37.8%) |
| Travel | 4,257 | 29,850 | (25,593) | (85.7%) |
| Conference Calls | - | 975 | (975) | (100.0%) |
| **Total Meeting Expenses** | **$ 6,246** | **$ 34,020** | **$ (27,774)** | (81.6%) |
| **Operating Expenses** | | | | |
| Consultants & Contracts | $ 1,698 | $ 3,000 | $ (1,303) | (43.4%) |
| Office Rent | - | - | - | |
| Office Costs | 555,616 | 594,960 | (39,344) | (6.6%) |
| Professional Services | - | 12,000 | (12,000) | (100.0%) |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| **Total Operating Expenses** | **$ 557,313** | **$ 609,960** | **$ (52,647)** | (8.6%) |
| **Total Direct Expenses** | **$ 1,132,544** | **$ 1,140,158** | **$ (7,614)** | (0.7%) |
| **Indirect Expenses** | $ 524,687 | $ 610,701 | $ (86,014) | (14.1%) |
| **Other Non-Operating Expenses** | **$ -** | **$ -** | **$ -** | |
| **Total Expenses** | **1,657,231** | **1,750,859** | **(93,628)** | (5.3%) |
| **Change in Assets** | **$ 669,261** | **$ 18,251** | **$ 651,009** | 3,566.9% |
| **Fixed Assets** | | | | |
| Depreciation | $ - | $ - | $ - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | | | | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (7,294) | (6,550) | (744) | 11.4% |
| **Incr(Dec) in Fixed Assets** | **$ (7,294)** | **$ (6,550)** | **$ (744)** | 11.4% |
| **Total Budget** | **$ 1,649,937** | **$ 1,744,309** | **$ (94,372)** | (5.4%) |
| **Change in Working Capital** | **$ 676,555** | **$ 24,801** | **$ 651,753** | 2,627.9% |
| **FTEs** | 5.2 | 6.0 | (0.8) | |
| **Headcount** | 6.0 | 6.0 | - | |

## Significant Variance Explanations – Non-Statutory Activities

**Funding**

- Membership Fees are over budget $502,000 due to higher-than-anticipated certificate activity and unpredictable bulk certificate retirements.
- Interest is over budget by $56,000 due to higher-than-anticipated returns on cash and invested balances.

**Personnel Expenses**

- Personnel Expenses are over budget by $73,000 primarily due to budgeted labor float rate assumptions compared with actual vacancy rates, and compensation market adjustments.

**Meeting Expenses**

- Travel is under budget by $26,000 due to lower-than-anticipated attendance at external meetings, entity visits, and training.

**Operating Expenses**

- Professional Services are under budget by $12,000 due to a migration to a different billing software and the elimination of consulting needs.

**Depreciation**

- No significant variances.

**Indirect Expenses**

- Indirect Expenses are under budget by $86,000 due to a lower number of actual FTEs compared to the budget, as well as underruns in Corporate Services. WECC's allocation of indirect expenses to the non-statutory program is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- No significant variances.

**Fixed Assets**

- No significant variances.

Financial Statements
December 31, 2017 and 2016

# Western Electricity Coordinating Council

EideBailly
CPAs & BUSINESS ADVISORS

# Independent Auditor's Report

The Board of Directors
Western Electricity Coordinating Council
Salt Lake City, Utah

**Report on the Financial Statements**
We have audited the accompanying financial statements of Western Electricity Coordinating Council, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Western Electricity Coordinating Council as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Salt Lake City, Utah
April 17, 2018


5929 Fashion Point Dr., Ste. 300 | Ogden, UT 84403-4684 | T 801.621.1575 | F 801.627.2911 | EOE

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 27,948,465 | $ 11,990,480 |
| Contractually restricted cash and cash equivalents | 2,515,834 | 2,474,872 |
| Certificates of deposit | 5,577,727 | 5,472,117 |
| Investments | 938,751 | 441,126 |
| Accounts receivable, net | 3,072,468 | 10,985,588 |
| Prepaid expenses and other assets | 638,958 | 442,177 |
| Property and equipment, net | 540,352 | 820,520 |
| | $ 41,232,555 | $ 32,626,880 |
| **Liabilities and Net Assets** | | |
| Accounts payable | $ 9,920,746 | 1,618,540 |
| Accrued expenses | 1,829,711 | 2,553,121 |
| Deferred revenue | 16,440,418 | 15,513,074 |
| Other liabilities | 629,907 | 1,095,236 |
| Total liabilities | 28,820,782 | 20,779,971 |
| **Net Assets** | | |
| Unrestricted | 12,411,773 | 11,846,909 |
| | $ 41,232,555 | $ 32,626,880 |

| | 2017 | 2016 |
|---|---|---|
| Revenues | | |
| Electric Reliability Organization funding | $ 26,341,500 | $ 27,015,838 |
| Western Renewable Energy Generation Information System (WREGIS) | 2,268,986 | 2,047,826 |
| Meetings and workshops | 436,835 | 856,612 |
| Net investment income | 241,861 | 142,995 |
| Total revenue | 29,289,182 | 30,063,271 |
| Expenses | | |
| Labor | 19,681,675 | 18,932,945 |
| Office and equipment | 2,962,644 | 2,929,342 |
| Depreciation and amortization | 394,076 | 449,943 |
| Contract labor and consultants | 2,901,870 | 1,996,359 |
| Meetings | 1,868,195 | 2,072,543 |
| Professional services | 864,168 | 1,010,110 |
| Excise taxes | 50,697 | 59,890 |
| Other | 993 | 526 |
| Total expenses | 28,724,318 | 27,451,658 |
| Increase in unrestricted net assets | 564,864 | 2,611,613 |
| Net Assets, Beginning of Year | 11,846,909 | 9,235,296 |
| Net Assets, End of Year | $ 12,411,773 | $ 11,846,909 |

| | 2017 | 2016 |
|---|---|---|
| Operating Activities | | |
| Change in net assets | $ 564,864 | $ 2,611,613 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities | | |
| Depreciation and amortization | 394,076 | 449,943 |
| Amortization of discounts and premiums on operating investments | 17,823 | - |
| Realized and unrealized loss on operating investments | 12,609 | 26,850 |
| Changes in assets and liabilities | | |
| Accounts receivable | 7,913,120 | (9,327,934) |
| Prepaid expenses and other assets | (196,781) | 31,382 |
| Accounts payable | 8,302,206 | (3,503,642) |
| Accrued expenses | (723,410) | (922,102) |
| Deferred revenue | 927,344 | 313,429 |
| Other liabilities | (465,329) | (127,053) |
| Net Cash from (used for) Operating Activities | 16,746,522 | (10,447,514) |
| Investing Activities | | |
| Purchases of property and equipment | (113,908) | (67,808) |
| Purchases of investments and certificates of deposit | (6,183,733) | (5,479,690) |
| Proceeds from sale of investments and certificates of deposit | 5,550,066 | 5,311,234 |
| Net Cash used for Investing Activities | (747,575) | (236,264) |
| Net Change in Cash and Cash Equivalents | 15,998,947 | (10,683,778) |
| Cash and Cash Equivalents, Beginning of Year | 14,465,352 | 25,149,130 |
| Cash and Cash Equivalents, End of Year | $ 30,464,299 | $ 14,465,352 |

Cash and Cash Equivalents are presented as follows on the statement of financial position:

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | $ 27,948,465 | $ 11,990,480 |
| Contractually restricted cash and cash equivalents | 2,515,834 | 2,474,872 |
| | $ 30,464,299 | $ 14,465,352 |

Non-Cash Investing and Financing Activities

| | 2017 | 2016 |
|---|---|---|
| Disposal of fully depreciated property and equipment | $ 1,121,598 | $ - |

## Note 1 - Summary of Significant Accounting Policies

### Organization

Western Electricity Coordinating Council (WECC) is a nonprofit organization whose primary mission is to assure a reliable bulk power system in the Western Interconnection. The Western Interconnection extends from Canada to Mexico and includes the Canadian provinces of Alberta and British Columbia, the northern part of Baja California in Mexico, and all or part of the 14 Western states in between. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2016 with North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk power system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to load-serving entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within the Western Interconnection. WECC funds its non-statutory activities though annual and other activity fees.

### Cash and Cash Equivalents

Cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less, excluding contractually restricted cash and cash equivalents.

Pursuant to the Delegation Agreement with NERC, contractually restricted cash and cash equivalents as of December 31, 2017 and 2016, were $2,515,834 and $2,474,872, respectively.

### Certificates of Deposit

Certificates of deposit held by WECC that are not classified as debt securities have original maturities greater than three months. Certificates of deposit are reported at amortized cost.

### Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for statutory funding and other fees receivable. WECC determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2017 and 2016, the allowance was $16,338 and $22,473, respectively.

**Property and Equipment**

WECC records property and equipment additions over $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years or, in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

WECC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2017 and 2016.

**Investments**

WECC records investment purchases at cost. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

**Net Assets**

Net assets and changes therein are classified as unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and board-designated endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Board of Directors.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by WECC's actions. The restrictions stipulate that resources be maintained permanently but permit expending the income generated in accordance with the provisions of the agreements.

As of December 31, 2017 and 2016, WECC had only unrestricted net assets.

**Revenue Recognition**

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

**Income Taxes**

WECC is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(4). WECC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, WECC is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. WECC has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

WECC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. WECC would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Financial Instruments and Credit Risk**

WECC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, WECC has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts NERC has delegated WECC to collect through assessments to LSEs with the Western Interconnection. Investments are made by diversified investment managers whose performance is monitored by management and the Finance and Audit Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance and Audit Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Recent Accounting Guidance**

The Financial Accounting Standards Board issued Accounting Standard Update 2016-14 (the ASU) *Presentation of Financial Statements for Not-for-Profit Entities* during August 2016, which modifies the presentation and disclosure requirements of not-for-profit entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for WECC's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from WECC's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess WECC's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses. The ASU is effective for WECC for the year ended December 31, 2018. Management is evaluating the impact of the adoption on WECC's financial statements and policies for net assets classification.

**Subsequent Events**

WECC has evaluated subsequent events through April 17, 2018, the date the financial statements were available to be issued.

## Note 2 - Fair Value Measurements and Disclosures

WECC reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk or liquidity profile of the asset or liability.

WECC invests in U.S. Government obligations that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at December 31, 2017:

| | | Fair Value Measurements at Report Date Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Government agency bonds | $ 938,751 | $ - | $ 938,751 | $ - |

The following table presents assets measured at fair value on a recurring basis at December 31, 2016:

| | | Fair Value Measurements at Report Date Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Government agency bonds | $ 441,126 | $ - | $ 441,126 | $ - |

## Note 3 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Operating investments | | |
| Interest and dividends | $ 254,470 | $ 169,845 |
| Net realized and unrealized gain (loss) | (12,609) | (26,850) |
| | $ 241,861 | $ 142,995 |

## Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Equipment | $ 682,712 | $ 916,957 |
| Software | 1,166,306 | 1,961,031 |
| Furniture and fixtures | 368,011 | 368,011 |
| Leasehold improvements | 1,299,128 | 1,277,848 |
| | 3,516,157 | 4,523,847 |
| Less accumulated depreciation | (2,975,805) | (3,703,327) |
| | $ 540,352 | $ 820,520 |

## Note 5 - Net Assets

WECC reports information regarding statutory and non-statutory related earnings to the FERC in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2016. As of December 31, 2017 and 2016, the breakdown of such earnings included in unrestricted net assets consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Non-statutory earnings | $ 6,452,646 | $ 5,776,091 |
| Statutory earnings | 5,959,127 | 6,070,818 |
| | $ 12,411,773 | $ 11,846,909 |

## Note 6 - Leases

WECC leases office space and equipment under various operating leases expiring at various dates through 2021. Future minimum lease payments are as follows:

| Years Ending December 31, | |
|---|---|
| 2018 | $ 1,199,392 |
| 2019 | 1,196,348 |
| 2020 | 407,748 |
| 2021 | 855 |
| Total minimum lease payments | $ 2,804,343 |

Rent expense for the years ended December 31, 2017 and 2016, totaled $950,532 and $942,563, respectively.

## Note 7 - Functional Allocation of Expenses

The costs of programs and supporting services have been summarized on a functional basis. WECC's expenses are classified as Statutory Expenses or Non-statutory Expenses as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

Total operating expenses by function were as follows for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Program services | | |
| Statutory services | $ 19,769,149 | $ 18,676,027 |
| Non-statutory services | 1,244,013 | 1,059,266 |
| | 21,013,162 | 19,735,293 |
| Support services | | |
| Management and general | 7,711,156 | 7,716,365 |
| | $ 28,724,318 | $ 27,451,658 |

## Note 8 - Employee Benefits

WECC sponsors a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying statement of activities was $1,285,466 and $1,250,216 for the years ended December 31, 2017 and 2016, respectively.

In 2006, WECC adopted a 457(b) deferred compensation plan to provide certain employees of WECC with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2017 and 2016 was $18,000. This plan is entirely funded by employee salary deferrals.

## Note 9 - Commitments and Contingencies

On May 26, 2015, Staff of the Office of Enforcement (Enforcement) of FERC, NERC, WECC, and Peak Reliability entered into a Stipulation and Consent Agreement (Agreement), Docket No. IN14-11-000, to resolve a non-public investigation conducted by Enforcement and NERC pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined possible violations of NERC Reliability Standards by WECC as the Reliability Coordinator (WECC RC) for the Western interconnection related to a system event in the Pacific Southwest on September 8, 2011 (September 8 event). WECC neither admits nor denies that WECC RC violated Reliability Standards described in the Agreement, but agreed to pay a total civil penalty of $16 million, of which $3 million was to be paid to the United States Treasury and NERC, divided in equal amounts over a three-year period. Enforcement and NERC agreed to give WECC a partial civil penalty offset for the remaining $13 million in exchange for WECC and Peak implementing Reliability Enhancement measures as set forth in the Agreement. The value of the Reliability Enhancements actually incurred is expected to substantially exceed the amount of the credited offset. Peak did not exist as a separate entity at the time of the September 8 event, but is a party to the Agreement as the successor to WECC as the Reliability Coordinator for the Western Interconnection. WECC and Peak also committed to certain measures, subject to compliance monitoring, as detailed in the Agreement. As of December 31, 2017, WECC had paid the $3 million penalty in full.

# <u>ATTACHMENT 10</u>

## METRICS CONCERNING ADMINISTRATIVE COSTS IN

## 2017 NERC AND REGIONAL ENTITY

## BUDGETS AND ACTUAL COSTS

**Analysis of Indirect (Administrative Services) Costs**
**2017 Actual versus 2017 Budget**

| 2017 ACTUAL | | | | | | 2017 BUDGET | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Statutory Expenses & Capital Expenditures | Total Statutory Direct Expenses & Capital Expenditures | Total Statutory Indirect Expenses & Capital Expenditures | % Statutory Indirect to Total Statutory | Statutory Direct Spend per Spend on Indirect | | Total Statutory Expenses & Capital Expenditures | Total Statutory Direct Expenses & Capital Expenditures | Total Statutory Indirect Expenses & Capital Expenditures | % Statutory Indirect to Total Statutory | Statutory Direct Spend per Spend on Indirect |
| $ 68,156,945 | $ 39,552,176 | $ 28,604,769 | 42.0% | $ 1.38 | **NERC** | $ 69,602,175 | $ 38,187,340 | $ 31,414,835 | 45.1% | $ 1.22 |
| 6,888,403 | 5,935,207 | 953,196 | 13.8% | 6.23 | **FRCC** | 7,177,854 | 6,311,736 | 866,118 | 12.1% | 7.29 |
| 11,035,840 | 6,378,537 | 4,657,303 | 42.2% | 1.37 | **MRO** | 11,226,668 | 6,786,617 | 4,440,051 | 39.5% | 1.53 |
| 14,652,315 | 9,450,212 | 5,202,103 | 35.5% | 1.82 | **NPCC** | 15,147,054 | 9,700,335 | 5,446,719 | 36.0% | 1.78 |
| 20,017,483 | 13,887,195 | 6,130,288 | 30.6% | 2.27 | **RF** | 19,908,939 | 14,170,620 | 5,738,319 | 28.8% | 2.47 |
| 16,261,640 | 7,645,191 | 8,616,449 | 53.0% | 0.89 | **SERC** | 17,482,403 | 9,305,229 | 8,177,174 | 46.8% | 1.14 |
| 10,919,622 | 5,772,417 | 5,147,205 | 47.1% | 1.12 | **SPP RE** | 10,865,511 | 5,799,846 | 5,065,665 | 46.6% | 1.14 |
| 11,495,436 | 7,058,954 | 4,436,482 | 38.6% | 1.59 | **Texas RE** | 12,167,256 | 7,491,452 | 4,675,804 | 38.4% | 1.60 |
| 26,794,210 | 17,760,217 | 9,033,993 | 33.7% | 1.97 | **WECC** | 26,796,927 | 17,029,827 | 9,767,100 | 36.4% | 1.74 |
| **$ 186,221,894** | **$ 113,440,106** | **$ 72,781,788** | **39.1%** | **$ 1.56** | **TOTAL/AVERAGE** | **$ 190,374,787** | **$ 114,783,002** | **$ 75,591,785** | **39.7%** | **$ 1.52** |

| 2017 ACTUAL FTEs | | | | | | 2017 BUDGETED FTEs | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Statutory FTEs | Total Statutory Direct FTEs | Total Statutory Indirect FTEs | Indirect FTE as % of Total FTE | # Direct to Indirect Statutory FTEs | | Total Statutory FTEs | Total Statutory Direct FTEs | Total Statutory Indirect FTEs | Indirect FTE as % of Total FTE | # Direct to Indirect Statutory FTEs |
| 190.83 | 122.55 | 68.28 | 35.8% | 1.79 | **NERC** | 189.88 | 120.56 | 69.33 | 36.5% | 1.74 |
| 27.59 | 22.97 | 4.62 | 16.7% | 4.97 | **FRCC** | 29.99 | 25.80 | 4.19 | 14.0% | 6.16 |
| 41.72 | 30.80 | 10.92 | 26.2% | 2.82 | **MRO** | 43.00 | 31.33 | 11.67 | 27.1% | 2.68 |
| 36.40 | 28.40 | 8.00 | 22.0% | 3.55 | **NPCC** | 36.86 | 28.86 | 8.00 | 21.7% | 3.61 |
| 73.86 | 58.66 | 15.20 | 20.6% | 3.86 | **RF** | 72.30 | 57.60 | 14.70 | 20.3% | 3.92 |
| 60.29 | 37.06 | 23.23 | 38.5% | 1.60 | **SERC** | 75.00 | 49.70 | 25.30 | 33.7% | 1.96 |
| 28.73 | 24.61 | 4.12 | 14.3% | 5.97 | **SPP RE** | 33.25 | 28.75 | 4.50 | 13.5% | 6.39 |
| 56.00 | 42.25 | 13.75 | 24.6% | 3.07 | **Texas RE** | 60.00 | 46.25 | 13.75 | 22.9% | 3.36 |
| 130.20 | 92.40 | 37.80 | 29.0% | 2.44 | **WECC** | 140.00 | 97.00 | 43.00 | 30.7% | 2.26 |
| **645.62** | **459.70** | **185.92** | **28.8%** | **2.47** | **AVERAGE** | **680.28** | **485.85** | **194.44** | **28.6%** | **2.50** |

| 2017 ACTUAL SPEND per FTE | | | | | 2017 BUDGETED SPEND per FTE | | | |
|---|---|---|---|---|---|---|---|---|
| Total Statutory | Total Statutory Direct | Total Statutory Indirect | Statutory Indirect Spend per Total FTE | | Total Statutory | Total Statutory Direct | Total Statutory Indirect | Statutory Indirect Spend per Total FTE |
| $ 357,161 | $ 322,743 | $ 418,933 | $ 149,897 | **NERC** | $ 366,559 | $ 316,763 | $ 453,153 | $ 165,446 |
| 249,670 | 258,390 | 206,319 | 34,549 | **FRCC** | 239,342 | 244,641 | 206,711 | 28,880 |
| 264,522 | 207,095 | 426,493 | 111,632 | **MRO** | 261,085 | 216,617 | 380,467 | 103,257 |
| 402,536 | 332,754 | 650,263 | 142,915 | **NPCC** | 410,935 | 336,117 | 680,840 | 147,768 |
| 271,019 | 236,740 | 403,308 | 82,999 | **RF** | 275,366 | 246,018 | 390,362 | 79,368 |
| 269,724 | 206,292 | 370,919 | 142,917 | **SERC** | 233,099 | 187,228 | 323,208 | 109,029 |
| 380,077 | 234,556 | 1,249,322 | 179,158 | **SPP RE** | 326,782 | 201,734 | 1,125,703 | 152,351 |
| 205,276 | 167,076 | 322,653 | 79,223 | **Texas RE** | 202,788 | 161,977 | 340,058 | 77,930 |
| 205,793 | 192,210 | 238,995 | 69,386 | **WECC** | 191,407 | 175,565 | 227,142 | 69,765 |
| **$ 288,439** | **$ 246,770** | **$ 391,468** | **$ 112,732** | **AVERAGE** | **$ 279,848** | **$ 236,254** | **$ 388,777** | **$ 111,119** |

**Analysis of Administrative (Indirect) Costs**
**2015, 2016 and 2017 Actual**

**2015 ACTUAL SPEND**

| | Total Statutory Expenses & Capital Expenditures | Total Statutory Direct Expenses & Capital Expenditures | Total Statutory Indirect Expenses & Capital Expenditures | % Statutory Indirect to Total Statutory | Statutory Direct Spend per Spend on Indirect |
|---|---|---|---|---|---|
| **NERC** | $ 64,947,005 | $ 36,493,510 | $ 28,453,494 | 43.81% | $ 1.28 |
| **FRCC** | 6,678,049 | 5,915,982 | 762,067 | 11.41% | 7.76 |
| **MRO** | 9,834,552 | 5,902,604 | 3,931,948 | 39.98% | 1.50 |
| **NPCC** | 13,322,350 | 8,268,245 | 5,054,105 | 37.94% | 1.64 |
| **RFC** | 17,623,307 | 12,185,655 | 5,437,652 | 30.85% | 2.24 |
| **SERC** | 16,012,666 | 8,018,781 | 7,993,885 | 49.92% | 1.00 |
| **SPP RE** | 10,085,689 | 4,626,032 | 5,459,657 | 54.13% | 0.85 |
| **Texas RE** | 11,130,083 | 6,345,141 | 4,784,942 | 42.99% | 1.33 |
| **WECC**[1] | 25,173,376 | 15,653,152 | 9,520,224 | 37.82% | 1.64 |
| **TOTAL/Average** | $ 174,807,077 | $ 103,409,102 | $ 71,397,974 | 40.84% | $ 1.45 |

**2016 ACTUAL SPEND**

| | Total Statutory Expenses & Capital Expenditures | Total Statutory Direct Expenses & Capital Expenditures | Total Statutory Indirect Expenses & Capital Expenditures | % Statutory Indirect to Total Statutory | Statutory Direct Spend per Spend on Indirect |
|---|---|---|---|---|---|
| **NERC** | $ 66,543,126 | $ 37,449,580 | $ 29,093,546 | 43.72% | $ 1.29 |
| **FRCC** | 6,453,193 | 5,509,078 | 944,115 | 14.63% | 5.84 |
| **MRO** | 10,650,663 | 6,201,263 | 4,449,400 | 41.78% | 1.39 |
| **NPCC** | 13,646,717 | 9,183,045 | 4,463,672 | 32.71% | 2.06 |
| **RFC** | 18,606,041 | 13,034,910 | 5,571,131 | 29.94% | 2.34 |
| **SERC** | 16,675,221 | 8,404,010 | 8,271,211 | 49.60% | 1.02 |
| **SPP RE** | 9,582,865 | 4,533,836 | 5,049,029 | 52.69% | 0.90 |
| **Texas RE** | 10,967,245 | 6,824,774 | 4,142,471 | 37.77% | 1.65 |
| **WECC**[1] | 25,647,505 | 16,640,971 | 9,006,534 | 35.12% | 1.85 |
| **TOTAL/Average** | $ 178,772,575 | $ 107,781,466 | $ 70,991,109 | 39.71% | $ 1.52 |

**2017 ACTUAL SPEND**

| | Total Statutory Expenses & Capital Expenditures | Total Statutory Direct Expenses & Capital Expenditures | Total Statutory Indirect Expenses & Capital Expenditures | % Statutory Indirect to Total Statutory | Statutory Direct Spend per Spend on Indirect |
|---|---|---|---|---|---|
| **NERC** | $ 68,156,945 | $ 39,552,176 | $ 28,604,769 | 41.97% | $ 1.38 |
| **FRCC** | 6,888,403 | 5,935,207 | 953,196 | 13.84% | 6.23 |
| **MRO** | 11,035,840 | 6,378,537 | 4,657,303 | 42.20% | 1.37 |
| **NPCC** | 14,652,315 | 9,450,212 | 5,202,103 | 35.50% | 1.82 |
| **RFC** | 20,017,483 | 13,887,195 | 6,130,288 | 30.62% | 2.27 |
| **SERC** | 16,261,640 | 7,645,191 | 8,616,449 | 52.99% | 0.89 |
| **SPP RE** | 10,919,622 | 5,772,417 | 5,147,205 | 47.14% | 1.12 |
| **Texas RE** | 11,495,436 | 7,058,954 | 4,436,482 | 38.59% | 1.59 |
| **WECC**[1] | 26,794,210 | 17,760,217 | 9,033,993 | 33.72% | 1.97 |
| **TOTAL/Average** | $ 186,221,894 | $ 113,440,106 | $ 72,781,788 | 39.08% | $ 1.56 |
| **3-Year Average** | | | | 39.86% | $ 1.51 |

**2015 ACTUAL FTEs**

| | Total Statutory FTEs | Total Statutory Direct FTEs | Total Statutory Indirect FTEs | Indirect FTE as % of Total FTE | # Direct to Indirect Statutory FTEs |
|---|---|---|---|---|---|
| **NERC** | 192.97 | 119.38 | 73.59 | 38.14% | 1.62 |
| **FRCC** | 27.81 | 23.89 | 3.92 | 14.10% | 6.09 |
| **MRO** | 40.39 | 30.30 | 10.09 | 24.98% | 3.00 |
| **NPCC** | 36.66 | 27.74 | 8.92 | 24.33% | 3.11 |
| **RFC** | 67.60 | 54.04 | 13.56 | 20.06% | 3.99 |
| **SERC** | 65.90 | 42.00 | 23.90 | 36.27% | 1.76 |
| **SPP RE** | 30.09 | 25.59 | 4.50 | 14.96% | 5.69 |
| **Texas RE** | 55.00 | 41.25 | 13.75 | 25.00% | 3.00 |
| **WECC**[1] | 125.00 | 82.80 | 42.20 | 33.76% | 1.96 |
| **TOTAL/Average** | 641.42 | 446.99 | 194.43 | 30.31% | 2.30 |

**2016 ACTUAL FTEs**

| | Total Statutory FTEs | Total Statutory Direct FTEs | Total Statutory Indirect FTEs | Indirect FTE as % of Total FTE | # Direct to Indirect Statutory FTEs |
|---|---|---|---|---|---|
| **NERC** | 192.66 | 121.94 | 70.72 | 36.71% | 1.72 |
| **FRCC** | 30.68 | 26.13 | 4.55 | 14.83% | 5.74 |
| **MRO** | 41.56 | 30.71 | 10.85 | 26.11% | 2.83 |
| **NPCC** | 36.61 | 28.61 | 8.00 | 21.85% | 3.58 |
| **RFC** | 71.27 | 56.53 | 14.74 | 20.68% | 3.84 |
| **SERC** | 65.00 | 41.80 | 23.20 | 35.69% | 1.80 |
| **SPP RE** | 28.76 | 24.64 | 4.12 | 14.33% | 5.98 |
| **Texas RE** | 57.40 | 43.65 | 13.75 | 23.95% | 3.17 |
| **WECC**[1] | 131.20 | 90.30 | 40.90 | 31.17% | 2.21 |
| **TOTAL/Average** | 655.13 | 464.30 | 190.83 | 29.13% | 2.43 |

**2017 ACTUAL FTEs**

| | Total Statutory FTEs | Total Statutory Direct FTEs | Total Statutory Indirect FTEs | Indirect FTE as % of Total FTE | # Direct to Indirect Statutory FTEs |
|---|---|---|---|---|---|
| **NERC** | 190.83 | 122.55 | 68.28 | 35.78% | 1.79 |
| **FRCC** | 27.59 | 22.97 | 4.62 | 16.75% | 4.97 |
| **MRO** | 41.72 | 30.80 | 10.92 | 26.17% | 2.82 |
| **NPCC** | 36.40 | 28.40 | 8.00 | 21.98% | 3.55 |
| **RFC** | 73.86 | 58.66 | 15.20 | 20.58% | 3.86 |
| **SERC** | 60.29 | 37.06 | 23.23 | 38.53% | 1.60 |
| **SPP RE** | 28.73 | 24.61 | 4.12 | 14.34% | 5.97 |
| **Texas RE** | 56.00 | 42.25 | 13.75 | 24.55% | 3.07 |
| **WECC**[1] | 130.20 | 92.40 | 37.80 | 29.03% | 2.44 |
| **TOTAL/Average** | 645.62 | 459.70 | 185.92 | 28.80% | 2.47 |
| **3-Year Average** | | | | 29.41% | 2.40 |

**2015 ACTUAL SPEND per FTE**

| | Total Statutory | Total Statutory Direct | Total Statutory Indirect | Statutory Indirect Spend per Total FTE |
|---|---|---|---|---|
| **NERC** | $ 336,565 | $ 305,692 | $ 386,649 | $ 147,450 |
| **FRCC** | 240,131 | 247,634 | 194,405 | 27,403 |
| **MRO** | 243,490 | 194,805 | 389,688 | 97,350 |
| **NPCC** | 363,403 | 298,062 | 566,604 | 137,864 |
| **RFC** | 260,700 | 225,493 | 401,007 | 80,439 |
| **SERC** | 242,984 | 190,923 | 334,472 | 121,303 |
| **SPP RE** | 335,240 | 180,810 | 1,213,257 | 181,474 |
| **Texas RE** | 202,365 | 153,822 | 347,996 | 86,999 |
| **WECC** | 201,387 | 189,048 | 225,598 | 76,162 |
| **TOTAL/Average** | $ 272,534 | $ 231,348 | $ 367,217 | $ 111,313 |

**2016 ACTUAL SPEND per FTE**

| | Total Statutory | Total Statutory Direct | Total Statutory Indirect | Statutory Indirect Spend per Total FTE |
|---|---|---|---|---|
| **NERC** | $ 345,391 | $ 307,115 | $ 411,391 | $ 151,010 |
| **FRCC** | 210,366 | 210,866 | 207,498 | 30,777 |
| **MRO** | 256,272 | 201,930 | 410,083 | 107,060 |
| **NPCC** | 372,759 | 320,973 | 557,959 | 121,925 |
| **RFC** | 261,064 | 230,584 | 377,960 | 78,169 |
| **SERC** | 256,542 | 201,053 | 356,518 | 127,249 |
| **SPP RE** | 333,259 | 184,040 | 1,225,492 | 175,588 |
| **Texas RE** | 191,067 | 156,352 | 301,271 | 72,168 |
| **WECC** | 195,484 | 184,285 | 220,209 | 68,647 |
| **TOTAL/Average** | $ 272,881 | $ 232,137 | $ 372,012 | $ 108,362 |

**2017 ACTUAL SPEND per FTE**

| | Total Statutory | Total Statutory Direct | Total Statutory Indirect | Statutory Indirect Spend per Total FTE |
|---|---|---|---|---|
| **NERC** | $ 357,161 | $ 322,743 | $ 418,933 | $ 149,897 |
| **FRCC** | 249,670 | 258,390 | 206,319 | 34,549 |
| **MRO** | 264,522 | 207,095 | 426,493 | 111,632 |
| **NPCC** | 402,536 | 332,754 | 650,263 | 142,915 |
| **RFC** | 271,019 | 236,740 | 403,308 | 82,999 |
| **SERC** | 269,724 | 206,292 | 370,919 | 142,917 |
| **SPP RE** | 380,077 | 234,556 | 1,249,322 | 179,158 |
| **Texas RE** | 205,276 | 167,076 | 322,653 | 79,223 |
| **WECC** | 205,793 | 192,210 | 238,995 | 69,386 |
| **TOTAL/Average** | $ 288,439 | $ 246,770 | $ 391,468 | $ 112,732 |
| **3-Year Average** | $ 277,951 | $ 236,752 | $ 376,899 | $ 110,802 |