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May 29, 2020

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. RR20-_-000
Report of Comparisons of Budgeted to Actual Costs for 2019
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 2019 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 9. The Table of Contents to the narrative text list the 9 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) **Docket No. RR20-__-000**
)

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION’S
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2019
FOR NERC AND THE REGIONAL ENTITIES

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ATTACHMENTS:

Attachment 1: North American Electric Reliability Corporation – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 2: Midwest Reliability Organization – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 3: Northeast Power Coordinating Council, Inc. – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 4: ReliabilityFirst Corporation – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 5: SERC Reliability Corporation – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 6: Texas Reliability Entity, Inc. – 2019 Actual Cost-to-Budget Comparison and Draft Financial Statements

Attachment 7: Western Electricity Coordinating Council – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 8: Florida Reliability Coordinating Council, Inc. – 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements

Attachment 9: Metrics Concerning Administrative Costs in 2019 NERC and Regional Entity Budgets and Actual Costs

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2019 for NERC and the seven Regional Entities operating in 2019.¹ 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, 2019, 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, 2019.³
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2019 budgets and actual results.⁴

This filing includes the following attachments:

¹ Florida Reliability Coordinating Council, Inc. (“FRCC”), Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council, Inc. (“NPCC”), ReliabilityFirst Corporation (“ReliabilityFirst”), SERC Reliability Corporation (“SERC”), Texas Reliability Entity, Inc. (“Texas RE”), and Western Electricity Coordinating Council (“WECC”). As approved by the Commission in Docket No. RR19-4-000 (Order dated April 30, 2019), FRCC ceased operations as a Regional Entity on August 31, 2019.

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”).

³ Texas RE’s final audited financial statements for 2019 are not available as of May 29, 2020. With Texas RE’s permission, its draft 2019 financial statements, as reviewed by its Board of Directors on May 27, 2020, are included in **Attachment 6**. NERC will make a supplemental filing with the Commission to submit Texas RE’s final 2019 audited financial statements when they become available.

⁴ These tables do not include budget and actual cost information for FRCC or for the Southwest Power Pool Regional Entity, which ceased operations as Regional Entities in 2019 and 2018, respectively.

Attachment 1: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 3: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 4: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 5: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 6: 2019 Actual Cost-to-Budget Comparison and Draft Financial Statements for Texas RE.

Attachment 7: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 8: 2019 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 9: Metrics Concerning Administrative Costs in 2019 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, 2019 – 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.”⁵ 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.⁶

⁵ *2008 ERO Budget Order* at P 23.

⁶ *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 2019 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 8**, as follows:

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2019, as prepared by its independent public accounting firm (with the exception of Texas RE as noted above).

The comparisons provided in **Attachments 1 through 8** conform to the Commission's

directives as quoted above:⁷

- 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 2019 budget, 2019 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 2019, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2019 budget, 2019 actual amounts, and the variance, for major line-item categories of Funding and Expenses.⁸
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2019 budget, 2019 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs⁹ (direct costs) and for the administrative functions¹⁰ (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). Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than \$10,000 over or under the budgeted amount.

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2019 for non-statutory activities (neither

⁷ The report provided by FRCC (**Attachment 8**), which ceased operations as a Regional Entity in August 2019, provides total company, total statutory, and total non-statutory actual-cost-to-budget comparisons but does not include comparisons for the individual statutory programs and administrative functions, nor the other information listed below.

⁸ FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2019 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, and SERC did not have non-statutory activities in 2019.

⁹ 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).

¹⁰ The administrative functions are Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting. 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.

NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2019); (ii) the impact of the entity's 2019 results on its reserves for statutory programs (*e.g.*, whether reserves were used to fund expenditures during 2019)¹¹; (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 2019.

NERC has provided additional information in its 2019 report in **Attachment 1**, including: (1) actual cost to budget variances for Consultants and Contracts expense, by department, and (2) analysis of the sources of changes in its Operating Reserves for 2019. The table on page 3 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2019 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 the program areas. The analysis of changes in Operating Reserves is provided on page 9 of **Attachment 1**, including a table which shows the changes in each category of Operating Reserves due to 2019 budgeted operations and approved uses of reserves. In addition, NERC has provided an actual cost-to budget comparison for 2019 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 7 of Attachment 1.*

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

¹¹ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" for the 2019 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 2019; a negative "Change in Working Capital" means the entity's total actual funding was less than its total actual expenditures for the year.

program and the indirect cost functions 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 2019 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 2019, as identified by NERC’s review of the comparisons.

- A number of entities¹² 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.¹³
- 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 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 positions (including independent trustee positions on the entity’s board) resulted in unbudgeted 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 higher (or lower) than budgeted Employee Benefits expenses due to decisions by employees to participate (or not to participate) in the entity’s medical benefits program, or due to greater or lesser participation by employees in the entity’s retirement plan than was assumed in the budget. Employee Benefits expense was also lower than budgeted for some entities due to employees not using educational or training program benefits to the full extent assumed in the budget.

¹² The term “entities” is used in this discussion to include NERC as well as Regional Entities.

¹³ 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.

- In order to address unfilled positions or changing resource needs in particular program areas, some entities transferred one or more employees from one program area to another during 2019. 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 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 entities have increased their staffing and expertise 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 rather than in rented, third-party meeting spaces; (iii) cancellation of or non-attendance at planned meetings (including training and education workshops and NERC or Regional Entity meetings) that were reflected in the 2019 budget; and/or (iv) overall increased corporate attention to controlling travel and meeting costs.
- Some entities experienced higher (or lower) than budgeted actual costs for Meetings due to conducting additional (or fewer) workshops or seminars for industry participants, or additional (or fewer) committee meetings, beyond those planned for in developing the budget, or due to greater (or lesser) attendance at these programs than anticipated.
- 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, the need to conduct unplanned, emergent projects requiring consultant or contractor assistance, or the completion of projects in 2019 that had been anticipated to be completed in 2018.
- Some entities experienced higher or lower Office Rent or Office Costs expense than budgeted due to higher or lower actual rent, property or other 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 another program area or areas responsible for incurring, or benefitting from, the cost.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2019 budget were either (i) completed, or at least initiated, in late 2018, (ii) not carried out in 2019 (*e.g.*, delayed/deferred to 2020 or later), or (iii) initiated later in 2019 than assumed in the budget and therefore not completed in 2019. This resulted in reduced actual IT costs,

Fixed Assets Additions, 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 2018 were not fully completed in 2018, resulting in unbudgeted or over-budget expenditures in 2019.

- 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.
- 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, or charging lower fees than budgeted because the costs to hold the event were less than budgeted.
- Some 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 **7**.

NERC and the six Regional Entities are taking the actual cost-to-budget comparisons for 2019, as well as year-to-date actual cost-to-budget experience for 2020, into account in developing their business plans and budgets for 2021, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2020.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2019 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 Finance and Accounting. *See June 19, 2008 Budget Compliance Order*, footnote 13.

Attachment 9 provides the following three sets of metrics comparisons for NERC and the Regional Entities (other than FRCC, which ceased operations as a Regional Entity in August 2019) for their 2019 budgets and 2019 actual costs. In addition, **Attachment 9** provides a comparison of these metrics values for 2017, 2018 and 2019 actual results.¹⁴

- 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 9**). (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 9**).
- 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 9**).

¹⁴ As noted earlier, the tables in **Attachment 9** do not include FRCC and the Southwest Power Pool Regional Entity, which ceased operations as Regional Entities in 2019 and 2018, respectively.

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 2018.

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, 2019.

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ATTACHMENT 1

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2019 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2019, NERC was on target for total funding and was \$2.0M (2.5%) under budget for total expenses and fixed asset additions, inclusive of expenses associated with the Cyber Risk Information Sharing Program (CRISP).

Actual vs Budget – Including CRISP

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING**	\$ 78,702,563	\$ 79,130,349	\$ (427,786)	(0.5%)
EXPENDITURES				
Personnel	44,540,383	\$ 43,952,190	\$ 588,193	1.3%
Meetings, Travel, and Conference Calls	4,209,865	3,380,400	829,464	24.5%
Contracts and Consultants	12,737,309	15,043,318	(2,306,009)	(15.3%)
Rent and Facilities	3,583,461	3,335,058	248,403	7.4%
Office Costs, Professional, and Misc.*	8,793,108	9,346,517	(553,409)	(5.9%)
Other Non-Operating Expenses	(365,636)	214,171	(579,806)	(270.7%)
Fixed Asset Additions*	4,581,630	4,778,000	(196,370)	(4.1%)
TOTAL EXPENDITURES	\$ 78,080,120	\$ 80,049,654	\$ (1,969,534)	(2.5%)
RESERVE INCREASE (DECREASE)	\$ 622,443	\$ (919,305)	\$ 1,541,748	(167.7%)
FTEs	201.8	204.9	(3.1)	(1.5%)

* Excludes depreciation expense

** Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments. The above table excludes \$2.5M of penalty income that was recorded for financial statement reporting purposes in 2019, which is comprised of \$1.0M that was invoiced and collected in 2019 and \$1.5M that had previously been recorded in deferred revenue but was reclassified to penalty revenue to comply with new accounting guidance.

Actual vs Budget – Excluding CRISP

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 70,833,777	\$ 70,086,642	\$ 747,136	1.1%
EXPENDITURES				
Personnel	\$ 43,810,713	\$ 42,986,397	\$ 824,316	1.9%
Meetings, Travel, and Conference Calls	4,119,364	3,332,400	786,964	23.6%
Contracts and Consultants	7,562,871	8,585,818	(1,022,947)	(11.9%)
Rent and Facilities	3,583,461	3,335,058	248,403	7.4%
Office Costs, Professional, and Misc.*	8,582,895	8,837,081	(254,186)	(2.9%)
Other Non-Operating Expenses	(376,102)	214,171	(590,273)	(275.6%)
Fixed Asset Additions*	4,454,666	4,678,000	(223,334)	(4.8%)
TOTAL EXPENDITURES	\$ 71,737,867	\$ 71,968,925	\$ (231,058)	(0.3%)
RESERVE INCREASE (DECREASE)	\$ (904,090)	\$ (1,882,284)	\$ 978,194	(52.0%)
FTEs	197.9	201.2	(3.2)	(1.6%)

* Excludes depreciation expense

Summary of Variances by Major Categories (excluding CRISP)

- Funding was over budget \$747k (1.1%) primarily attributable to higher than budgeted workshop revenues (\$423k) due to higher attendance and also greater interest income (\$286k) due to higher interest rates.
- Personnel expenses were over budget by \$824k (1.9%).

Under appropriate accounting guidance, certain labor costs were capitalized and reflected as costs associated with applicable software/tool projects. For 2019, \$379k was capitalized toward these projects and reflected in fixed assets. Before recognizing the capitalization of labor, the personnel expense category was over budget \$1.2M (2.7%) largely because of employee transition costs, search fees, and increases in the value of the non-qualified deferred compensation plans which are being equally offset by the gains in Other Non-Operating Expenses creating a net \$0 budget impact.

- Meetings, Travel, and Conference Calls expenses were collectively over budget \$787k (23.6%). Meeting expenses were over budget \$690k (66.0%) primarily attributable to the Human Performance and Grid Security Conference workshops, which had greater attendance than was

budgeted and was substantially offset by higher than budgeted workshop revenues. Travel expenses were \$67k (3.1%) over budget due to higher than anticipated travel.

- Contracts and Consultants expenses were under budget \$1.0M (11.9%). See below for a brief description of the variances by department.

CONTRACTS and CONSULTANTS	YTD		
	YTD Actual	YTD Budget	Over (Under)
Reliability Standards	\$ 17,200	\$ 50,000	\$ (32,800)
Compliance Assurance	62,695	50,000	12,695
Compliance Analysis, Registration and Certification	-	-	-
Compliance Enforcement	118,958	161,000	(42,043)
Reliability Assessment and System Analysis	265,435	625,000	(359,565)
Situation Awareness	1,387,476	1,280,990	106,486
Event Analysis	-	-	-
Performance Analysis	570,879	653,565	(82,686)
E-ISAC	1,607,107	1,820,500	(213,393)
Training, Education, and Personnel Certification	498,683	497,000	1,683
General and Administrative and Executive	178,183	220,000	(41,817)
Legal and Regulatory	356,412	-	356,412
Policy and External Affairs	19,037	20,000	(963)
Information Technology	1,709,756	2,042,763	(333,007)
Human Resources and Administration	677,551	690,000	(12,449)
Finance and Accounting	93,498	475,000	(381,502)
TOTAL	\$ 7,562,871	\$ 8,585,818	\$ (1,022,947)

- Compliance Assurance was over budget primarily due to discovery work costs (costs incurred in the initial information gathering phase of software development projects) on the Align project that was budgeted in fixed assets but recorded in contracts and consultants.
- Situation Awareness was over budget mainly because of unanticipated costs to maintain SAFNR v2 prior to the go-live date for SAFNR v3 in Q4 2019.
- Performance Analysis was under budget largely due to enhancements on certain applications that were budgeted in contracts and consultants but recorded in fixed assets, and was partially offset by unanticipated Florida Reliability Coordinating Council (FRCC) regional entity dissolution costs.
- Legal and Regulatory was over budget primarily attributable to Internal Audit projects that were originally budgeted in the Finance and Accounting department but were charged to the Legal and Regulatory department due to organization changes that were made after the 2019 budget had been created. This substantially accounts for the under budget amount in the Finance and Accounting department.

- Information Technology was under budget largely as a result of underspend to help fund certain costs that were charged to the program areas.
 - Reliability Standards, Compliance Enforcement, Reliability Assessment and System Analysis, E-ISAC, General and Administrative and Executive, and Human Resources and Administration were under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
-
- Rent and Facilities expense was over budget \$248k (7.4%) largely as a result of the difference between the manner in which rent costs are budgeted versus how they have to be reported for financial statement reporting purposes.
 - Office Costs, Professional Services, and Miscellaneous expenses were collectively \$254k (2.9%) under budget. Office costs were \$42k (0.7%) over budget because of higher than budgeted software license and support costs, which were partially offset by audio visual and hardware equipment payments budgeted in office costs but reclassified to capital lease payments. Professional services were \$301k (11.7%) under budget primarily as a result of lower than anticipated spending on government relations and legal fees.
 - Other Non-Operating expenses were under budget \$590k (275.6%) because of gains in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Personnel expenses creating a net \$0 budget impact, as well as and the unanticipated refund of prior and current year excise taxes due to recent tax law changes.
 - Fixed Asset Purchases (excluding depreciation) were under budget \$223k (4.8%) mainly because of lower spending to offset increased costs in other areas, as well as some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.

Summary of Variances by Program

DIRECT EXPENSES and NET FIXED ASSETS	YTD Actual	YTD Budget	YTD Over (Under)
Reliability Standards	\$ 3,549,948	\$ 3,419,581	\$ 130,366
Compliance Assurance	6,190,003	5,178,505	1,011,497
Compliance Analysis, Registration and Certification	1,981,096	2,881,804	(900,709)
Compliance Enforcement	3,475,466	3,861,690	(386,225)
Reliability Assessment and System Analysis	3,664,291	4,606,107	(941,816)
Situation Awareness	3,137,955	3,012,404	125,550
Event Analysis	2,754,904	2,771,658	(16,754)
Performance Analysis	3,318,516	2,873,967	444,549
E-ISAC	10,563,256	10,649,090	(85,834)
Training, Education, and Personnel Certification	1,479,464	1,367,755	111,709
General and Administrative and Executive	8,426,423	8,144,200	282,223
Legal and Regulatory	4,896,095	3,878,791	1,017,304
Policy and External Affairs	2,408,892	2,510,721	(101,829)
Information Technology	10,753,789	11,696,532	(942,743)
Human Resources	2,587,793	2,562,371	25,422
Finance and Accounting	2,549,978	2,553,747	(3,770)
TOTAL (excluding CRISP)	\$ 71,737,867	\$ 71,968,925	\$ (231,058)
CRISP	6,342,253	8,080,729	(1,738,476)
TOTAL EXPENSES and NET FIXED ASSETS	\$ 78,080,120	\$ 80,049,655	\$ (1,969,535)

In late 2018, NERC management went through an organizational assessment involving various program areas and re-characterized several employees across multiple departments. In most cases, these employees kept the same responsibilities and functional oversight, but were assigned new departments and/or consolidated with other similar roles to align certain technical functions. The changes had no effect on the total FTEs, and the net cost impact of these movements was immaterial. The following program areas were impacted by this review and the resulting personnel changes are the main drivers of their budget to actual variances:

- Reliability Standards
- Compliance Assurance
- Compliance Analysis, Registration and Certification
- Reliability Assessment and System Analysis
- Event Analysis
- Performance Analysis

Following is a brief summary of other departmental variances:

- Compliance Enforcement – Under budget mainly due to lower personnel costs related to lower than budgeted FTEs during the year.
- Situation Awareness – Over budget largely because of unanticipated costs to maintain SAFNR v2 prior to the go-live date for SAFNR v3 in Q4 2020.
- E-ISAC – Under budget primarily attributable to lower personnel costs related to lower than budgeted FTEs during the year, lower contracts and consultants costs, and decreased leasehold improvement costs. These under budget amount were partially offset by higher software license and support costs and higher workshop expenses.
- Training, Education, and Personnel Certification – Over budget largely because of higher personnel costs.
- General and Administrative and Executive – Over budget primarily due to higher meeting, travel, and leasehold improvement costs.
- Legal and Regulatory – Over budget at year-end primarily due to employee transition costs and search fees, as well as Internal Audit expenditures that were budgeted in the Finance and Accounting department that were charged to the Legal and Regulatory department.
- Policy and External Affairs – Under budget mainly as a result of lower than budgeted lobbying expense.
- Information Technology – Under budget mainly due to lower fixed asset spending and decreased contracts and consultant costs to help fund expenses charged to other areas, for which these under budget amounts were partially offset by higher personnel costs due to a lower attrition rate and salaries that were charged to capital projects.
- CRISP – Under budget largely because of lower personnel, software, and contractor costs.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were over budget \$6k (0.3%).

Board of Trustee Expenses	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Meetings and Travel Expenses				
Quarterly Board Meetings	\$ 208,744	\$ 185,000	\$ 23,744	12.8%
Trustee Travel	140,081	130,000	10,081	7.8%
Total	\$ 348,825	\$ 315,000	\$ 33,825	10.7%
Professional Services				
Independent Trustee Fees	\$ 1,395,312	\$ 1,410,000	(14,688)	(1.0%)
Trustee Search Fees	87,093	100,000	(12,907)	(12.9%)
Total	\$ 1,482,405	\$ 1,510,000	\$ (27,595)	(1.8%)
Total Board of Trustee Expenses	\$ 1,831,230	\$ 1,825,000	\$ 6,230	0.3%

Summary of CRISP Variances

	YTD Actual	YTD Budget	Over (Under)	Over (Under)
TOTAL FUNDING	\$ 7,868,786	\$ 9,043,707	\$ (1,174,921)	(13.0%)
EXPENDITURES				
Personnel	\$ 729,670	\$ 965,793	\$ (236,123)	(24.4%)
Meetings, Travel, and Conference Calls	90,500	48,000	42,500	88.5%
Contracts and Consultants	5,174,439	6,457,500	(1,283,061)	(19.9%)
Rent and Facilities	-	-	-	
Office Costs, Professional, and Misc.*	210,212	509,436	(299,224)	(58.7%)
Other Non-Operating Expenses	10,467	-	10,467	
Fixed Asset Additions*	126,964	100,000	26,964	27.0%
Indirect Expenses and Fixed Asset Allocation	928,881	962,978	(34,097)	(3.5%)
TOTAL EXPENDITURES	\$ 7,271,134	\$ 9,043,707	\$ (1,772,573)	(19.6%)

* Excludes depreciation expense

- **Funding** – Under budget \$1.2M (13.0%) mainly because of lower third party funding of CRISP expenses by CRISP participants due to lower revenue requirements to fund actual program costs, and was partially offset by higher than expected interest income.
- **Expenditures** – Under budget by \$1.8M (19.6%) primarily due to lower than expected personnel expenses, and lower costs related to participant data analysis (offset by lower third party funding), project support, and data storage.

Allocation of Indirect Expenses and Fixed Assets to Program Areas

Total expenses (excluding fixed asset purchases) of the administrative programs were \$33.0M, which was \$429k (1.3%) over budget. The actual allocation of indirect expenses (excluding fixed asset purchases) per program area FTE (i.e. direct FTE) was \$252k, which was over budget by \$14k (6.1%) per FTE. This over budget amount was driven primarily by employee transition costs and search fees. These over budget amounts were partially offset by lower contracts and consultants and office costs.

Total fixed asset purchases for the administrative programs were \$1.0M, which was \$19k (1.9%) over budget. The actual allocation of fixed assets per program area FTE (i.e. direct FTE) was \$500 above 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

Reserve Account	Beginning Balance	Budgeted Funding	Budgeted Uses	Other Funding (Uses) ⁽¹⁾	Net Financing Activity ⁽²⁾	Ending Balance
Operating Contingency	\$ 5,644,359	\$ 550,000	\$ (1,067,979)	\$ 1,467,390	\$ (394,688)	\$ 6,199,083
Future Obligations	2,535,333	-	(480,457)	64,843	-	2,119,719
Assessment Stabilization	2,071,000	-	(550,000)	1,000,000	-	2,521,000
System Operator	592,110	148,674	-	36,491	-	777,274.27
CRISP	500,000	-	-	-	-	500,000
Total Reserves	\$ 11,342,801	\$ 698,674	\$ (2,098,436)	\$ 2,568,724	\$ (394,688)	\$ 12,117,076

NOTES:

(1) 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. It also reflects the increase or decrease in working capital during the period.

(2) Net financing activity in 2019 reflects principal debt repayments for borrowings originating in 2016. NERC did not make budgeted borrowings for 2017, 2018, and 2019 in light of a favorable working capital position. The savings from the 2019 borrowing decision will be realized in the years 2020 to 2022.

As of December 31, 2019, the balance in operating reserves was \$12.1M, \$3.5M more than budget, including \$6.2M in the Operating Contingency Reserve (OCR) and \$2.5M in the Assessment Stabilization Reserve (ASR). The primary drivers behind the over budget amount are higher than anticipated actual beginning reserve balances and the overall under-budget results in 2019.

**North American Electric Reliability Corporation
Statement of Activities and Fixed Assets Budget
For the Period Ending 12/31/19 (Including CRISP)**

	YTD Actual*	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 68,883,995	\$ 68,883,995	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	550,000	550,000	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	6,192,287	7,486,354	(1,294,067)	(17.3%)
Testing	1,822,961	1,790,000	32,961	1.8%
Services & Software	45,000	40,000	5,000	12.5%
Workshop Fees	618,104	195,000	423,104	217.0%
Interest	589,893	185,000	404,893	218.9%
Miscellaneous	323	-	323	
Total Funding (A)	\$ 78,702,563	\$ 79,130,349	\$ (427,785)	(0.5%)
Expenses				
Personnel Expenses				
Salaries	\$ 34,518,218	\$ 33,810,276	\$ 707,942	2.1%
Payroll Taxes	2,052,327	2,044,880	7,447	0.4%
Employee Benefits	4,836,057	4,673,208	162,849	3.5%
Savings & Retirement	3,133,781	3,423,826	(290,045)	(8.5%)
Total Personnel Expenses	\$ 44,540,383	\$ 43,952,190	\$ 588,193	1.3%
Meeting Expenses				
Meetings	\$ 1,750,168	\$ 1,056,500	\$ 693,668	65.7%
Travel	2,288,161	2,184,000	104,161	4.8%
Conference Calls	171,536	139,900	31,636	22.6%
Total Meeting Expenses	\$ 4,209,865	\$ 3,380,400	\$ 829,465	24.5%
Operating Expenses				
Consultants and Contracts	\$ 12,737,309	\$ 15,043,318	\$ (2,306,009)	(15.3%)
Rent & Improvements	3,583,461	3,335,058	248,403	7.4%
Office Costs	6,263,240	6,506,917	(243,677)	(3.7%)
Professional Services	2,443,365	2,757,600	(314,235)	(11.4%)
Miscellaneous	86,501	82,000	4,501	5.5%
Depreciation	3,554,031	3,446,022	108,009	3.1%
Total Operating Expenses	\$ 28,667,907	\$ 31,170,915	\$ (2,503,008)	(8.0%)
Other Non-Operating Expenses	\$ (365,636)	\$ 214,171	\$ (579,806.80)	(270.7%)
Indirect Expenses	\$ (0)	\$ -	\$ (0)	
Total Expenses (B)	\$ 77,052,519	\$ 78,717,676	\$ (1,665,157)	(2.1%)
Net Change in Assets	\$ 1,650,044	\$ 412,673	\$ 1,237,371	299.8%
Fixed Assets				
Depreciation	\$ (3,554,030)	\$ (3,446,022)	\$ (108,008)	3.1%
Software	3,676,015	3,488,000	188,015	5.4%
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	378,574	890,000	(511,426)	(57.5%)
Capital Lease Assets	299,187	-	299,187	
Leasehold Improvements	227,853	400,000	(172,147)	(43.0%)
Allocation of Fixed Assets	(0)	(0)	0	(100.0%)
Incr(Dec) in Fixed Assets (C)	\$ 1,027,599	\$ 1,331,978	\$ (304,379)	(22.9%)
Total Budget (=B+C)	\$ 78,080,118	\$ 80,049,654	\$ (1,969,536)	(2.5%)
Total Change in Working Capital (=A-B-C)	\$ 622,445	\$ (919,305)	\$ 1,541,750.33	(167.7%)
FTEs on 12/31/2019	201.78	204.92	(3.14)	(1.5%)

Reliability Standards Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 6,598,401	\$ 6,598,401	\$ (0)	(0.0%)
Assessment Stabilization Reserves - Penalties	58,793	58,793	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	45,551	60,000	(14,449)	(24.1%)
Interest	57,684	18,884	38,800	205.5%
Miscellaneous	-	-	-	-
Total Funding (A)	\$ 6,760,428	\$ 6,736,078	\$ 24,351	0.4%
Expenses				
Personnel Expenses				
Salaries	\$ 2,265,294	\$ 2,031,580	\$ 233,713	11.5%
Payroll Taxes	142,349	134,348	8,001	6.0%
Employee Benefits	306,367	297,782	8,585	2.9%
Savings & Retirement	222,245	224,171	(1,926)	(0.9%)
Total Personnel Expenses	\$ 2,936,255	\$ 2,687,881	\$ 248,373	9.2%
Meeting Expenses				
Meetings	\$ 87,561	\$ 105,000	\$ (17,439)	(16.6%)
Travel	191,971	220,000	(28,029)	(12.7%)
Conference Calls	4,446	18,000	(13,554)	(75.3%)
Total Meeting Expenses	\$ 283,977	\$ 343,000	\$ (59,023)	(17.2%)
Operating Expenses				
Consultants and Contracts	\$ 17,200	\$ 50,000	\$ (32,800)	(65.6%)
Rent & Improvements	-	-	-	-
Office Costs	58,784	38,200	20,584	53.9%
Professional Services	-	-	-	-
Miscellaneous	1,790	500	1,290	258.0%
Depreciation	47,837	257,774	(209,938)	(81.4%)
Total Operating Expenses	\$ 125,611	\$ 346,474	\$ (220,864)	(63.7%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 4,260,102	\$ 3,446,152	\$ 813,949	23.6%
Total Expenses (B)	\$ 7,605,944	\$ 6,823,508	\$ 782,436	11.5%
Net Change in Assets	\$ (845,516)	\$ (87,430)	\$ (758,086)	867.1%
Fixed Assets				
Depreciation	\$ (47,837)	\$ (257,774)	\$ 209,938	(81.4%)
Software	251,941	300,000	(48,059)	(16.0%)
Computers	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Capital Lease Assets	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(177,850)	(129,656)	(48,195)	37.2%
Incr(Dec) in Fixed Assets (C)	\$ 26,254	\$ (87,430)	\$ 113,685	(130.0%)
Total Budget (=B+C)	\$ 7,632,199	\$ 6,736,078	\$ 896,121	13.3%
Total Change in Working Capital (=A-B-C)	\$ (871,770)	\$ -	\$ (871,770)	
FTEs on 12/31/2019	16.92	14.57	2.35	16.1%

Explanation of Variances by Category – Reliability Standards

- **Funding**
 - Workshop fees were \$14k (24.1%) under budget because of lower than anticipated attendance at the workshop.
 - Interest income was \$39k (205.5%) over budget due to higher than expected interest rates.
- **Personnel** – Over budget \$248k (9.2%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$17k (16.6%) under budget mainly due to lower than expected meeting costs.
 - Travel expenses were \$28k (12.7%) lower than budget because of lower than anticipated travel costs.
 - Conference calls expenses were \$14k (75.3%) under budget due to lower than expected conferencing costs.
- **Operating Expenses**
 - Contract and consultant expenses were \$33k (65.6%) under budget because of lower than anticipated consultant needs.
 - Office Costs were \$21k (53.9%) greater than budget mainly due to higher than expected dues fees.
 - Depreciation expense was \$210k (81.4%) under budget and is offset by a credit in the Fixed Assets section and has no impact to the overall net change in assets.
- **Indirect Expenses** – Over budget \$814k (23.6%) primarily because the department received more of the administrative departments' direct costs than had been budgeted due to the additional FTEs that this department had during the year compared to budget.
- **Fixed Assets**
 - Software was under budget \$48k (16.0%) due to lower than anticipated spend.
 - The fixed asset allocation was over budget \$48k (37.2%) largely because the department received more of the administrative departments' fixed asset allocation credit than had been budgeted due to the additional FTEs that this department had during the year compared to budget.

Compliance Assurance Program Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 8,835,237	\$ 8,835,237	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	66,379	66,379	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	68,728	21,320	47,408	222.4%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 8,970,345	\$ 8,922,937	\$ 47,408	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 3,451,873	\$ 2,526,754	\$ 925,120	36.6%
Payroll Taxes	209,463	166,873	42,590	25.5%
Employee Benefits	586,276	441,671	144,605	32.7%
Savings & Retirement	337,042	278,308	58,734	21.1%
Total Personnel Expenses	\$ 4,584,655	\$ 3,413,605	\$ 1,171,049	34.3%
Meeting Expenses				
Meetings	\$ 64,293	\$ 200,000	\$ (135,707)	(67.9%)
Travel	316,919	375,000	(58,081)	(15.5%)
Conference Calls	5,021	8,000	(2,979)	(37.2%)
Total Meeting Expenses	\$ 386,233	\$ 583,000	\$ (196,767)	(33.8%)
Operating Expenses				
Consultants and Contracts	\$ 62,695	\$ 50,000	\$ 12,695	25.4%
Rent & Improvements	-	-	-	
Office Costs	264,415	247,400	17,015	6.9%
Professional Services	6,631	-	6,631	
Miscellaneous	2,179	500	1,679	335.9%
Depreciation	-	-	-	
Total Operating Expenses	\$ 335,921	\$ 297,900	\$ 38,021	12.8%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 4,866,889	\$ 3,890,817	\$ 976,072	25.1%
Total Expenses (B)	\$ 10,173,697	\$ 8,185,322	\$ 1,988,375	24.3%
Net Change in Assets	\$ (1,203,352)	\$ 737,614	\$ (1,940,967)	(263.1%)
Fixed Assets				
Depreciation	\$ -	\$ -	\$ -	
Software	883,195	884,000	(805)	(0.1%)
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Capital Lease Assets	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(203,183)	(146,386)	(56,797)	38.8%
Incr(Dec) in Fixed Assets (C)	\$ 680,012	\$ 737,614	\$ (57,602)	(7.8%)
Total Budget (=B+C)	\$ 10,853,709	\$ 8,922,937	\$ 1,930,772	21.6%
Total Change in Working Capital (=A-B-C)	\$ (1,883,364)	\$ -	\$ (1,883,364)	
FTEs on 12/31/2019	19.33	16.45	2.88	17.5%

Explanation of Variances by Category – Compliance Assurance

- **Funding** – Over budget in interest income by \$47k (222.4%) due to higher than expected interest rates.
- **Personnel** – Over budget \$1.2M (34.3%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$135k (67.9%) under budget mainly due to several meetings that were budgeted in this department but were charged to a different department, due to the changes previously noted related to the organizational assessment.
 - Travel expenses were \$58k (15.5%) lower than budget because of lower than anticipated travel.
- **Operating Expenses** – Over budget in contract and consultant expenses \$13k (25.4%) due to discovery work costs (costs incurred in the initial information gathering phase of software development projects) on the Align project that was budgeted in fixed assets but recorded in contracts and consultants.
- **Indirect Expenses** – Over budget \$976k (25.1%) primarily because the department received more of the administrative departments' direct costs than had been budgeted due to the additional FTEs that this department had during the year compared to budget.
- **Fixed Assets** – The fixed asset allocation was over budget \$57k (38.8%) largely because the department received more of the administrative departments' fixed asset allocation credit than had been budgeted due to the additional FTEs that this department had during the year compared to budget.

Compliance Analysis, Certification and Registration Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	%
				Inc (Dec)
Funding				
Assessments	\$ 4,971,365	\$ 4,971,365	\$ (0)	(0.0%)
Assessment Stabilization Reserves - Penalties	37,931	37,931	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	17,087	12,183	4,903	40.2%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 5,026,383	\$ 5,021,479	\$ 4,903	0.1%
Expenses				
Personnel Expenses				
Salaries	\$ 829,910	\$ 1,596,696	\$ (766,786)	(48.0%)
Payroll Taxes	50,758	98,909	(48,152)	(48.7%)
Employee Benefits	133,447	232,391	(98,944)	(42.6%)
Savings & Retirement	91,274	178,558	(87,284)	(48.9%)
Total Personnel Expenses	\$ 1,105,388	\$ 2,106,554	\$ (1,001,166)	(47.5%)
Meeting Expenses				
Meetings	\$ 4,496	\$ 2,250	\$ 2,246	99.8%
Travel	77,691	150,500	(72,809)	(48.4%)
Conference Calls	2,870	5,400	(2,530)	(46.9%)
Total Meeting Expenses	\$ 85,057	\$ 158,150	\$ (73,093)	(46.2%)
Operating Expenses				
Consultants and Contracts	\$ -	\$ -	\$ -	
Rent & Improvements	-	-	-	
Office Costs	15,928	16,600	(672)	(4.0%)
Professional Services	-	-	-	
Miscellaneous	(68)	500	(568)	(113.5%)
Depreciation	263,758	111,677	152,081	136.2%
Total Operating Expenses	\$ 279,618	\$ 128,777	\$ 150,841	117.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 1,258,895	\$ 2,223,324	\$ (964,429)	(43.4%)
Total Expenses (B)	\$ 2,728,959	\$ 4,616,805	\$ (1,887,846)	(40.9%)
Net Change in Assets	\$ 2,297,424	\$ 404,674	\$ 1,892,750	467.7%
Fixed Assets				
Depreciation	\$ (263,758)	\$ (111,677)	\$ (152,081)	136.2%
Software	774,790	600,000	174,790	29.1%
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Capital Lease Assets	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(52,556)	(83,649)	31,093	(37.2%)
Incr(Dec) in Fixed Assets (C)	\$ 458,476	\$ 404,674	\$ 53,801	13.3%
Total Budget (=B+C)	\$ 3,187,435	\$ 5,021,479	\$ (1,834,045)	(36.5%)
Total Change in Working Capital (=A-B-C)	\$ 1,838,948	\$ -	\$ 1,838,948	
FTEs on 12/31/2019	5.00	9.40	(4.40)	(46.8%)

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

- **Personnel** – Under budget \$1.0M (47.5%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses** – Travel expenses were \$73k (48.4%) lower than budget because of less FTEs than budgeted and lower than anticipated travel costs.
- **Operating Expenses** – Depreciation expense was \$152k (136.2%) over budget and is offset by a credit in the Fixed Assets section and has no impact to the overall net change in assets.
- **Indirect Expenses** – Under budget \$964k (43.4%) primarily because the department received less of the administrative departments' direct costs than had been budgeted due to the fewer FTEs that this department had during the year compared to budget.
- **Fixed Assets**
 - Software was over budget \$175k (29.1%) due to scope changes on the Entity Registration-CORES project, as well as labor costs that were capitalized and added to the cost of the tool once it went into production.
 - The fixed asset allocation was under budget \$31k (37.2%) largely because the department received less of the administrative departments' fixed asset allocation credit than had been budgeted due to the lower number of FTEs that this department had during the year compared to budget.

Compliance Enforcement Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 6,787,076	\$ 6,787,076	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	53,103	53,103	0	0.0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	41,320	17,056	24,264	142.3%
Miscellaneous	-	-	-	-
Total Funding (A)	\$ 6,881,499	\$ 6,857,235	\$ 24,264	0.4%
Expenses				
Personnel Expenses				
Salaries	\$ 1,672,612	\$ 1,991,052	\$ (318,440)	(16.0%)
Payroll Taxes	120,588	126,256	(5,668)	(4.5%)
Employee Benefits	191,642	198,145	(6,503)	(3.3%)
Savings & Retirement	169,510	218,788	(49,277)	(22.5%)
Total Personnel Expenses	\$ 2,154,352	\$ 2,534,240	\$ (379,888)	(15.0%)
Meeting Expenses				
Meetings	\$ 9,959	\$ 2,000	\$ 7,959	397.9%
Travel	55,186	47,500	7,686	16.2%
Conference Calls	4,014	2,400	1,614	67.3%
Total Meeting Expenses	\$ 69,159	\$ 51,900	\$ 17,259	33.3%
Operating Expenses				
Consultants and Contracts	\$ 118,958	\$ 161,000	(42,043)	(26.1%)
Rent & Improvements	-	-	-	-
Office Costs	248,314	230,050	18,264	7.9%
Professional Services	-	-	-	-
Miscellaneous	1,489	500	989	197.8%
Depreciation	105,014	105,014	0	0.0%
Total Operating Expenses	\$ 473,775	\$ 496,564	\$ (22,789)	(4.6%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Indirect Expenses	\$ 2,769,570	\$ 3,112,654	\$ (343,084)	(11.0%)
Total Expenses (B)	\$ 5,466,855	\$ 6,195,358	\$ (728,503)	(11.8%)
Net Change in Assets	\$ 1,414,644	\$ 661,877	\$ 752,767	113.7%
Fixed Assets				
Depreciation	\$ (105,014)	\$ (105,014)	\$ (0)	0.0%
Software	883,195	884,000	(805)	(0.1%)
Computers	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Capital Lease Assets	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(115,624)	(117,109)	1,485	(1.3%)
Incr(Dec) in Fixed Assets (C)	\$ 662,557	\$ 661,877	\$ 679	0.1%
Total Budget (=B+C)	\$ 6,129,411	\$ 6,857,235	\$ (727,824)	(10.6%)
Total Change in Working Capital (=A-B-C)	\$ 752,088	\$ -	\$ 752,088	
FTEs on 12/31/2019	11.00	13.16	(2.16)	(16.4%)

Explanation of Variances by Category – Compliance Enforcement

- **Funding** – Interest income was \$24k (142.3%) over budget due to higher than expected interest rates.
- **Personnel** – Under budget \$380k (15.0%) largely because of lower than budgeted FTEs.
- **Operating Expenses** – Contract and consultant expenses were \$42k (26.1%) under budget because of lower than anticipated consultant needs.
- **Indirect Expenses** – Under budget \$343k (11.0%) primarily because the department received less of the administrative departments' direct costs than had been budgeted due to the fewer FTEs that this department had during the year compared to budget.

Reliability Assessments and System Analysis (RASA) Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 7,924,404	\$ 7,924,404	\$ (0)	(0.0%)
Assessment Stabilization Reserves - Penalties	60,690	60,690	0	0.0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	25,000	(25,000)	(100.0%)
Interest	41,430	19,493	21,937	112.5%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 8,026,524	\$ 8,029,587	\$ (3,063)	(0.0%)
Expenses				
Personnel Expenses				
Salaries	\$ 2,133,748	\$ 2,588,128	\$ (454,381)	(17.6%)
Payroll Taxes	128,061	156,888	(28,827)	(18.4%)
Employee Benefits	282,918	355,375	(72,457)	(20.4%)
Savings & Retirement	220,646	285,005	(64,359)	(22.6%)
Total Personnel Expenses	\$ 2,765,372	\$ 3,385,397	\$ (620,024)	(18.3%)
Meeting Expenses				
Meetings	\$ 257,863	\$ 121,000	\$ 136,863	113.1%
Travel	233,219	250,000	(16,781)	(6.7%)
Conference Calls	4,589	6,500	(1,911)	(29.4%)
Total Meeting Expenses	\$ 495,671	\$ 377,500	\$ 118,171	31.3%
Operating Expenses				
Consultants and Contracts	\$ 265,435	\$ 625,000	\$ (359,565)	(57.5%)
Rent & Improvements	-	-	-	
Office Costs	137,781	217,710	(79,929)	(36.7%)
Professional Services	-	-	-	
Miscellaneous	32	500	(468)	(93.6%)
Depreciation	208,782	225,375	(16,593)	(7.4%)
Total Operating Expenses	\$ 612,030	\$ 1,068,585	\$ (456,555)	(42.7%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 3,119,542	\$ 3,557,318	\$ (437,776)	(12.3%)
Total Expenses (B)	\$ 6,992,616	\$ 8,388,800	\$ (1,396,184)	(16.6%)
Net Change in Assets	\$ 1,033,908	\$ (359,213)	\$ 1,393,121	(387.8%)
Fixed Assets				
Depreciation	\$ (208,782)	\$ (225,375)	\$ 16,593	(7.4%)
Software	-	-	-	
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Capital Lease Assets	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(130,234)	(133,838)	3,604	(2.7%)
Incr(Dec) in Fixed Assets (C)	\$ (339,017)	\$ (359,213)	\$ 20,197	(5.6%)
Total Budget (=B+C)	\$ 6,653,599	\$ 8,029,587	\$ (1,375,988)	(17.1%)
Total Change in Working Capital (=A-B-C)	\$ 1,372,925	\$ -	\$ 1,372,925	
FTEs on 12/31/2019	12.39	15.04	(2.65)	(17.6%)

Explanation of Variances by Category – RASA

- **Funding**
 - Workshop fees were \$25k (100.0%) under budget because the workshop that was budgeted for did not occur.
 - Interest income was \$22k (112.5%) over budget due to higher than expected interest rates.
- **Personnel** – Lower than budget by \$620k (18.3%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses** – Meeting expenses were \$137k (113.1%) over budget mainly due to several meetings that were budgeted in another department but were charged to this department, due to the changes previously noted related to the organizational assessment.
- **Operating Expenses**
 - Contract and consultant expenses were \$360k (57.5%) under budget because of lower than anticipated consultant needs.
 - Office Costs were \$80k (36.7%) lower than budget mainly due to lower than expected software license and support costs.
- **Indirect Expenses** – Under budget \$438k (12.3%) primarily because the department received less of the administrative departments' direct costs than had been budgeted due to the lower number of FTEs that this department had during the year compared to budget.

Performance Analysis

Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 5,132,484	\$ 5,132,484	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	41,724	41,724	0	0.0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	45,000	40,000	5,000	12.5%
Workshop Fees	7,153	-	7,153	
Interest	44,153	13,401	30,752	229.5%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 5,270,514	\$ 5,227,610	\$ 42,905	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 1,815,067	\$ 1,581,929	\$ 233,138	14.7%
Payroll Taxes	123,185	104,052	19,133	18.4%
Employee Benefits	276,374	186,375	89,999	48.3%
Savings & Retirement	194,036	176,656	17,380	9.8%
Total Personnel Expenses	\$ 2,408,661	\$ 2,049,012	\$ 359,649	17.6%
Meeting Expenses				
Meetings	\$ 42,175	\$ 11,000	\$ 31,175	283.4%
Travel	99,275	80,000	19,275	24.1%
Conference Calls	3,158	3,600	(442)	(12.3%)
Total Meeting Expenses	\$ 144,607	\$ 94,600	\$ 50,007	52.9%
Operating Expenses				
Consultants and Contracts	\$ 570,879	\$ 653,565	\$ (82,686)	(12.7%)
Rent & Improvements	-	-	-	
Office Costs	86,873	76,290	10,583	13.9%
Professional Services	-	-	-	
Miscellaneous	520	500	20	4.0%
Depreciation	273,425	295,995	(22,569)	(7.6%)
Total Operating Expenses	\$ 931,698	\$ 1,026,350	\$ (94,652)	(9.2%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 3,265,574	\$ 2,445,656	\$ 819,918	33.5%
Total Expenses (B)	\$ 6,750,540	\$ 5,615,618	\$ 1,134,922	20.2%
Net Change in Assets	\$ (1,480,026)	\$ (388,009)	\$ (1,092,017)	281.4%
Fixed Assets				
Depreciation	\$ (273,425)	\$ (295,995)	\$ 22,569	(7.6%)
Software	106,975	-	106,975	
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Capital Lease Assets	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(136,331)	(92,014)	(44,317)	48.2%
Incr(Dec) in Fixed Assets (C)	\$ (302,781)	\$ (388,009)	\$ 85,227	(22.0%)
Total Budget (=B+C)	\$ 6,447,759	\$ 5,227,610	\$ 1,220,149	23.3%
Total Change in Working Capital (=A-B-C)	\$ (1,177,245)	\$ -	\$ (1,177,245)	
FTEs on 12/31/2019	12.97	10.34	2.63	25.4%

Explanation of Variances by Category – Performance Analysis

- **Funding** – Interest income was \$31k (229.5%) over budget due to higher than expected interest rates.
- **Personnel** – Over budget \$360k (17.6%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$31k (283.4%) over budget mainly due to several meetings that were budgeted in another department but were charged to this department, due to the changes previously noted related to the organizational assessment.
 - Travel expenses were \$19k (24.1%) over budget primarily because of higher than budgeted FTEs, due to the organizational assessment.
- **Operating Expenses**
 - Contract and consultant expenses were \$83k (12.7%) under budget due to costs that were budgeted in contacts and consultants for software enhancements but charged to fixed assets.
 - Office Costs were \$11k (13.9%) greater than budget mainly due to higher than expected software license and support costs.
- **Indirect Expenses** – Over budget \$820k (33.5%) primarily because the department received more of the administrative departments' direct costs than had been budgeted due to the additional FTEs that this department had during the year compared to budget.
- **Fixed Assets**
 - Software was over budget \$107k (100.0%) due to costs that were budgeted in contacts and consultants but charged to fixed assets due to the type of charge incurred.
 - The fixed asset allocation was over under budget \$44k (48.2%) largely because the department received more of the administrative departments' fixed asset allocation credit than had been budgeted due to the additional FTEs that this department had during the year compared to budget.

**Situation Awareness
Statement of Activities and Fixed Asset Budget**

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 4,266,141	\$ 4,266,141	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	22,759	22,759	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	19,597	7,310	12,288	168.1%
Miscellaneous	-	-	-	-
Total Funding (A)	\$ 4,308,497	\$ 4,296,209	\$ 12,288	0.3%
Expenses				
Personnel Expenses				
Salaries	\$ 921,741	\$ 865,683	\$ 56,059	6.5%
Payroll Taxes	60,902	58,475	2,427	4.2%
Employee Benefits	210,835	182,721	28,115	15.4%
Savings & Retirement	81,346	95,435	(14,090)	(14.8%)
Total Personnel Expenses	\$ 1,274,824	\$ 1,202,314	\$ 72,510	6.0%
Meeting Expenses				
Meetings	\$ 7,949	\$ 2,000	\$ 5,949	297.4%
Travel	40,632	33,000	7,632	23.1%
Conference Calls	1,719	-	1,719	-
Total Meeting Expenses	\$ 50,300	\$ 35,000	\$ 15,300	43.7%
Operating Expenses				
Consultants and Contracts	\$ 1,387,476	\$ 1,280,990	\$ 106,486	8.3%
Rent & Improvements	-	-	-	-
Office Costs	266,864	93,600	173,264	185.1%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	(100.0%)
Depreciation	7,882	8,948	(1,066)	(11.9%)
Total Operating Expenses	\$ 1,662,222	\$ 1,384,038	\$ 278,184	20.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Indirect Expenses	\$ 1,482,979	\$ 1,333,994	\$ 148,984	11.2%
Total Expenses (B)	\$ 4,470,325	\$ 3,955,347	\$ 514,978	13.0%
Net Change in Assets	\$ (161,828)	\$ 340,863	\$ (502,691)	(147.5%)
Fixed Assets				
Depreciation	\$ (7,882)	\$ (8,948)	\$ 1,066	(11.9%)
Software	158,491	400,000	(241,510)	(60.4%)
Computers	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Capital Lease Assets	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(61,911)	(50,189)	(11,722)	23.4%
Incr(Dec) in Fixed Assets (C)	\$ 88,697	\$ 340,863	\$ (252,165)	(74.0%)
Total Budget (=B+C)	\$ 4,559,022	\$ 4,296,209	\$ 262,813	6.1%
Total Change in Working Capital (=A-B-C)	\$ (250,525)	\$ -	\$ (250,525)	-
FTEs on 12/31/2019	5.89	5.64	0.25	4.4%

Explanation of Variances by Category – Situation Awareness

- **Funding** – Interest income was \$12k (168.1%) over budget due to higher than expected interest rates.
- **Personnel** – Over budget \$73k (6.0%) mainly because of higher than budgeted salaries and insurance costs, which was partially offset by lower than budgeted 401(k) match expense.
- **Operating Expenses**
 - Contract and consultant expenses were \$106k (8.3%) over budget mainly due to unanticipated costs to maintain SAFNR v2 prior to the go-live date for SAFNR v3 in Q4 2020.
 - Office Costs were \$173k (185.1%) greater than budget mainly due to software license costs that were budgeted in fixed assets but charged to software licenses and support due to the type of license acquired.
- **Indirect Expenses** – Over budget \$149k (11.2%) primarily because the department received more of the administrative departments' direct costs than had been budgeted due to the additional FTEs that this department had during the year compared to budget.
- **Fixed Assets**
 - Software was under budget \$242k (60.4%) mainly because of software license costs that were budgeted in fixed assets but charged to software licenses and support due to the type of license acquired.
 - The fixed asset allocation was over budget \$12k (23.4%) largely because the department received more of the administrative departments' fixed asset allocation credit than had been budgeted due to the additional FTEs that this department had during the year compared to budget.

Event Analysis

Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 5,239,131	\$ 5,239,131	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	45,517	45,517	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	153,579	40,000	113,579	283.9%
Interest	32,778	14,620	18,158	124.2%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 5,471,005	\$ 5,339,268	\$ 131,737	2.5%
Expenses				
Personnel Expenses				
Salaries	\$ 1,876,316	\$ 1,903,950	\$ (27,634)	(1.5%)
Payroll Taxes	102,104	113,420	(11,316)	(10.0%)
Employee Benefits	229,232	264,308	(35,076)	(13.3%)
Savings & Retirement	176,248	210,479	(34,231)	(16.3%)
Total Personnel Expenses	\$ 2,383,901	\$ 2,492,158	\$ (108,257)	(4.3%)
Meeting Expenses				
Meetings	\$ 183,816	\$ 81,500	\$ 102,316	125.5%
Travel	138,165	150,000	(11,835)	(7.9%)
Conference Calls	3,439	-	3,439	
Total Meeting Expenses	\$ 325,419	\$ 231,500	\$ 93,919	40.6%
Operating Expenses				
Consultants and Contracts	\$ -	\$ -	\$ -	
Rent & Improvements	-	-	-	
Office Costs	41,738	47,500	(5,762)	(12.1%)
Professional Services	-	-	-	
Miscellaneous	3,846	500	3,346	669.2%
Depreciation	77,915	85,582	(7,667)	(9.0%)
Total Operating Expenses	\$ 123,499	\$ 133,582	\$ (10,083)	(7.5%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ 2,412,043	\$ 2,667,989	\$ (255,946)	(9.6%)
Total Expenses (B)	\$ 5,244,863	\$ 5,525,228	\$ (280,366)	(5.1%)
Net Change in Assets	\$ 226,143	\$ (185,960)	\$ 412,103	(221.6%)
Fixed Assets				
Depreciation	\$ (77,915)	\$ (85,582)	\$ 7,667	(9.0%)
Software	-	-	-	
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Capital Lease Assets	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(100,698)	(100,379)	(319)	0.3%
Incr(Dec) in Fixed Assets (C)	\$ (178,613)	\$ (185,960)	\$ 7,348	(4.0%)
Total Budget (=B+C)	\$ 5,066,250	\$ 5,339,268	\$ (273,018)	(5.1%)
Total Change in Working Capital (=A-B-C)	\$ 404,755	\$ -	\$ 404,755	
FTEs on 12/31/2019	9.58	11.28	(1.70)	(15.1%)

Explanation of Variances by Category – Event Analysis

- **Funding**
 - Workshop fees were \$114k (283.9%) over budget due to higher attendance than expected at the Human Performance Workshop. These fees covered a substantial portion of the higher costs in meeting expenses.
 - Interest income was \$18k (124.2%) over budget due to higher than expected interest rates.
- **Personnel** – Personnel expenses were under budget \$108k (4.3%) primarily due to the organizational assessment involving various program areas that re-characterized several employees across multiple departments, as previously discussed.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$102k (125.5%) over budget primarily due to higher costs related to the Human Performance Workshop. The higher cost was partially offset by higher workshop fees, as noted above.
- **Indirect Expenses** – Under budget \$256k (9.6%) primarily because the department received less of the administrative departments' direct costs than had been budgeted due to the lower number of FTEs that this department had during the year compared to budget.

E-ISAC, including CRISP Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 19,627,897	\$ 19,627,897	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	155,517	155,517	(0)	(0.0%)
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	6,192,287	7,486,353	(1,294,067)	(17.3%)
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	411,822	70,000	341,822	488.3%
Interest	232,490	55,859	176,630	316.2%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 26,620,012	\$ 27,395,627	\$ (775,615)	(2.8%)
Expenses				
Personnel Expenses				
Salaries	\$ 5,812,826	\$ 6,297,594	\$ (484,768)	(7.7%)
Payroll Taxes	364,013	384,429	(20,416)	(5.3%)
Employee Benefits	814,061	825,677	(11,616)	(1.4%)
Savings & Retirement	561,691	672,423	(110,732)	(16.5%)
Total Personnel Expenses	\$ 7,552,591	\$ 8,180,123	\$ (627,533)	(7.7%)
Meeting Expenses				
Meetings	\$ 525,463	\$ 127,000	\$ 398,463	313.8%
Travel	378,620	291,000	87,620	30.1%
Conference Calls	53,104	-	53,104	
Total Meeting Expenses	\$ 957,187	\$ 418,000	\$ 539,187	129.0%
Operating Expenses				
Consultants and Contracts	\$ 6,781,546	\$ 8,278,000	\$ (1,496,454)	(18.1%)
Rent & Improvements	-	-	-	
Office Costs	937,285	903,196	34,089	3.8%
Professional Services	164,047	250,000	(85,953)	(34.4%)
Miscellaneous	8,644	500	8,144	1628.7%
Depreciation	162,405	118,296	44,109	37.3%
Total Operating Expenses	\$ 8,053,927	\$ 9,549,992	\$ (1,496,065)	(15.7%)
Other Non-Operating Expenses	\$ 10,467	\$ -	\$ 10,467	
Indirect Expenses	\$ 8,563,005	\$ 9,004,572	\$ (441,566)	(4.9%)
Total Expenses (B)	\$ 25,137,178	\$ 27,152,687	\$ (2,015,509)	(7.4%)
Net Change in Assets	\$ 1,482,834	\$ 242,940	\$ 1,239,895	510.4%
Fixed Assets				
Depreciation	\$ (162,405)	\$ (118,296)	\$ (44,109)	37.3%
Software	293,392	300,000	(6,607)	(2.2%)
Computers	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	126,964	-	126,964	
Capital Lease Assets	-	-	-	
Leasehold Improvements	73,385	400,000	(326,615)	(81.7%)
Allocation of Fixed Assets	(357,488)	(338,764)	(18,724)	5.5%
Incr(Dec) in Fixed Assets (C)	\$ (26,151)	\$ 242,940	\$ (269,091)	(110.8%)
Total Budget (=B+C)	\$ 25,111,026	\$ 27,395,627	\$ (2,284,600)	(8.3%)
Total Change in Working Capital (=A-B-C)	\$ 1,508,986	\$ -	\$ 1,508,986	
FTEs on 12/31/2019	34.01	37.60	(3.59)	(9.5%)

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 \$1.3M (17.3%) due to the lower revenue requirement to fund actual program costs.
 - Workshop fees were \$342k (488.3%) over budget due to higher attendance than expected at the Grid Security Conference. These fees covered a substantial portion of the higher costs in meeting expenses.
 - Interest income was \$177k (316.2%) over budget due to higher than expected interest rates.
- **Personnel** – Personnel expenses were \$628k (7.7%) under budget primarily due to having lower FTE than budgeted.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$398k (313.8%) over budget due to higher attendance costs of the Grid Security Conference. These costs were substantially offset by increased workshop fee revenue.
 - Travel expenses were \$88k (30.1%) over budget due to more travel related to conferences, training, and stakeholder outreach efforts.
 - Conference Calls expenses were \$53k (100%) over budget due primarily because of a subscription to an enhanced conferencing service for E-ISAC industry-wide calls.
- **Operating Expenses**
 - Contract and consultant expenses were \$1.5M (18.1%) lower than budget primarily due to lower CRISP costs related to participant data analysis (offset by lower third party funding) and decreased CRISP and E-ISAC project support costs.
 - Office costs were \$34k (3.8%) over budget largely because of higher software license and support expenses in the E-ISAC and were partially offset by lower than budgeted third-party data storage costs for CRISP.
 - Professional Services expenses were \$86k (34.4%) under budget due to lower than budgeted legal expenses related to CRISP and the E-ISAC.
 - Depreciation expense was \$44k (37.3%) under budget and is offset by a credit in the Fixed Assets section and has no impact to the overall net change in assets.
- **Indirect Expenses** – Under budget \$442k (4.9%) primarily because the department received less of the administrative departments' direct costs than had been budgeted due to the lower number of FTEs that this department had during the year compared to budget.

- **Fixed Assets**

- Equipment purchases had unbudgeted expenditures of \$127k due to the unplanned purchases of CRISP network infrastructure hardware.
- Leasehold improvement expenditures were under budget \$326k (81.7%) due to lower than anticipated changes needed for the E-ISAC office space.

Training, Education and Operator Certification Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ 569,839	\$ 569,839	\$ 0	0.0%
Assessment Stabilization Reserves - Penalties	7,586	7,586	0	0.0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	1,822,961	1,790,000	32,961	1.8%
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	34,627	4,873	29,753	610.5%
Miscellaneous	323	-	323	-
Total Funding (A)	\$ 2,435,336	\$ 2,372,299	\$ 63,037	2.7%
Expenses				
Personnel Expenses				
Salaries	\$ 542,091	\$ 461,613	\$ 80,478	17.4%
Payroll Taxes	41,245	34,613	6,632	19.2%
Employee Benefits	84,812	78,388	6,425	8.2%
Savings & Retirement	57,326	51,167	6,159	12.0%
Total Personnel Expenses	\$ 725,474	\$ 625,781	\$ 99,693	15.9%
Meeting Expenses				
Meetings	\$ 39,519	\$ 44,250	\$ (4,731)	(10.7%)
Travel	27,811	17,000	10,811	63.6%
Conference Calls	1,150	1,200	(50)	(4.1%)
Total Meeting Expenses	\$ 68,480	\$ 62,450	\$ 6,030	9.7%
Operating Expenses				
Consultants and Contracts	\$ 498,683	\$ 497,000	\$ 1,683	0.3%
Rent & Improvements	-	-	-	-
Office Costs	186,827	182,024	4,803	2.6%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	(100.0%)
Depreciation	-	1,919	(1,919)	(100.0%)
Total Operating Expenses	\$ 685,510	\$ 681,443	\$ 4,067	0.6%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Indirect Expenses	\$ 1,002,081	\$ 889,330	\$ 112,751	12.7%
Total Expenses (B)	\$ 2,481,545	\$ 2,259,004	\$ 222,541	9.9%
Net Change in Assets	\$ (46,209)	\$ 113,295	\$ (159,504)	(140.8%)
Fixed Assets				
Depreciation	\$ -	\$ (1,919)	\$ 1,919	(100.0%)
Software	-	-	-	-
Computers	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Capital Lease Assets	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	(41,835)	(33,460)	(8,375)	25.0%
Incr(Dec) in Fixed Assets (C)	\$ (41,835)	\$ (35,379)	\$ (6,456)	18.2%
Total Budget (=B+C)	\$ 2,439,710	\$ 2,223,625	\$ 216,085	9.7%
Total Change in Working Capital (=A-B-C)	\$ (4,374)	\$ 148,674	\$ (153,048)	(102.9%)
FTEs on 12/31/2019	3.98	3.76	0.22	5.9%

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

- **Funding** – Interest income was \$30k (610.5%) over budget due to higher than expected interest rates.
- **Personnel** – Over budget \$100k (15.9%) primarily due to FTE positions being filled at a level higher than had been budgeted.
- **Meetings, Travel and Conferencing Expenses** – Travel expenses were over budget \$11k (63.6%) higher largely because of unbudgeted remote employee travel costs.
- **Indirect Expenses** – Over budget \$113k (12.7%) primarily because the department received more of the administrative departments' direct costs than had been budgeted due to the additional FTEs that this department had during the year compared to budget.

Administrative Services Statement of Activities and Fixed Asset Budget

	YTD Actual	YTD Budget	YTD Over (Under)	% Inc (Dec)
Funding				
Assessments	\$ (1,067,980)	\$ (1,067,980)	\$ (0)	0.0%
Assessment Stabilization Reserves - Penalties	-	-	-	-
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	\$ (1,067,980)	\$ (1,067,980)	\$ (0)	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 13,196,740	\$ 11,965,297	\$ 1,231,443	10.3%
Payroll Taxes	709,660	666,617	43,043	6.5%
Employee Benefits	1,720,092	1,610,374	109,718	6.8%
Savings & Retirement	1,022,418	1,032,835	(10,417)	(1.0%)
Total Personnel Expenses	\$ 16,648,910	\$ 15,275,124	\$ 1,373,786	9.0%
Meeting Expenses				
Meetings	\$ 527,074	\$ 360,500	\$ 166,574	46.2%
Travel	728,675	570,000	158,675	27.8%
Conference Calls	88,025	94,800	(6,775)	(7.1%)
Total Meeting Expenses	\$ 1,343,773	\$ 1,025,300	\$ 318,473	31.1%
Operating Expenses				
Consultants and Contracts	\$ 3,034,437	\$ 3,447,763	\$ (413,326)	(12.0%)
Rent & Improvements	3,583,461	3,335,058	248,403	7.4%
Office Costs	4,018,432	4,454,347	(435,915)	(9.8%)
Professional Services	2,272,686	2,507,600	(234,914)	(9.4%)
Miscellaneous	68,070	77,000	(8,930)	(11.6%)
Depreciation	2,407,013	2,235,443	171,569	7.7%
Total Operating Expenses	\$ 15,384,099	\$ 16,057,212	\$ (673,113)	(4.2%)
Other Non-Operating Expenses	\$ (376,102)	\$ 214,171	\$ (590,273)	(275.6%)
Indirect Expenses	\$ (33,000,680)	\$ (32,571,806)	\$ (428,874)	1.3%
Total Expenses (B)	\$ -	\$ -	\$ 0	#DIV/0!
Net Change in Assets	\$ (1,067,980)	\$ (1,067,980)	\$ (0)	0.0%
Fixed Assets				
Depreciation	\$ (2,407,013)	\$ (2,235,443)	\$ (171,569)	7.7%
Software	324,037	120,000	204,037	170.0%
Computers	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	251,610	890,000	(638,390)	(71.7%)
Capital Lease Assets	299,187	-	299,187	-
Leasehold Improvements	154,468	-	154,468	-
Allocation of Fixed Assets	1,377,710	1,225,443	152,267	12.4%
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	-
Total Budget (=B+C)	\$ -	\$ -	\$ 0	-
Total Change in Working Capital (=A-B-C)	\$ (1,067,980)	\$ (1,067,980)	\$ (0)	0.0%
FTEs on 12/31/2019	70.71	67.68	3.03	4.5%

Summary of Direct Expenses and Fixed Assets by Administrative Program

	Administrative Services (in whole dollars)					
	Direct Expenses and Fixed Assets			FTEs		
	2019 Actual	2019 Budget	Over (Under) Budget	2019 Actual	2019 Budget	Over (Under) Budget
General and Administrative	\$ 10,835,315	\$ 10,654,921	\$ 180,394	14.75	14.10	0.65
Legal and Regulatory	4,896,095	3,878,791	1,017,304	13.95	13.16	0.79
Information Technology	10,753,789	11,696,532	(942,743)	24.35	23.50	0.85
Human Resources	2,587,793	2,562,371	25,422	9.61	9.40	0.21
Finance and Accounting	2,549,978	2,553,747	(3,770)	8.05	7.52	0.53
Total Administrative Services	\$ 31,622,970	\$ 31,346,363	\$ 276,607	70.71	67.68	3.03

Explanation of Variances by Category – All Administrative Services Programs

- **Personnel** – Total personnel expenses and total FTEs in the combined Administrative Services programs were over budget. Personnel expenses were over budget \$1.4M (9.0%) primarily due to employee transition costs, search fees, and increases in the value of the non-qualified deferred compensation plans which are being equally offset by the gains in Other Non-Operating Expenses creating a net \$0 budget impact.
- **Meetings, Travel and Conferencing Expenses**
 - Meeting expenses were \$166k (46.2%) over budget mainly due to several unbudgeted meetings during the year and higher than budgeted costs for other meetings.
 - Travel expenses were \$156k (27.8%) higher than budget because of increased travel for ERO Enterprise outreach, training, and general travel needs.
- **Operating Expenses**
 - Contract and Consultant expenses were under budget \$413k (12.0%) primarily due to underspend in the Information Technology department to help fund expenses charged to the program areas.
 - Other Non-Operating expenses was under budget in total by \$590k (275.6%) largely because of gains in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Personnel expenses creating a net \$0 budget impact, as well as and the unanticipated refund of prior and current year excise taxes due to recent tax law changes.

- **Fixed Assets**

- Software expenditures were \$204k (170.0%) over budget mainly due to amounts that were budgeted in software licenses and support but charged to fixed assets due to the type of software purchased.
- Equipment expenditures were \$638k (71.7%) under budget mainly attributable to underspend in the Information Technology department to fund costs in other areas.
- Capital lease asset purchases had unbudgeted expenditures of \$299k since these costs were budgeted in office costs but charged to fixed assets.
- Leasehold improvements had unbudgeted expenditures of \$154k to complete renovations started in 2018 in the Atlanta office.

Financial Statements and Report of
Independent Certified Public Accountants

North American Electric Reliability Corporation

December 31, 2019

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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 statement of financial position as of December 31, 2019, and the related statement 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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, 2019, and the change 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of selected expenses shown on page 18 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 a whole.



Atlanta, Georgia
May 14, 2020

Statement of financial position

December 31	2019
	\$
Assets	
Current assets	
Cash and cash equivalents	43,183,981
Cash - regulatory designated	2,521,000
Restricted cash	500,000
Accounts receivable, net of allowance for doubtful accounts of \$10,467	3,855,447
Prepaid expenses	3,602,899
Total current assets	53,663,327
Long-term assets	
Property and equipment, net	11,971,747
Security deposits	125,585
Non-qualified deferred compensation plan assets	2,374,247
Total long-term assets	14,471,579
Total assets	68,134,906
Liabilities and net assets	
Current liabilities	
Accounts payable and accrued expenses	10,316,902
Accrued retirement liabilities	24,022
Deferred revenue	16,371,330
Deferred rent	485,954
Capital lease obligations	536,125
Regional assessments collected in advance	15,167,169
Total current liabilities	42,901,502
Long-term liabilities	
Accrued retirement liabilities	336,906
Deferred rent	2,032,312
Deferred compensation	1,948,835
Insurance reserve	500,000
Capital lease obligations	605,834
Total long-term liabilities	5,423,887
Total liabilities	48,325,389
Net assets	
Net assets without donor restrictions	
Undesignated	17,288,517
Regulatory designated funds	2,521,000
Total net assets	19,809,517
Total liabilities and net assets	68,134,906

The accompanying notes are an integral part of this financial statement.

Statement of activities

For the Year Ended December 31:	2019
	\$
Revenues:	
NERC assessments	68,883,995
Penalty income	3,071,000
Third-party funding	6,192,287
Testing / fees	1,822,961
Services and software	45,000
Workshops	618,104
Interest	589,893
Miscellaneous revenues	323
Total revenues	81,223,563
Expenses:	
Salaries and other compensation	34,106,785
Employee benefit costs	6,888,384
Retirement and savings plans	3,133,781
Travel and meetings	4,209,865
Services	15,180,674
Rent and tenant expense	3,583,461
Office costs	1,800,128
Computer software and supplies	4,463,112
Depreciation and amortization	3,554,031
Property and other tax expense	(18,652)
Provision for bad debts	10,540
Loss on disposal of fixed assets	5,482
Miscellaneous expenses	86,503
Interest	48,427
Total expenses	77,052,521
Change in net assets	4,171,042
Total net assets, beginning of year	15,638,475
Total net assets, end of year	19,809,517

The accompanying notes are an integral part of this financial statement.

Statement of cash flows

For the Year Ended December 31:	2019
	\$
Cash flows from operating activities	
Change in total net assets	4,171,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	3,554,031
Change in deferred rent	(103,174)
Loss on disposal of fixed assets	5,482
Provision for bad debts	(10,468)
Non-qualified deferred compensation	424,693
Change in cash attributable to changes in operating assets and liabilities:	
Accounts receivable	171,975
Prepaid expenses	(955,471)
Receipt of funds for regional entities	117,697,346
Disbursements of funds to regional entities	(117,697,346)
Accounts payable and accrued expenses	334,086
Deferred revenue	2,612,357
Deferred revenue - penalties	(2,071,000)
Regional assessments collected in advance	2,455,210
Deferred compensation plan assets	(287,563)
Accrued retirement liabilities	(1,918,984)
Net cash provided by operating activities	8,382,216
Cash flows from investing activities	
Purchases of property and equipment	(4,560,697)
Proceeds from sales of property and equipment	2,175
Net cash used in investing activities	(4,558,522)
Cash flows from financing activities	
Proceeds from non-revolving credit facility and capital leases	299,187
Debt service	(427,577)
Capital lease payments	(467,440)
Net cash used in financing activities	(595,830)
Net increase in cash, cash equivalents, and restricted cash	3,227,864
Cash, cash equivalents, and restricted cash - beginning of year	42,977,117
Cash, cash equivalents, and restricted cash - end of year	46,204,981
Supplemental disclosure of non-cash information	
Fixed asset purchases within accounts payable	916,381
Supplemental disclosure of cash paid	
Interest	48,427
Reconciliation of cash	
Cash and cash equivalents	43,183,981
Cash, regulatory designated	2,521,000
Restricted cash	500,000
Cash, cash equivalents, and restricted cash - end of year	46,204,981

The accompanying notes are an integral part of this financial statement.

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 effective and efficient reduction of risks to the reliability and security 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, regional entities, large and small end-use customers, state and provincial governmental authorities and other interested parties.

The Corporation entered into separate delegation agreements, which were approved by FERC, with the following regional entities: Florida Reliability Coordinating Council (“FRCC”), Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council (“NPCC”), Reliability First Corporation (“RFC”), SERC Reliability Corporation (“SERC”), 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. Effective August 31, 2019, FERC approved the dissolution of FRCC and the transfer of its responsibilities to SERC.

The Corporation must annually approve the 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 statement 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 (“US GAAP”).

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. NERC did not have any net assets with donor restrictions at December 31, 2019.

Cash and Cash Equivalents, Including Regulatory Designated and Restricted Cash

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. Regulatory designated cash of \$2,521,000 represents penalty revenue collected as of December 31, 2019, but not yet approved by NERC’s Board of Trustees and FERC to be released to fund expenditures. Restricted cash of \$500,000 has been set aside for an insurance reserve, and is recorded 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 US GAAP 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 and Deferred Revenue

The Corporation generates revenues from the following principal activities:

- Assessments to Load-Serving Entities
- Third-party funding
- Fees for services
- Penalty assessment

The majority of the Corporation’s revenue is recognized over time, with performance obligations that are satisfied within the same fiscal year. The majority of the Corporation’s contracts do not contain variable consideration and contract modifications are generally minimal.

The Corporation recognizes revenue upon completion of the following:

1. A customer agrees to the Corporation’s terms and conditions through a contract that has commercial substance;
2. The performance obligations in the contract are identified (typically, the Corporation has only one performance obligation which occurs within a short period of time);

3. The transaction price is determined (based on amounts determined at the time the transaction is initiated);
4. The transaction price is allocated to the various performance obligations (typically not required since only one performance obligation is involved); and
5. The Corporation satisfies its performance obligations.

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 2019, the assessments to LSEs made up approximately 84.8% of the total funding for the Corporation.

Third-party funding relates to the Cybersecurity Risk Information Sharing Program (“CRISP”), which is a voluntary program to facilitate the exchange of detailed cybersecurity information. CRISP allows electrical power critical infrastructure operations to better protect their networks from sophisticated threat actors by providing participants tactical and strategic cybersecurity assessments of analyzed data. NERC invoices CRISP participants their share of NERC costs and fixed asset expenditures, as well as third-party subcontractor costs.

The Corporation recognizes third-party funding and assessment revenue billed on a pro-rata basis over the calendar and fiscal year, and control transfers to the participant and customer over time.

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. Fees generated for contract management, testing, certifications, services and software, workshops and other services are recognized when the test is taken, service is rendered and/or workshops are completed. Control transfers to the customer at a point in time.

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 as penalty revenue following closure of the enforcement matter, including exhaustion of appeals, and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC’s Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as “regulatory designated” cash and net assets. Penalty income is considered NERC’s only variable consideration, and is estimated at the most likely amount that is expected to be earned at a point in time.

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.

The ending balance of regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements at December 31, 2019 was \$15,167,169.

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. The ending accounts receivable balance at December 31, 2019, was \$3,855,447, net of an allowance of doubtful accounts of \$10,467.

Property and Equipment

Purchased property and equipment are capitalized at cost. The Corporation's minimum capitalization policy is for additions greater than \$25,000.

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

	Years
Software	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, 2019, the Corporation has recorded accrued compensated absences of approximately \$734,711 related to days earned, which is included with accounts payable and accrued expenses on the statement 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 a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2019.

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. There were no positions recognized for the year ended December 31, 2019. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2016. Tax years 2016 through 2019 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.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. Due to the recent enactment of the CARES Act, the Corporation is unable to quantify the impact, if any, that the CARES Act will have on its financial position, results of operations or cash flows.

Management evaluated other events occurring subsequent to December 31, 2019 through May 14, 2020, 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	2019
	\$
Software	16,713,179
Furniture and equipment	9,207,947
Leasehold improvements	1,296,444
	27,217,570
Accumulated depreciation and amortization	(15,245,823)
Property and equipment, net	11,971,747

Depreciation and amortization expense for the year ended December 31, 2019 was \$3,554,031.

4 Non-Revolving Credit Facility and Line of Credit

The Corporation secured a 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. The interest rate is floating and equal to LIBOR plus 275 basis points, which yielded a rate of 2.91% at closing and 4.45% as of December 31, 2019. The total authorized borrowings each year are 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. As of December 31, 2019, 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 2020. 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 November 1, 2016, 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, 2019. At December 31, 2019, the available amount under the line of credit was reduced by open letters of credit totaling \$109,798, 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, 2019.

5 Net Assets

NERC's Working Capital and Operating Reserve Policy established a separate Future Obligation Reserve, System Operator Certification Reserve and Operating Contingency Reserve. The purpose of these reserves is to spread the use of available 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. The reserves are approved by NERC's Board of Trustees and FERC, and are available to offset future assessments.

The Future Obligation Reserve includes funding that has been received to satisfy future obligations under the office lease agreements to which the Corporation is a party. At December 31, 2019, \$2,518,266 is designated in the Future Obligation Reserve.

The System Operator Certification Reserve supports the system operator certification program, and includes surplus funding from operator certification and testing fees that are above incurred expenses. At December 31, 2019, \$777,274 is designated in the System Operator Certification Reserve.

The Operating Contingency Reserve includes reserves for contingencies that were not anticipated, assumed to be likely or the timing of which was uncertain at the time of preparation and approval of the Corporation's business plan and budget. The determination of the amount of the Operating Contingency Reserve shall take into consideration the projected costs and risks of ongoing operations, projected resource requirements associated with the significant ongoing or emerging reliability initiatives, capital-spending forecasts and other factors that the Board, Finance and Audit and Committee, and management consider appropriate. At December 31, 2019, \$6,199,083 is designated in the Operating Contingency Reserve.

Penalty income from a registered entity is recorded as penalty revenue following closure of the enforcement matter, including exhaustion of appeals, and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as "regulatory designated" cash and net assets. At December 31, 2019, the regulatory designated net assets balance is \$2,521,000.

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 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 2019 were as follows:

For the Year Ended December 31	2019
	\$
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	114,211,050
Total regional assessments remitted to regional entities	(114,211,050)
Billings over remittances	-

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 Corporation to make discretionary, non-elective contributions to the plan on behalf of the employee. While the Corporation 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 \$2,011,715 at December 31, 2019, and is included in accounts payable and accrued expense current liabilities and deferred compensation non-current liabilities on the statement of financial position.

In 2015, the Corporation established a 457(f) nonqualified deferred compensation plan for certain key employees. The plan allows the Corporation 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 statement of financial position. The Corporation records the expense of the award over time, based on the vesting schedule, on the statement of activities. The accrued expense liability is recorded in accounts payable and accrued expense current liabilities and accrued retirement liabilities non-current liabilities on the statement of financial position. As of December 31, 2019, the accrued liability for this deferred compensation plan is \$289,504.

At December 31, 2019, the Corporation holds investments to fund future liabilities of the 457(b) and 457(f) non-qualified deferred compensation plans totaling \$2,374,247. These investments are reported at fair market value and are included the non-qualified deferred compensation plan assets on the statement of financial position. Investments are primarily held in mutual funds. Realized and unrealized gains on non-qualified deferred compensation plan assets totaling \$411,433 in 2019 are deducted from deferred compensation expense, which is included in salaries and other compensation expense on the statement of activities.

Fair Value Measurements – Deferred Compensation Plan

The guidance for fair value measurements establishes the authoritative definition for fair value, sets out a framework for measuring fair value, and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Deferred Compensation Plan (the “DC Plan”) uses a three-tier fair value hierarchy based upon observable and non-observable inputs as follows:

Level 1: Quoted prices (unadjusted) in active markets for identified assets or liabilities that the reporting entity has the ability to 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.

Level 3: Unobservable inputs developed using the DC Plan’s estimates and assumptions which reflect those that market participants would use.

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.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

Mutual funds: valued at the quoted market prices of shares held by the DC Plan at year-end, and are considered Level 1 measurements.

The valuation methodology described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the DC Plan believes its valuation methodology is 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.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

For the year ended December 31, 2019, there were no transfers in or out of Levels 1, 2 or 3.

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 2017 Social Security Administration Actuarial Period Life Table, annual inflation rate of 2.3% and discount rate of 4.8%. At December 31, 2019, the total accrued retiree medical benefits liability was \$196,227, and is included in current and non-current accrued retirement liabilities on the statement of financial position. The retiree medical expense related to this policy was \$9,492 for the year ended December 31, 2019.

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.

Approximate future minimum payments on leased office space at December 31, 2019 are as follows:

	Leased Space
Years ending December 31:	\$
2020	3,714,000
2021	3,881,000
2022	3,090,000
2023	2,258,000
2024	2,379,000
Thereafter	2,068,000
Future obligation	17,390,000

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 statement of financial position in the amount of \$2,518,266 at December 31, 2019. Office rent and tenant expense was \$3,583,461 for the year ended December 31, 2019.

Capital Leases

The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$471,602 for the year ended December 31, 2019.

Assets leased by the Corporation under capital leases are included in property and equipment, net and capital lease obligation on the statement of financial position and consisted of the following:

December 31, 2019	Capital Leases
	\$
Office equipment leases (audio visual, computers, etc.)	2,308,411
Accumulated depreciation	(1,198,584)
Net book value	1,109,827

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, 2019:

	Future Minimum Payments
Years ending December 31:	\$
2020	561,955
2021	518,121
2022	87,666
2023	13,380
2024	-
Total minimum lease payment	1,181,122
Less: Amounts representing interest	(39,164)
Future obligation net of interest	1,141,958

Contractual Commitments

The Corporation has software license, maintenance support and data management service agreements with varying expiration dates through 2023. The following table is a schedule of future commitments under the terms of the agreements:

	Future Minimum Payments
Years ending December 31:	\$
2020	317,000
2021	260,000
2022	220,000
2023	76,000
2024	-
Total service agreements	873,000

The Corporation is, in the routine operation of its business, subject to various legal matters. In the opinion of management, none of these matters are expected to result in a settlement or judgement having a material adverse effect of the Corporation's statement of financial position or statement of activities.

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 year ended December 31, 2019 were \$3,133,781. No contributions are accrued as of December 31, 2019.

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 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 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 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. NERC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NERC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities) as defined by FERC. Costs not specifically attributable to a specific program or supporting activity are recorded as administrative program expenses. The following table summarizes operational and administrative programs on a functional basis for the year ended December 31, 2019:

For the Year Ended December 31	2019
	\$
Operational programs:	
Reliability standards	3,345,843
Compliance analysis and certification	1,470,063
Compliance assurance	5,306,808
Compliance enforcement	2,697,285
Reliability assessment and performance analysis	7,358,040
Event analysis	2,832,819
Situation awareness	2,987,346
Training, education and operator certification	1,479,464
E-ISAC	16,574,173
Total operational programs	44,051,841
Administrative programs:	
General and administrative	10,893,400
Legal and regulatory	4,896,095
Information technology	12,073,414
Human resources	2,587,793
Finance and accounting	2,549,978
Total administrative programs	33,000,680
Total expenses	77,052,521

12 Liquidity and Availability

NERC is substantially supported by assessment revenue billed to the LSEs. NERC must maintain sufficient resources to meet those responsibilities. Therefore, certain financial assets reflected as regional assessments collected in advance and deferred revenue may not be available for general expenditures within one year. As part of NERC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, NERC invests cash in excess of daily requirements in short-term investments. The Board of Trustees and FERC also designate a portion of any operating surplus to its liquidity reserves, as discussed in Note 5. This is a fund established by the governing board that may be drawn upon in the event of an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, NERC can also draw upon its available line of credit, as further discussed in Note 4.

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

Financial assets:		\$
Cash and cash equivalents		43,183,981
Accounts receivable		3,855,447
Financial assets at December 31, 2019		47,039,428
Less: Assets unavailable for general expenditures within one year		
Regional assessments collected in advance		15,167,169
Board-designated operating reserves - operating contingency		6,199,083
Board-designated operating reserves - future obligation		2,518,266
Board-designated operating reserves - system operator certification		777,274
Total financial assets unavailable for general expenditure within one year		24,661,792
Financial assets available to meet cash needs for general expenditures within one year		22,377,636

13 Revenues

The following table shows the Corporation's revenues disaggregated according to the timing of satisfaction of performance obligations for the year ended December 31, 2019:

For the Year Ended December 31, 2019

		\$
Revenue recognized at a point in time:		
Testing / fees		1,822,961
Penalty Income		3,071,000
Services and software		45,000
Workshops		618,104
Miscellaneous revenues		323
Total revenue recognized at a point in time		5,557,388
Revenue recognized over time:		
NERC assessments		68,883,995
Third-party funding		6,192,287
Interest		589,893
Total revenue recognized over time		75,666,175
Total revenues		81,223,563

14 Accounts Receivable

Accounts receivable as of December 31, 2019 by each major revenue stream is as follows:

At December 31, 2019

		\$
Accounts receivable by each major revenue stream:		
NERC assessments		1,630,635
Third-party funding		-
Testing / fees		-
Other non-major revenue streams		288,641
Other receivables (non-revenue) - regional assessments		1,936,171
Total accounts receivable		3,855,447

15 Deferred Revenue

Deferred revenue (contract liability) as of December 31, 2019 by each major revenue stream is as follows:

At December 31, 2019

	\$
Deferred revenue by each major revenue stream:	
NERC assessments	13,718,482
Third-party funding	2,496,448
Testing / fees	96,400
Other non-major revenue streams	60,000
Total deferred revenue	16,371,330

Supplemental schedule of selected expenses

For the Year Ended December 31	2019
	\$
Employee benefit costs:	
Payroll taxes (FICA, SUI, FUI, Medicare)	2,052,327
Employee benefits - medical	3,479,530
Employee benefits - life / disability	350,694
Employee benefits - other	479,798
Insurance - workers' compensation	58,141
Relocation expenses	55,000
Educational	412,894
Total employee benefit costs	6,888,384
Travel and meetings:	
Meetings	1,092,227
Workshops	657,941
Travel	2,288,161
On-line meetings	171,536
Total travel and meetings	4,209,865
Services:	
Insurance - commercial	152,725
Contract and consultants	12,737,309
Independent trustee fees	1,395,312
Search fees	90,623
Outside services	245,246
Accounting and auditing fees	119,777
Legal fees	439,682
Total services	15,180,674
Office costs:	
Publications and subscriptions	235,779
Dues	85,283
Postage	7,951
UPS, express mail, etc.	36,734
Telephone	349,011
Office and equipment repair/services	125,786
Copying	28,474
Audio visual and computer equipment	257,839
Office supplies	273,947
Bank charges	27,543
Credit card merchant fees	90,701
Sales & use tax	-
Internet expenses	281,080
Total office costs	1,800,128

ATTACHMENT 2

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION

2019 MRO Budget True-Up

May 1, 2020



**MIDWEST
RELIABILITY
ORGANIZATION**

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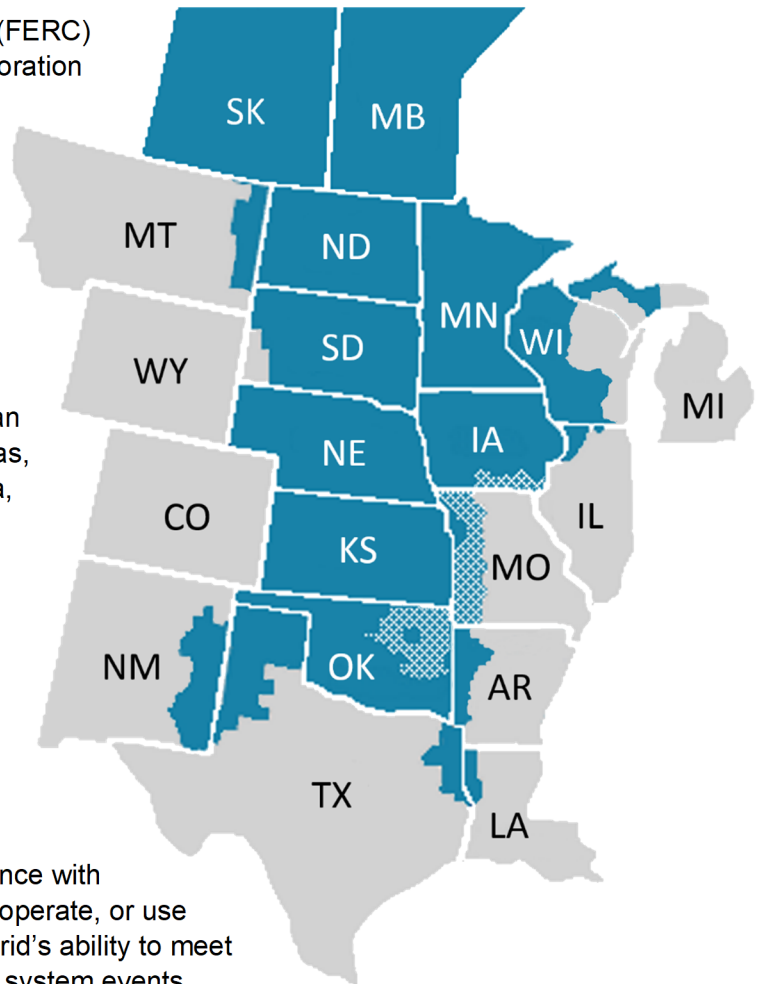
PREFACE

Midwest Reliability Organization (MRO) is dedicated to its vision of **a highly reliable and secure North American bulk power system**. To ensure reliability of the bulk power system in the United States, Congress passed the Energy Policy Act of 2005, creating a new regulatory organization called the Electric Reliability Organization (ERO) to establish mandatory Reliability Standards and monitor and enforce compliance with those standards on those who own, operate or use the interconnected power grid.

In 2006, the Federal Energy Regulatory Commission (FERC) approved the North American Electric Reliability Corporation (NERC) as the ERO under section 215(e)(4) of the Federal Power Act. NERC delegates its authority to monitor and enforce compliance to Regional Entities established across North America, of which MRO is one. Recognizing the international nature of the grid, NERC as the ERO, along with MRO, established similar arrangements with provincial authorities in Canada.

The MRO region spans the provinces of Saskatchewan and Manitoba, and all or parts of the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin. The region is comprised of more than 200 organizations that are involved in the production and delivery of electricity, including municipal utilities, cooperatives, investor-owned utilities, transmission system operators, federal power marketing agencies, Canadian Crown Corporations, and independent power producers.

MRO's primary responsibilities are to: ensure compliance with mandatory Reliability Standards by entities who own, operate, or use the bulk power system; conduct assessments of the grid's ability to meet electricity demand in the region; and analyze regional system events. Additionally, MRO creates an open forum for stakeholder experts in the region to discuss important topics related to addressing risk and improving reliable operations of the bulk power system.



2019 STATUTORY SUMMARY BUDGET VARIANCE

(In Whole Dollars)

		2019 YTD Actual	2019 YTD Budget	2019 YTD Variance	%
Funding					
ERO Funding					
	ERO Assessments	\$ 15,471,670	\$ 15,471,670	-	
	Penalty Sanctions	59,255	59,255	-	
A.	Total ERO Funding	\$ 15,530,925	\$ 15,530,925	\$ -	
Personnel Expenses					
	Salaries	\$ 7,692,315	\$ 8,386,512	(694,197)	
	Payroll Taxes	540,432	539,357	1,075	
	Benefits	835,914	928,884	(92,970)	
	Retirement Costs	1,260,966	1,714,916	(453,950)	
	Total Personnel Expenses	\$ 10,329,626	\$ 11,569,669	\$ (1,240,043)	-10.7%
Meeting Expenses					
	Meetings	\$ 122,501	145,850	(23,349)	
	Travel	411,964	905,314	(493,350)	
	Conference Calls	-	-	-	
	Total Meeting Expenses	\$ 534,465	\$ 1,051,164	\$ (516,699)	-49.2%
Operating Expenses					
	Consultants & Contracts	\$ 833,094	\$ 1,100,010	(266,916)	
	Office Rent	750,937	743,500	7,437	
	Office Costs	565,003	858,013	(293,010)	
	Professional Services	596,171	413,000	183,171	
	Miscellaneous	-	-	-	
	Depreciation	502,425	626,000	(123,575)	
	Total Operating Expenses	\$ 3,247,630	\$ 3,740,523	\$ (492,893)	-13.2%
	Total Direct Expenses	\$ 14,111,721	\$ 16,361,356	\$ (2,249,635)	-13.7%
Indirect Expenses					
Other Non-Operating Expenses					
		\$ 261,178	\$ -	261,178	
B.	Total Expenses	\$ 14,372,899	\$ 16,361,356	\$ (1,988,457)	
	Change in Assets	\$ 1,158,026	\$ (830,431)	\$ 1,988,457	
Fixed Assets					
	Depreciation	(502,425)	(626,000)	123,575	
	Computer & Software CapEx	198,241	245,000	(46,759)	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	27,000	-	27,000	
	Leasehold Improvements	4,709	-	4,709	
C.	Inc(Dec) in Fixed Assets	\$ (272,475)	\$ (381,000)	\$ 108,525	-28.5%
	Total Budget (B + C)	\$ 14,100,424	\$ 15,980,356	\$ (1,879,932)	-11.8%
	Change in Working Capital (A-B-C)	\$ 1,430,501	\$ (449,431)	\$ 1,879,932	
	Head Count	55.00	59.00	(4.00)	
	FTEs	53.00	59.00	(6.00)	
	Beginning WC-1/1/19	\$ 4,730,716	\$ 1,818,473	\$ 2,912,243	
	Change to WC-2019	1,430,501	(449,431)	1,879,932	
	Working Capital at December 31, 2019	\$ 6,161,217	\$ 1,369,042	\$ 4,792,175	



SUMMARY OF FINANCIALS AND RESOURCES

MRO staff reports the audited final numbers for the 2019 budget were 11.8 percent under budget.¹ Budget underage is primarily due to being understaffed which represents the largest cost variance in dollars as well as impacted all other expense areas. Variances to budget include decreases in personnel, meeting, travel, consulting, and office costs; and increases in professional service costs.

Delays in staffing and staff turnover both contributed to a year-end variance of \$1,240,043 or 10.7 percent underage in personnel expenses. MRO is actively recruiting to fill current vacancies and anticipates that it will reach its projected 63 FTEs in 2020. The annual actuarial adjustment of MRO's Retiree Medical Plan resulted in a significant decrease to the Savings & Retirement portion of personnel costs. The adjustment is also represented as a one-time non-operating cost.

Staff travel and meeting expenses were lower than budgeted because of fewer face-to-face working group meetings, fewer travel reimbursement requests from stakeholder volunteers, and increased MRO hosted webinar meetings.

Consultants and contracts budget variance was primarily due to a lower than anticipated need to utilize consultants for CMEP work and IT network support and maintenance, which was performed by internal staff. Office costs were under budget due to lower than budgeted employee training costs because of fewer FTEs than budgeted, and the realization of savings from negotiating lower prices on office supplies and other office related services. Fixed assets were lower than budgeted due to negotiation of costs for equipment purchases.

External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year. External professional service was higher than budgeted due to the effort and coordination of recruiting independent directors to serve on the board.

MRO staff believes the principal responsibilities under the delegation agreement were met in 2019. Some highlights:

- Conducted 28 audits, including 12 combined CIP/operations and planning audits, 3 CIP audits, and 13 operations and planning audits; MRO also participated in 1 combined CIP/operations and planning audit led by another Regional Entity, 6 operations and planning audits led by another Regional Entity, 3 coordinated CIP audits led by another Regional Entity, and 3 CIP-only audits led by FERC
- Participated in 1 operations and planning spot check led by another Regional Entity
- Completed the transition of MRO's Compliance Oversight Plan (COP) process to be harmonious with the ERO COP tools. In late October 2019, MRO obtained NERC's approval to start creating COPs under MRO's new process that utilizes the ERO COP tools.

¹ Adoption of a new accounting standard resulted in a change in presentation of revenue for audited financial statements. This change is not presented on the statement of activities for this true-up report. Audited statement of activities including new standard resulted in an increase in recognized penalty revenue which increased the overall budget underage from 11.8% to 12.3%.



- Submitted 247 noncompliances and 13 dismissals with FERC or the Applicable Governmental Authority
- Registered 7 new entities, added functions to 4 entities, removed functions from 3 entities, and deregistered 6 entities
- Participated in 1 certification and 1 certification review, both led by WECC
- Completed the seasonal and long-term reliability assessments for the year
- Provided analysis of 31 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and reliability 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.

Personnel Expenses (Variance of \$1,240,043 (10.7%) under budget)

Delays in staffing and staff turnover both contributed to the underage in personnel expenses. Staff headcount was budgeted at 59 but the actual headcount was 55 by year-end. Actual allocation of FTEs in 2019 fluctuated throughout the year. During the year, MRO employed 61 people, but timing of staffing activities culminated in a net FTE of 53.

Meeting and Travel Expenses (Variance of \$516,699 (49.2%) under budget)

Meeting costs were under budget due to: (1) fewer face-to-face working group meetings, and (2) an increase in MRO hosted webinar meetings. Travel expenses were under budget due to: (1) fewer than anticipated personnel traveling, (2) fewer travel reimbursement requests from stakeholder volunteers, and (3) efficient use of technology (i.e. WebEx). Additionally, MRO continues to maximize the use of its expanded conference space and its online capability to reduce the need for travel by staff and members.

Consultants & Contracts (Variance of \$266,916 (24.3%) under budget)

The 2019 budget variance was primarily due to a lower than anticipated need to utilize consultants for CMEP work and IT network support and maintenance, which was performed by internal staff.

Office Costs (Variance of \$293,010 (34.1%) under budget)

The 2019 budget variance was primarily due to lower than budgeted employee training costs because of fewer FTEs than budgeted, and the realization of savings from negotiating lower prices on office supplies and other office related services.

Professional Services (Variance of \$183,171 (44.4%) over budget)

External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year. External professional services was higher than budgeted due to the effort and coordination of a staff-wide compensation study and recruitment of independent directors to serve on the board.



Fixed Assets

Absent the results of budgeted versus actual depreciation which is not an expenditure of cash, real purchases in leasehold improvements, capital equipment, and office furniture resulted in a variance of 6.1 percent.

MRO had no non-statutory activities in 2019; 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	2019 Variance			
	2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	654,899	654,899		0.0%
Penalty Sanctions	2,331	2,331	-	0.0%
A. Total Funding	\$ 657,230	\$ 657,230	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	253,916	275,583	(21,667)	-7.9%
Payroll Taxes	16,727	17,361	(634)	-3.6%
Employee Benefits	26,341	29,628	(3,287)	-11.1%
Savings and Retirement	53,353	61,782	(8,429)	-13.6%
Total Personnel Expenses	\$ 350,338	\$ 384,354	\$ (34,016)	-8.9%
Meeting Expenses				
Meetings	960	1,400	(440)	-31.4%
Travel - Staff Business	13,621	50,300	(36,679)	-72.9%
Travel - Member Reimbursement	1,163	18,000	(16,837)	-93.5%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 15,744	\$ 69,700	\$ (53,956)	-77.4%
Operating Expenses				
Consultants	-	-	-	-
Contract	-	-	-	-
Building Rent and Facilities	-	-	-	-
Office Costs	6,104	5,938	166	2.8%
Professional Services	-	-	-	-
Depreciation	-	-	-	-
Contingency	-	-	-	-
Total Operating Expenses	\$ 6,104	\$ 5,938	\$ 166	2.8%
Indirect Expenses	239,436	212,230	27,206	12.8%
Other Non-Operating Expenses				
B. Total Expenses	\$ 611,623	\$ 672,222	\$ (60,599)	-9.0%
Change in Assets (A-B)	\$ 45,607	\$ (14,992)	\$ 60,599	-404.2%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Softw are CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	\$ (11,098)	\$ (14,992)	\$ 3,894	-26.0%
C. Total Inc(Dec) in Fixed Assets	\$ (11,098)	\$ (14,992)	\$ 3,894	-26.0%
Total Budget (B+C)	\$ 600,525	\$ 657,230	\$ (56,705)	-8.6%
Change in Working Capital (A-B-C)	\$ 56,705	\$ -	\$ 56,705	
FTEs	1.63	1.88	(0.25)	-13.3%



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

There were fewer face-to-face meetings and an increased utilization of WebEx meetings. There was an overall travel expense decrease for both staff travel and member reimbursement. Actual travel dollars for participation on ERO working groups, CORES, and member travel for council face-to-face meetings were lower than budgeted.

Indirect Expenses

Indirect expenses were higher than budget primarily due to total Administrative Services Expenses being higher than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.



2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM		2019		2019 Variance	
		Actual	Budget	from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	10,723,591	10,723,591		0.0%
	Penalty Sanctions	40,119	40,119	-	0.0%
A. Total Funding		\$ 10,763,710	\$ 10,763,710	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	3,901,631	4,696,697	(795,066)	-16.9%
	Payroll Taxes	281,611	309,055	(27,444)	-8.9%
	Employee Benefits	455,526	504,160	(48,634)	-9.6%
	Savings and Retirement	613,306	895,415	(282,109)	-31.5%
	Total Personnel Expenses	\$ 5,252,075	\$ 6,405,327	\$ (1,153,252)	-18.0%
Meeting Expenses					
	Meetings	6,800	7,500	(700)	-9.3%
	Travel - Staff Business	131,559	264,314	(132,755)	-50.2%
	Travel - Member Reimbursement	21,144	20,000	1,144	5.7%
	Conference Calls	-	-	-	-
	Total Meeting Expenses	\$ 159,503	\$ 291,814	\$ (132,311)	-45.3%
Operating Expenses					
	Consultants	46,151	403,000	(356,849)	-88.5%
	Contract	171,249	100,000	71,249	71.2%
	Building Rent and Facilities	-	-	-	-
	Office Costs	106,991	169,600	(62,609)	-36.9%
	Professional Services	-	-	-	-
	Depreciation	-	-	-	-
	Contingency	-	-	-	-
	Total Operating Expenses	\$ 324,391	\$ 672,600	\$ (348,209)	-51.8%
Indirect Expenses		4,001,364	3,651,929	349,435	9.6%
Other Non-Operating Expenses					
B. Total Expenses		\$ 9,737,333	\$ 11,021,670	\$ (1,284,337)	-11.7%
Change in Assets (A-B)		\$ 1,026,377	\$ (257,960)	\$ 1,284,337	-497.9%
Fixed Assets					
	Depreciation	-	-	-	-
	Computer & Software CapEx	-	-	-	-
	Furniture & Fixtures CapEx	-	-	-	-
	Equipment CapEx	-	-	-	-
	Leasehold Improvements	-	-	-	-
	Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
	Allocation of Fixed Assets	\$ (185,463)	\$ (257,960)	\$ 72,497	-28.1%
C. Total Inc(Dec) in Fixed Assets		\$ (185,463)	\$ (257,960)	\$ 72,497	-28.1%
Total Budget (B+C)		\$ 9,551,870	\$ 10,763,710	\$ (1,211,840)	-11.3%
Change in Working Capital (A-B-C)		\$ 1,211,840	\$ -	\$ 1,211,840	
FTEs					
		27.24	32.35	(5.11)	-15.8%



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

Staff turnover combined with delays in recruitment led to lower personnel costs. MRO shifted staff resources to meet priorities in all program areas. Senior staff transitioned to program management. Executive staff transitioned to organizational management.

Meeting Expenses

There were fewer face-to-face meetings and an increased utilization of WebEx meetings. There was an overall travel expense decrease for staff. Actual travel dollars for participation on ERO working groups and the Align project were lower than budgeted.

Operating Expenses

MRO used fewer external consultants, relying instead on internal staff to manage workload. Contract costs were high because the agreement with the third-party compliance tool provider was extended while the transition to the Align tool is in progress.

Indirect Expenses

Indirect expenses were higher than budget primarily due to total Administrative Services Expenses being higher than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.



3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENT AND PERFORMANCE ANALYSIS	2019 Variance			
	2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	2,944,741	2,944,741		0.0%
Penalty Sanctions	10,331	10,331	-	0.0%
A. Total Funding	\$ 2,955,072	\$ 2,955,072	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	1,016,164	1,252,799	(236,635)	-18.9%
Payroll Taxes	73,709	83,361	(9,652)	-11.6%
Employee Benefits	76,151	133,407	(57,256)	-42.9%
Savings and Retirement	190,046	302,771	(112,725)	-37.2%
Total Personnel Expenses	\$ 1,356,070	\$ 1,772,338	\$ (416,268)	-23.5%
Meeting Expenses				
Meetings	6,076	7,500	(1,424)	-19.0%
Travel - Staff Business	64,530	115,000	(50,470)	-43.9%
Travel - Member Reimbursement	46,395	88,400	(42,005)	-47.5%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 117,001	\$ 210,900	\$ (93,899)	-44.5%
Operating Expenses				
Consultants	-	-	-	-
Contract	59,055	81,400	(22,345)	-27.5%
Building Rent and Facilities	-	-	-	-
Office Costs	16,856	16,500	356	2.2%
Professional Services	-	-	-	-
Depreciation	-	-	-	-
Contingency	-	-	-	-
Total Operating Expenses	\$ 75,911	\$ 97,900	\$ (21,989)	-22.5%
Indirect Expenses	1,031,189	940,358	90,831	9.7%
Other Non-Operating Expenses				
B. Total Expenses	\$ 2,580,171	\$ 3,021,496	\$ (441,325)	-14.6%
Change in Assets (A-B)	\$ 374,901	\$ (66,424)	\$ 441,325	-664.4%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	\$ (47,796)	\$ (66,424)	\$ 18,628	-28.0%
C. Total Inc(Dec) in Fixed Assets	\$ (47,796)	\$ (66,424)	\$ 18,628	-28.0%
Total Budget (B+C)	\$ 2,532,375	\$ 2,955,072	\$ (422,697)	-14.3%
Change in Working Capital (A-B-C)	\$ 422,697	\$ -	\$ 422,697	
FTEs	7.02	8.33	(1.31)	-15.7%



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

Staff turnover combined with delays in recruitment led to lower personnel costs. MRO shifted staff resources to meet priorities in all program areas. Senior staff transitioned to program management. Executive staff transitioned to organizational management.

Meeting Expenses

There were fewer face-to-face meetings and an increased utilization of WebEx meetings. There was an overall travel expense decrease for both staff travel and member reimbursement. Actual travel dollars for participation on ERO working groups and member travel for council face-to-face meetings were lower than budgeted.

Operating Expenses*Contracts*

There was reduced spending on Power System Simulation (PSS) modeling.

Indirect Expenses

Indirect expenses were higher than budget primarily due to total Administrative Services Expenses being higher than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.



4. Training, Education, and Operator Certification Program

TRAINING, EDUCATION, AND OPERATOR CERTIFICATION PROGRAM		2019		2019 Variance	
		Actual	Budget	from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	894,593	894,593		0.0%
	Penalty Sanctions	3,200	3,200	-	0.0%
A. Total Funding		\$ 897,793	\$ 897,793	\$ -	
Expenses					
Personnel Expenses					
	Salaries	291,242	357,617	(66,375)	-18.6%
	Payroll Taxes	22,349	22,481	(132)	-0.6%
	Employee Benefits	40,003	40,358	(355)	-0.9%
	Savings and Retirement	51,068	71,058	(19,990)	-28.1%
Total Personnel Expenses		\$ 404,662	\$ 491,514	\$ (86,852)	-17.7%
Meeting Expenses					
	Meetings	55,118	66,000	(10,882)	-16.5%
	Travel - Staff Business	14,684	49,600	(34,916)	-70.4%
	Travel - Member Reimbursement	21	20,000	(19,979)	-99.9%
	Conference Calls	-	-	-	
Total Meeting Expenses		\$ 69,823	\$ 135,600	\$ (65,777)	-48.5%
Operating Expenses					
	Consultants	-	-	-	
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	-	-	-	
	Professional Services	-	-	-	
	Depreciation	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses					
Indirect Expenses		320,227	291,251	28,976	9.9%
Other Non-Operating Expenses					
B. Total Expenses		\$ 794,712	\$ 918,365	\$ (123,653)	-13.5%
Change in Assets (A-B)		\$ 103,081	\$ (20,572)	\$ 123,653	-601.1%
Fixed Assets					
	Depreciation	-	-	-	
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
	Allocation of Fixed Assets	\$ (14,843)	\$ (20,572)	\$ 5,729	-27.8%
C. Total Inc(Dec) in Fixed Assets		\$ (14,843)	\$ (20,572)	\$ 5,729	-27.8%
Total Budget (B+C)		\$ 779,869	\$ 897,793	\$ (117,924)	-13.1%
Change in Working Capital (A-B-C)		\$ 117,924	\$ -	\$ 117,924	
FTEs		2.18	2.58	(0.40)	-15.5%



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

Personnel Expenses

Outreach and training initiatives were led by subject matter experts. Executive staff resources allocated time to meet priorities in other program areas.

Meeting Expenses

There were fewer face-to-face meetings and an increased utilization of WebEx meetings. There was an overall travel expense decrease for both staff travel and member reimbursement.

Indirect Expenses

Indirect expenses were higher than budget primarily due to total Administrative Services Expenses being higher than budget. The allocation of Administrative Services costs was also impacted by the under-budget variance in FTEs for this program.



5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS AND INFRASTRUCTURE SECURITY		2019 Variance			
		2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	703,278	703,278	-	0.0%
	Penalty Sanctions	3,274	3,274	-	0.0%
A.	Total Funding	\$ 706,552	\$ 706,552	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	243,206	230,429	12,777	5.5%
	Payroll Taxes	17,493	15,160	2,333	15.4%
	Employee Benefits	32,283	41,640	(9,357)	-22.5%
	Savings and Retirement	36,448	63,200	(26,752)	-42.3%
	Total Personnel Expenses	\$ 329,430	\$ 350,429	\$ (20,999)	-6.0%
Meeting Expenses					
	Meetings	4,717	1,450	3,267	225.3%
	Travel - Staff Business	9,862	18,400	(8,538)	-46.4%
	Travel - Member Reimbursement	15,251	45,000	(29,749)	-66.1%
	Conference Calls	-	-	-	-
	Total Meeting Expenses	\$ 29,831	\$ 64,850	\$ (35,020)	-54.0%
Operating Expenses					
	Consultants	-	-	-	-
	Contract	-	-	-	-
	Building Rent and Facilities	-	-	-	-
	Office Costs	3,360	14,300	(10,940)	-76.5%
	Professional Services	-	-	-	-
	Depreciation	-	-	-	-
	Contingency	-	-	-	-
	Total Operating Expenses	\$ 3,360	\$ 14,300	\$ (10,940)	-76.5%
Indirect Expenses					
		286,441	298,025	(11,584)	-3.9%
Other Non-Operating Expenses					
B.	Total Expenses	\$ 649,062	\$ 727,604	\$ (78,542)	-10.8%
Change in Assets (A-B)		\$ 57,490	\$ (21,052)	\$ 78,542	-373.1%
Fixed Assets					
	Depreciation	-	-	-	-
	Computer & Software CapEx	-	-	-	-
	Furniture & Fixtures CapEx	-	-	-	-
	Equipment CapEx	-	-	-	-
	Leasehold Improvements	-	-	-	-
	Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
	Allocation of Fixed Assets	\$ (13,277)	\$ (21,052)	\$ 7,775	-36.9%
C.	Total Inc(Dec) in Fixed Assets	\$ (13,277)	\$ (21,052)	\$ 7,775	-36.9%
Total Budget (B+C)		\$ 635,785	\$ 706,552	\$ (70,767)	-10.0%
Change in Working Capital (A-B-C)		\$ 70,767	\$ -	\$ 70,767	
FTEs					
		1.95	2.64	(0.69)	-26.1%



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

Meeting Expenses

There were fewer face-to-face meetings and an increased utilization of WebEx meetings; thus, member travel for council face-to-face meetings was lower than budgeted.

Operating Expenses

Office Costs

Spending in staff training and designated department supplies was lower than budgeted.



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		2019 Variance			
		2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	(449,432)	(449,432)	(0)	0.0%
	Penalty Sanctions				
A. Total Funding		\$ (449,432)	\$ (449,432)	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	627,804	582,342	45,462	7.8%
	Payroll Taxes	35,767	26,054	9,713	37.3%
	Employee Benefits	44,086	45,483	(1,397)	-3.1%
	Savings and Retirement	98,167	115,028	(16,861)	-14.7%
	Total Personnel Expenses	\$ 805,824	\$ 768,907	\$ 36,917	4.8%
Meeting Expenses					
	Meetings	47,974	60,000	(12,026)	-20.0%
	Travel - Staff Business	23,790	63,000	(39,210)	-62.2%
	Travel - Member Reimbursement	48,185	108,300	(60,115)	-55.5%
	Conference Calls	-	-	-	
	Total Meeting Expenses	\$ 119,949	\$ 231,300	\$ (111,351)	-48.1%
Operating Expenses					
	Consultants	155,352	32,000	123,352	385.5%
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	87,384	43,500	43,884	100.9%
	Professional Services	-	-	-	
	Depreciation	-	-	-	
	Contingency	-	-	-	
	Total Operating Expenses	\$ 242,736	\$ 75,500	\$ 167,236	221.5%
	Indirect Expenses	(1,168,508)	(1,075,707)	(92,801)	8.6%
	Other Non-Operating Expenses				
B. Total Expenses		\$ 0	\$ -	\$ 0	
Change in Assets (A-B)		\$ (449,432)	\$ (449,432)	\$ (0)	0.0%
Fixed Assets					
	Depreciation	-	-	-	
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
	Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
	Allocation of Fixed Assets			\$ -	
C. Total Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
Total Budget (B+C)		\$ 0	\$ -	\$ 0	
Change in Working Capital (A-B-C)		\$ (449,432)	\$ (449,432)	\$ (0)	
FTEs					
		2.79	2.84	(0.05)	-1.8%



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

There were fewer face-to-face meetings and an increased utilization of WebEx meetings. There was an overall travel expense decrease for both staff travel and member reimbursement. Actual travel dollars for participation on ERO working groups, the Align project, and member travel for council face-to-face meetings were lower than budgeted.

Operating Expenses

The increase in Consultants and Contracts occurred because the MRO Board dedicated funds to search for two new independent directors. The increase in office costs is higher than budgeted due to executive level coaching.



6b. Legal and Regulatory

LEGAL AND REGULATORY		2019 Variance			
		2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments				
	Penalty Sanctions				
A. Total Funding		\$ -	\$ -	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	230,679	211,570	19,109	9.0%
	Payroll Taxes	10,653	9,820	833	8.5%
	Employee Benefits	13,969	13,773	196	1.4%
	Savings and Retirement	38,860	39,202	(342)	-0.9%
Total Personnel Expenses		\$ 294,161	\$ 274,365	\$ 19,796	7.2%
Meeting Expenses					
	Meetings	698		698	
	Travel - Staff Business	10,845	19,000	(8,155)	-42.9%
	Travel - Member Reimbursement				
	Conference Calls	-	-	-	
Total Meeting Expenses		\$ 11,543	\$ 19,000	\$ (7,457)	-39.2%
Operating Expenses					
	Consultants	91,500	-	91,500	
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	5,909	4,525	1,384	30.6%
	Professional Services	552,743	353,000	199,743	56.6%
	Depreciation	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses		\$ 650,152	\$ 357,525	\$ 292,627	81.8%
Indirect Expenses		(955,857)	(650,890)	(304,967)	46.9%
Other Non-Operating Expenses					
B. Total Expenses		\$ (0)	\$ -	\$ (0)	
Change in Assets (A-B)		\$ 0	\$ -	\$ 0	
Fixed Assets					
	Depreciation	-	-	-	
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
	Allocation of Fixed Assets			\$ -	
C. Total Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	0.0%
Total Budget (B+C)		\$ (0)	\$ -	\$ (0)	
Change in Working Capital (A-B-C)		\$ 0	\$ -	\$ 0	
FTEs		0.88	0.86	0.02	2.3%



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

Meeting Expenses

Legal Counsel had unplanned meetings with board members and outside counsel.

Operating Expenses

There was increased spending in consulting costs for execution of unbudgeted compensation studies, one for the independent directors and one for all staff.

Indirect Expenses

There were more indirect costs than budgeted generated by this administrative service area. These costs are allocated to the other technical program areas based on the technical areas' FTEs.



6c. Information Technology

		2019 Variance			
		2019 Actual	2019 Budget	from Budget Over(Under)	%
INFORMATION TECHNOLOGY					
Funding					
ERO Funding					
	Assessments				
	Penalty Sanctions				
A.	Total Funding	\$ -	\$ -	\$ -	0.0%
Expenses					
	Personnel Expenses				
	Salaries	464,854	359,608	105,246	29.3%
	Payroll Taxes	36,048	28,021	8,027	28.6%
	Employee Benefits	73,252	63,581	9,671	15.2%
	Savings and Retirement	68,352	68,772	(420)	-0.6%
	Total Personnel Expenses	\$ 642,505	\$ 519,982	\$ 122,523	23.6%
	Meeting Expenses				
	Meetings				
	Travel - Staff Business	3,787	10,000	(6,213)	-62.1%
	Travel - Member Reimbursement				
	Conference Calls	-	-	-	
	Total Meeting Expenses	\$ 3,787	\$ 10,000	\$ (6,213)	-62.1%
	Operating Expenses				
	Consultants	56,648	191,000	(134,353)	-70.3%
	Contract	202,083	200,200	1,883	0.9%
	Building Rent and Facilities	-	-	-	
	Office Costs	172,215	329,400	(157,185)	-47.7%
	Professional Services	-	-	-	
	Depreciation	502,425	626,000	(123,575)	-19.7%
	Contingency	-	-	-	
	Total Operating Expenses	\$ 933,371	\$ 1,346,600	\$ (413,229)	-30.7%
	Indirect Expenses	(1,579,662)	(1,876,582)	296,920	-15.8%
	Other Non-Operating Expenses				
B.	Total Expenses	\$ (0)	\$ -	\$ (0)	
Change in Assets (A-B)		\$ 0	\$ -	\$ 0	
	Fixed Assets				
	Depreciation	(502,425)	(626,000)	123,575	-19.7%
	Computer & Software CapEx	198,241	245,000	(46,759)	-19.1%
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	27,000	-	27,000	
	Leasehold Improvements	4,709	-	4,709	
	Inc(Dec) in Fixed Assets	\$ (272,475)	\$ (381,000)	\$ 108,525	-28.5%
	Allocation of Fixed Assets	\$ 272,475	\$ 381,000	(108,525)	-28.5%
C.	Total Inc(Dec) in Fixed Assets	\$ (0)	\$ -	\$ (0)	
	Total Budget (B+C)	\$ (0)	\$ -	\$ (0)	
	Change in Working Capital (A-B-C)	\$ 0	\$ -	\$ 0	
	FTEs	4.51	3.97	0.54	13.6%



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

MRO shifted staff resources to meet priorities in this program area.

Operating Expenses

The decrease in consulting reflects decreased reliance on external IT consulting. Similarly, there was decreased spending in phone services and in IT computer supplies.

Indirect Expenses

There were fewer indirect costs than budgeted generated by this administrative service area. These costs are allocated to the other technical program areas based on the technical areas' FTEs.

Fixed Assets

Absent the results of budgeted versus actual depreciation which is not an expenditure of cash, real purchases in capital equipment and office furniture resulted in a variance of 8.1 percent.



6d. Human Resources

		2019 Variance	
		2019	2019
		Actual	Budget
		from Budget	
		Over(Under)	%
HUMAN RESOURCES			
Funding			
ERO Funding			
	Assessments		
	Penalty Sanctions		
A. Total Funding		\$ -	\$ -
Expenses			
Personnel Expenses			
	Salaries	151,691	151,691
	Payroll Taxes	10,296	10,296
	Employee Benefits	17,707	17,707
	Savings and Retirement	23,272	23,272
	Total Personnel Expenses	\$ 202,966	\$ 202,966
Meeting Expenses			
	Meetings	157	157
	Travel - Staff Business	1,923	1,923
	Travel - Member Reimbursement		
	Conference Calls	-	-
	Total Meeting Expenses	\$ 2,080	\$ 2,080
Operating Expenses			
	Consultants	-	-
	Contract	15,926	15,926
	Building Rent and Facilities	-	-
	Office Costs	52,316	52,316
	Professional Services	-	-
	Depreciation	-	-
	Contingency	-	-
	Total Operating Expenses	\$ 68,242	\$ 68,242
Indirect Expenses			
		(273,287)	(273,287)
Other Non-Operating Expenses			
B. Total Expenses		\$ 0	\$ 0
Change in Assets (A-B)		\$ (0)	\$ (0)
Fixed Assets			
	Depreciation	-	-
	Computer & Software CapEx	-	-
	Furniture & Fixtures CapEx	-	-
	Equipment CapEx	-	-
	Leasehold Improvements	-	-
	Inc(Dec) in Fixed Assets	\$ -	\$ -
	Allocation of Fixed Assets		\$ -
C. Total Inc(Dec) in Fixed Assets		\$ -	\$ -
Total Budget (B+C)		\$ 0	\$ 0
Change in Working Capital (A-B-C)		\$ (0)	\$ (0)
FTEs		0.98	0.00
			0.98



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

MRO added staff resources to meet priorities in this program area. Previously costs in this area were included in the Finance and Accounting program. This resulted in an unbudgeted personnel cost.

Operating Expenses

The increase in this area was from moving hiring and recruitment costs from Finance and Accounting to the human resource function. This increase was offset by a decrease in the other functional area.

Indirect Expenses

There were more indirect costs than budgeted generated by this administrative service area. These costs are allocated to the other technical program areas based on the technical areas' FTEs.



6e. Finance and Accounting

FINANCE AND ACCOUNTING	2019 Variance			
	2019 Actual	2019 Budget	from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments				
Penalty Sanctions				
A. Total Funding	\$ -	\$ -	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	511,128	419,867	91,261	21.7%
Payroll Taxes	35,779	28,044	7,735	27.6%
Employee Benefits	56,596	56,854	(258)	-0.5%
Savings and Retirement	88,093	97,688	(9,595)	-9.8%
Total Personnel Expenses	\$ 691,596	\$ 602,453	\$ 89,143	14.8%
Meeting Expenses				
Meetings		2,000	(2,000)	-100.0%
Travel - Staff Business	5,205	16,000	(10,795)	-67.5%
Travel - Member Reimbursement				
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 5,205	\$ 18,000	\$ (12,795)	-71.1%
Operating Expenses				
Consultants	5,110	22,000	(16,890)	-76.8%
Contract	30,021	40,410	(10,389)	-25.7%
Building Rent and Facilities	750,937	743,500	7,437	1.0%
Office Costs	113,867	222,250	(108,383)	-48.8%
Professional Services	43,428	60,000	(16,572)	-27.6%
Depreciation	-	-	-	
Contingency	-	-	-	
Total Operating Expenses	\$ 943,363	\$ 1,088,160	\$ (144,797)	-13.3%
Indirect Expenses	(1,901,342)	(1,790,613)	(110,729)	6.2%
Other Non-Operating Expenses	261,178	-	261,178	
B. Total Expenses	\$ (0)	\$ (82,000)	\$ 82,000	-100.0%
Change in Assets (A-B)	\$ 0	\$ 82,000	\$ (82,000)	-100.0%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets			\$ -	
C. Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (B+C)	\$ (0)	\$ (82,000)	\$ 82,000	-100.0%
Change in Working Capital (A-B-C)	\$ 0	\$ 82,000	\$ (82,000)	
FTEs	3.80	3.55	0.25	7.0%



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

MRO shifted staff resources to meet priorities in this program area.

Meeting Expenses

Finance staff attended all planned meetings through virtual means, which resulted in zero meeting costs and lower than budgeted travel costs.

Operating Expenses

The decrease in this area was from moving the hiring, recruitment, and other employee related activities and associated costs from Finance and Accounting to the Human Resource function. Also, costs associated with legal counsel for HR issues was expended under the legal program.

Other Non-Operating Expenses

There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2019 adjustment resulted in an increase in the deferred liability, primarily because the benefit discount rate decreased while retiree benefit premiums remained flat.



SECTION B — SUPPLEMENTAL FINANCIAL INFORMATION

Statement of Activities and Capital Expenditures by Program 2019 Business Plan and Budget	Total	Statutory Total	Non-Statutory Total	Functions in Delegation Agreement										
				Statutory Total	Reliability Standards and Organization Registration and Certification (Section 300 & 500)	Compliance (Section 400)	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
Funding														
ERO Funding														
NERC Assessments	15,471,667	15,471,667	-	15,471,667	654,899	10,723,589	2,944,740	894,593	703,278		(449,432)			
Penalty Sanctions	59,255	59,255	-	59,255	2,332	40,119	10,331	3,200	3,274					
Total NERC Funding	15,530,922	15,530,922	-	15,530,922	657,230	10,763,709	2,955,071	897,792	706,552	-	(449,432)	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding (A)	15,530,922	15,530,922	-	15,530,922	657,230	10,763,709	2,955,071	897,792	706,552	-	(449,432)	-	-	-
Expenses														
Personnel Expenses														
Salaries	7,692,315	7,692,315	-	7,692,315	253,916	3,901,631	1,016,164	291,242	243,206	-	627,804	230,679	464,854	151,691
Payroll Taxes	540,432	540,432	-	540,432	16,727	281,611	73,709	22,349	17,493	-	35,767	10,653	36,048	10,296
Benefits	835,914	835,914	-	835,914	26,341	455,526	76,151	40,003	32,283	-	44,086	13,969	73,252	17,707
Retirement Costs	1,260,966	1,260,966	-	1,260,966	53,353	613,306	190,046	51,068	36,448	-	98,167	38,860	68,352	23,272
Total Personnel Expenses	10,329,626	10,329,626	-	10,329,626	350,338	5,252,075	1,356,070	404,662	329,430	-	805,824	294,161	642,505	202,966
Meeting Expenses														
Meetings	122,501	122,501	-	122,501	960	6,800	6,076	55,118	4,717	-	47,974	698	-	157
Travel	411,964	411,964	-	411,964	14,784	152,703	110,925	14,705	25,113	-	71,974	10,845	3,787	1,923
Conference Calls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses	534,465	534,465	-	534,465	15,744	159,503	117,001	69,823	29,831	-	119,949	11,543	3,787	2,080
Operating Expenses														
Consultants & Contracts	833,094	833,094	-	833,094	-	217,400	59,055	-	-	-	155,352	91,500	258,730	15,926
Office Rent	750,937	750,937	-	750,937	-	-	-	-	-	-	-	-	-	750,937
Office Costs	565,003	565,003	-	565,003	6,104	106,991	16,856	-	3,360	-	87,384	5,909	172,215	52,316
Professional Services	596,171	596,171	-	596,171	-	-	-	-	-	-	-	552,743	-	43,428
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	502,425	502,425	-	502,425	-	-	-	-	-	-	-	-	502,425	-
Total Operating Expenses	3,247,630	3,247,630	-	3,247,630	6,104	324,391	75,911	-	3,360	-	242,736	650,152	933,371	68,242
Total Direct Expenses	14,111,721	14,111,721	-	14,111,721	372,187	5,735,969	1,548,982	474,485	362,621	-	1,168,508	955,857	1,579,662	273,287
Indirect Expenses	(0)	(0)	-	(0)	239,436	4,001,364	1,031,189	320,227	286,441	-	(1,168,508)	(955,857)	(1,579,662)	(273,287)
Other Non-Operating Expenses	261,178	261,178	-	261,178	-	-	-	-	-	-	-	-	-	261,178
Total Expenses (B)	14,372,899	14,372,899	-	14,372,899	611,622	9,737,333	2,580,171	794,711	649,062	-	-	-	-	-
Change in Assets	1,158,022	1,158,022	-	1,158,022	45,608	1,026,375	374,900	103,081	57,490	-	(449,432)	-	-	-
Fixed Assets														
Depreciation	(502,425)	(502,425)	-	(502,425)	-	-	-	-	-	-	-	-	(502,425)	-
Computer & Software CapEx	198,241	198,241	-	198,241	-	-	-	-	-	-	-	-	198,241	-
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	27,000	27,000	-	27,000	-	-	-	-	-	-	-	-	27,000	-
Leasehold Improvements	4,709	4,709	-	4,709	-	-	-	-	-	-	-	-	4,709	-
Allocation of Fixed Assets	-	-	-	-	(11,098)	(185,463)	(47,796)	(14,843)	(13,277)	-	-	-	272,476	-
Inc(Dec) in Fixed Assets (C)	(272,476)	(272,476)	-	(272,476)	(11,098)	(185,463)	(47,796)	(14,843)	(13,277)	-	-	-	-	-
TOTAL BUDGET (=B + C)	14,100,424	14,100,424	-	14,100,424	600,524	9,551,870	2,532,375	779,869	635,785	-	-	-	-	-
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	1,430,498	1,430,498	-	1,430,498	56,706	1,211,838	422,696	117,923	70,767	-	(449,432)	-	-	-
FTEs	52.98	52.98	-	52.98	1.63	27.24	7.02	2.18	1.95	-	2.79	0.88	4.51	0.98
Indirect Costs Allocation	(0)	(0)	-	(0)	239,436	4,001,364	1,031,189	320,227	286,441	-	(1,168,508)	(955,857)	(1,579,662)	(273,287)
Allocation of Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	(272,476)	-
Penalty Sanctions Allocation	59,255	59,255	-	59,255	2,413	40,332	10,394	3,228	2,887	-	-	-	-	-
Interest Income Allocation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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, 2019 and 2018

MIDWEST RELIABILITY ORGANIZATION

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Independent Auditors' Report

To the Board of Directors of
Midwest Reliability Organization

We have audited the accompanying financial statements of Midwest Reliability Organization (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Updates No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*; No. 2017-07, *Compensation: Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*; and No. 2014-09, *Revenue from Contracts with Customers* during the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
April 2, 2020

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,985,734	\$ 6,557,354
Restricted cash	557,718	60,754
Prepaid expenses	<u>306,243</u>	<u>167,671</u>
Total Current Assets	6,849,695	6,785,779
PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET	1,228,039	1,481,143
OTHER ASSETS		
Restricted cash - non-current	2,600,001	619,359
Security deposit - non-current	39,858	39,858
Capitalized software costs, net of accumulated amortization of \$474,871 and \$456,114, respectively	<u>34,620</u>	<u>53,991</u>
TOTAL ASSETS	<u>\$ 10,752,213</u>	<u>\$ 8,980,130</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 307,198	\$ 268,988
Accrued liabilities	1,114,263	1,129,470
Retirement plan contribution	658,750	595,851
Deferred assessments	<u>-</u>	<u>60,754</u>
Total Current Liabilities	2,080,211	2,055,063
OTHER LIABILITIES		
Postretirement medical benefit obligation	777,773	463,404
Deferred assessments - non-current	-	619,359
Deferred rent - non-current	<u>501,761</u>	<u>544,488</u>
Total Liabilities	<u>3,359,745</u>	<u>3,682,314</u>
NET ASSETS (WITHOUT DONOR RESTRICTIONS)	<u>7,392,468</u>	<u>5,297,816</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,752,213</u>	<u>\$ 8,980,130</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Assessments	\$ 15,471,670	\$ 15,425,792
Penalty sanctions	315,769	142,001
Total Revenue	15,787,439	15,567,793
EXPENSES		
Personnel expenses		
Salaries	7,692,315	7,613,052
Payroll taxes	540,432	490,565
Employee benefits	835,914	689,817
Retirement benefits	1,301,258	1,198,515
Total personnel expenses	10,369,919	9,991,949
Meeting expenses		
Meetings	122,501	87,054
Travel	411,964	385,991
Total meeting expenses	534,465	473,045
Operating expenses		
Building rent and facilities	750,937	741,981
Consulting	833,094	774,987
Office costs	1,067,428	1,068,605
Professional services	596,171	474,972
Total operating expenses	3,247,630	3,060,545
Total Expenses	14,152,014	13,525,539
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS BEFORE POSTRETIREMENT BENEFIT RELATED CHANGES	1,635,425	2,042,254
POSTRETIREMENT BENEFIT RELATED CHANGES		
Postretirement medical benefit obligation		
changes other than net periodic cost	261,178	(730,393)
Other components of net periodic pension cost	(40,292)	874
	220,886	(729,519)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,414,539	2,771,773
NET ASSETS WITHOUT DONOR RESTRICTIONS - Beginning of Year	5,297,816	2,526,043
Cumulative effect of adoption of new accounting standard (Note 1)	680,113	-
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	\$ 7,392,468	\$ 5,297,816

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,414,539	\$ 2,771,773
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	483,667	531,392
Software amortization	18,758	22,653
Change in assets and liabilities:		
Prepaid expenses	(138,572)	138,389
Accounts payable - trade	46,536	84,386
Accrued liabilities	(15,207)	174,431
Retirement plan contribution	62,899	54,636
Deferred assessments	-	505,752
Deferred rent	(42,727)	(30,949)
Postretirement medical benefit obligation	314,369	(617,118)
Net Cash Flows From Operating Activities	2,144,262	3,635,345
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, improvements and equipment and software	(238,276)	(601,590)
Net Cash Flows From Investing Activities	(238,276)	(601,590)
Net Change in Cash and Cash Equivalents	1,905,986	3,033,755
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF YEAR	7,237,467	4,203,712
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 9,143,453	\$ 7,237,467
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Equipment and software additions included in accounts payable	\$ -	\$ 8,326

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

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 Electric Reliability Corporation (NERC). 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 three technical organizational groups comprised of stakeholders: Security Advisory Council, Compliance Monitoring and Enforcement Program Advisory Council, and the Reliability Advisory Council. The Board of Directors has three committees: Finance and Audit Committee, Governance and Personnel Committee, and Organizational Group Oversight Committee.

In February 2018, the Organization amended its delegation agreement with NERC updating its geographical borders to include the reassignment of 93 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, net assets, support and revenue are classified 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:

Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. The Organization has no net assets with donor restrictions as of December 31, 2019 and 2018.

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 statements 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.

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, 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.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$18,758 and \$22,653 for the years ended December 31, 2019 and 2018, respectively.

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. The Organization is also exempt from state income taxes under applicable state 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, 2019 and 2018. The Organization's tax returns are subject to review and examination by federal and state authorities.

Revenue and Assessments

The Organization performs various services under its delegation agreement with NERC and similar agreements with other regulatory authorities to ensure compliance with mandatory reliability standards promulgated in the Energy Policy Act of 2005 (the Act) by entities who own, operate, or use the interconnected, international bulk power system. Services provided by the Organization consist of outreach and engagement, oversight and risk management, and measuring the reliability and performance of the bulk power system.

The Organization's assessment revenues are derived from NERC charges of all load-serving entities within the Organization's delegated geographical area. The assessments are based on the Organization's budgeted costs of operations, which are subject to review and approval by the Organization's board of directors, the NERC Board of Trustees, and the FERC. Once approved, the assessment is allocated to all load-serving entities within the Organization's delegated geographical area based on a net energy-to-load allocation formula prescribed under the Act in the United States, and similar arrangements in Saskatchewan and Manitoba. Since the services performed by the Organization constitute a continuous series of activities which are substantially the same, the Organization accounts for the services it performs under its delegation authority as a single performance obligation. Assessment revenues are therefore recognized over time on a straight-line basis. Assessments are billed and collected from load-serving entities by NERC. In turn, NERC remits assessments to the Organization on a quarterly basis.

Penalty sanctions are considered a form of variable consideration and are derived from the Organization's compliance and enforcement activities. Revenue resulting from penalty sanctions is recognized at the point in time when the regulatory body, FERC, has issued an order of settlement. Penalties are typically collected within 30 days of receipt of the order of settlement.

There are no sales or other taxes collected by the Organization concurrent with revenue-producing activities, and the Organization has no significant financing components contained in its delegation agreements with NERC or other regulatory authorities.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2020. 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.

New Accounting Pronouncements Adopted in Current Year

Due to the FASB's issuance of ASU No. 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*, the Organization changed its method of presenting the statements of cash flows. Prior to the issuance of ASU No. 2016-18, the Organization excluded restricted cash from the beginning and ending balances in the statements of cash flows. As required by ASU No. 2016-18, the Organization now presents the statements of cash flows including all restricted cash in the beginning and ending balances. The effects of the required retrospective application of this change in presentation on the Statement of Cash Flows for the year ended December 31, 2018 are increase net cash flows from investing activities by \$505,752 and increase beginning cash, cash equivalents, and restricted cash by \$174,361 and ending cash, cash equivalents, and restricted cash, by \$680,113.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position as of December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,985,734	\$ 6,557,354
Restricted cash	557,718	60,754
Restricted cash – non-current	<u>2,600,001</u>	<u>619,359</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 9,143,453</u>	<u>\$ 7,237,467</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization adopted ASU No. 2017-07 *Compensation: Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* during 2019. The amendments in this update require that a not-for-profit report the service cost component of net periodic pension costs and net periodic postretirement benefit costs in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside an intermediate measure of operations, if one is presented. As a result of implementing this ASU, \$874 was reclassified from retirement benefits expense to other components of net periodic pension cost on the statement of activities for the year ended December 31, 2018.

In May 2014, FASB issued ASU No. 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. The Organization adopted ASC 606 using the modified retrospective method applied to all contracts as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The cumulative effect of adoption of ASC 606 as of January 1, 2019 was \$680,113, which consists of the recognition of previously deferred assessments as of the date of adoption and is presented as an increase to net assets without donor restrictions on the statement of activities.

Subsequent Events

The Organization has evaluated subsequent events through April 2, 2020, which is the date that the financial statements were approved and available to be issued.

NOTE 2 - Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,985,734	\$ 6,557,354
Restricted cash - current	<u>557,718</u>	<u>60,754</u>
Total	<u>\$ 6,543,452</u>	<u>\$ 6,618,108</u>

The Organization's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 30 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The Organization also has an unsecured \$2 million line of credit. No funds have been drawn from this line since its inception.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 3 - 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 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 assessment revenues (exclusive of penalty sanctions revenue described previously) were \$15,471,669 and \$10,730,106 for the years ended December 31, 2019 and 2018, respectively, which agree with the amounts received from NERC. During the year ended December 31, 2018, the Organization also received under dissolution agreement of Southwest Power Pool, Inc. Regional Entity an additional \$4,695,686 in assessments for expansion of the Organization's geographical boundaries.

NOTE 4 - 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 for each of the years ended December 31, 2019 and 2018.

Future expected minimum lease payments under the lease as of December 31, 2019 are as follows:

Years Ending December 31	
2020	\$ 414,600
2021	426,971
2022	439,766
2023	452,900
2024	466,457
Thereafter	<u>399,645</u>
	<u>\$ 2,600,339</u>

NOTE 5 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Equipment	\$ 2,464,884	\$ 2,239,643
Furniture	681,498	681,498
Leasehold improvements	<u>981,030</u>	<u>976,320</u>
	4,127,412	3,897,461
Less: Accumulated depreciation	<u>(2,899,373)</u>	<u>(2,416,318)</u>
Net Property, Improvements and Equipment	<u>\$ 1,228,039</u>	<u>\$ 1,481,143</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 6 - 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, 2023. There were no outstanding balances at December 31, 2019 or 2018.

NOTE 7 - 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:

	2019	2018
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 1,818,971	\$ 2,374,584
Service cost	239,206	283,786
Interest cost	74,863	85,549
Actuarial loss (gain)	380,559*	(902,402)**
Benefits paid	(57,882)	(22,906)
Benefit obligation at end of year	2,455,717	1,818,971
 Change in plan assets		
Fair value of plan assets at beginning of year	1,355,567	1,294,062
Actual return on plan assets	234,536	(86,974)
Employer contribution	145,723	171,385
Benefits paid	(57,882)	(22,906)
Fair value of plan assets at end of year	1,677,944	1,355,567
 Unfunded status recognized as a noncurrent liability	\$ (777,773)	\$ (463,404)
 Weighted average assumptions used to calculate the benefit obligation-discount rate	3.21%	4.20%

* Primary sources of actuarial loss in 2019 are: 1) Unchanged post-65 monthly premiums (remains \$130.90 for 2019 and for 2020); 2) A decrease in discount rate from 4.20% as of December 31, 2018 to 3.21% as of December 31, 2019; 3) Partial offset by pre-65 monthly premium increases that were as expected (7% actual vs. 6% expected) and; 4) an increase in the number of active participants (from 47 as of December 31, 2018 to 51 as of December 31, 2019).

** Primary sources of actuarial gain in 2018 are a reduction in post-65 monthly premiums (from \$232.90 for 2018 to \$130.90 for 2019) and an increase in discount rate (from 3.63% as of December 31, 2017 to 4.20% as of December 31, 2018). Partially offset by pre-65 monthly premium increases which were greater than expected (14% actual vs. 6.4% expected) and an increase in the number of active participants (from 37 as of December 31, 2017 to 47 as of December 31, 2018).

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - RETIREMENT PLANS (Continued)

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

	2019	2018
Components of net periodic benefit cost		
Service cost	\$ 239,206	\$ 283,786
Interest cost	74,863	85,549
Expected return on plan assets	(76,554)	(74,904)
Amortization of prior service credit	(38,601)	(38,601)
Amortization of actuarial loss	-	28,830
Net periodic benefit cost	\$ 198,914	\$ 284,660

Weighted-average assumptions used to calculate the net periodic benefit cost

Discount rate	4.20%	3.63%
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 Pri-2012 headcount weighted mortality tables issued by the Society of Actuaries in October 2019 under scale MP-2019 during the year ended December 31, 2019. The mortality assumptions for the plan were based on RP-2006 mortality tables under MP-2018 during the year ended December 31, 2018.

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:

	2019	2018
Health care cost trend rate assumed for next year	6.0%	6.2%
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	\$ 81,638	\$ (61,382)
Effect on postretirement benefit obligation	522,446	(399,375)

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - RETIREMENT PLANS (Continued)

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

	2019	2018
Actuarial loss (gain) arising during the year	\$ 222,577	\$ (768,994)
Amortization of prior year service cost	38,601	38,601
	\$ 261,178	\$ (730,393)

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:

	2019	2018
Equity Securities	53%	50%
Debt Securities	46%	45%
Other	1%	5%

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

	2019	2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category		
Cash equivalents	\$ 19,439	\$ 61,448
Mutual funds-bonds	763,806	610,494
Mutual funds-equities	894,699	683,625
	\$ 1,677,944	\$ 1,355,567

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.

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2019 and 2018.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 7 - RETIREMENT PLANS (Continued)

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, 2019 are as follows:

Years Ending December 31	
2020	\$ 88,410
2021	76,139
2022	62,504
2023	79,842
2024	97,004
2025 - 2028	475,346

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 \$143,033 to the plan in 2020.

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 \$391,652 and \$309,180 of employee deferrals as of December 31, 2019 and 2018, respectively. In addition, the Organization elected to make employer contributions in the amounts of \$581,116 and \$534,897 for the years ended December 31, 2019 and 2018, respectively.

As noted above, the Organization maintains a thrift savings plan and discretionary age-weighted contributions may be made by MRO. MRO also has a 457B plan. The 457B plan is approved by the President and CEO, as well as the Organization's Board of Directors. To the extent the discretionary age-weighted contribution is in excess of the IRS limitations as specified by the 457B plan, and the employee is an eligible participant in the 457B plan, the excess discretionary age-weighted contribution is credited in the 457B plan. For eligible participants, MRO contributed a total non-elective amount to the 457B plan of \$56,055 and \$60,955 for the years ended December 31, 2019 and 2018, respectively.

The Organization also has a 457F plan. To the extent the discretionary age-weighted contribution is in excess of the IRS limitations as specified by the 457F plan, and the employee is an eligible participant in the 457F plan, the excess discretionary age-weighted contribution is credited in the 457F plan. The Organization contributed in the amounts of \$21,588 and \$0, for the years ended December 31, 2019 and 2018, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2018

NOTE 8 - FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to the Organization's program and supporting functions and thus require allocation. Expenses relating to building rent and facilities and depreciation have been allocated based on square footage estimates relating to office space used for program purposes versus office space used for supporting functions. Salaries, payroll taxes and employee benefits expense allocations are based on estimates of time and effort of the related employees. Additionally, information technology, meeting expenses and office costs have been allocated based on employee productivity estimates used from data in the Organization's time reporting system. Total functional expenses for the years ended December 31, 2019 and 2018 are as follows:

<u>Description</u>	2019		
	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 6,714,509	\$ 977,806	\$ 7,692,315
Payroll taxes and employee benefits	2,337,125	340,479	2,677,604
Meetings and travel	406,230	128,235	534,465
Building rent and facilities	610,617	140,320	750,937
Consulting	605,476	227,618	833,094
Office costs	429,442	135,561	565,003
Professional services	420,120	176,051	596,171
Depreciation and amortization	408,541	93,884	502,425
	\$ 11,932,060	\$ 2,219,954	\$ 14,152,014

<u>Description</u>	2018		
	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 6,341,214	\$ 1,271,838	\$ 7,613,052
Payroll taxes and employee benefits	1,974,485	404,412	2,378,897
Meetings and travel	358,286	114,759	473,045
Building rent and facilities	603,334	138,647	741,981
Consulting	534,389	240,598	774,987
Office costs	389,730	124,830	514,560
Professional services	314,888	160,084	474,972
Depreciation and amortization	450,516	103,529	554,045
	\$ 10,966,842	\$ 2,558,697	\$ 13,525,539

ATTACHMENT 3

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

NORTHEAST POWER COORDINATING COUNCIL, INC.



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

May 1, 2020

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

Subject: NPCC 2019 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2019 Financial Statements

Dear Andy:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2019 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 19, 2020 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 93/7 split for 2019 based upon direct program area FTEs. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC reports interest and investment 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 2019 were \$14,628,082 which is \$1,175,810 or 7.4% under the 2019 operating budget of \$15,803,893. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2019 were \$887,880 which is \$220,694 or 19.9% under the 2019 operating budget of \$1,108,574. In the aggregate, actual total expenses and fixed asset expenditures for the NPCC RE and CS divisions were \$15,515,962 which is \$1,396,503 or 8.3% under the 2019 total corporate expense budget of \$16,912,465. 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 reported using the template provided by NERC which presents actual and budgeted costs in a 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 2019 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
Director, 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.
2019 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2019	2019 Budget	2019 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	15,003,411	15,003,411	-
Penalty Sanctions	-	-	-
Total ERO Funding	15,003,411	15,003,411	-
Federal Grants	-	-	-
Non-Statutory Assessments	1,058,866	1,058,866	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	74,790	67,500	7,290
Interest & Investment Income	85,137	-	85,137
Miscellaneous	-	-	-
Total Funding (A)	16,222,205	16,129,777	92,427
Expenses			
Personnel Expenses			
Salaries	7,078,535	7,704,219	(625,684)
Payroll Taxes	526,927	473,690	53,237
Employee Benefits	1,623,904	1,715,858	(91,954)
Savings & Retirement	771,155	896,693	(125,537)
Total Personnel Expenses	10,000,521	10,790,459	(789,937)
Meeting Expenses			
Meetings	357,860	375,750	(17,890)
Travel	701,750	902,700	(200,950)
Conference Calls	24,904	36,000	(11,096)
Total Meeting Expenses	1,084,514	1,314,450	(229,936)
Operating Expenses			
Consultants & Contracts	1,783,354	2,077,510	(294,156)
Rent & Improvements	831,734	820,700	11,034
Office Costs	648,764	676,347	(27,583)
Professional Services	977,203	978,000	(797)
Miscellaneous	40,465	55,000	(14,535)
Depreciation	227,805	269,000	(41,195)
Total Operating Expenses	4,509,325	4,876,557	(367,232)
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	15,594,360	16,981,466	(1,387,105)
Change in Assets (A - B)	627,845	(851,689)	1,479,532
Fixed Assets			
Depreciation	(227,805)	(269,000)	41,195
Computer & Software CapEx	92,608	200,000	(107,392)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	56,799	-	56,799
Leasehold Improvements	-	-	-
Incr(Dec) in Fixed Assets	(78,398)	(69,000)	(9,398)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(78,398)	(69,001)	(9,397)
TOTAL BUDGET (B + C)	15,515,962	16,912,465	(1,396,503)
Change in Working Capital (A-B-C)	706,242	(782,688)	1,488,929
FTE's	37.17	41.00	(3.83)

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

TOTAL STATUTORY	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	15,003,411	15,003,411	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	15,003,411	15,003,411	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	74,790	67,500	7,290	
Interest & Investment Income	79,441	-	79,441	
Miscellaneous	-	-	-	
Total Funding (A)	15,157,642	15,070,911	86,731	0.58%
Expenses				
Personnel Expenses				
Salaries	6,756,406	7,332,280	(575,874)	-7.85%
Payroll Taxes	502,179	449,994	52,185	11.60%
Employee Benefits	1,570,351	1,613,078	(42,727)	-2.65%
Savings & Retirement	742,663	853,512	(110,848)	-12.99%
Total Personnel Expenses	9,571,599	10,248,864	(677,263)	-6.61%
Meeting Expenses				
Meetings	356,111	370,750	(14,639)	-3.95%
Travel	678,169	845,900	(167,731)	-19.83%
Conference Calls	24,904	36,000	(11,096)	-30.82%
Total Meeting Expenses	1,059,184	1,252,650	(193,466)	-15.44%
Operating Expenses				
Consultants & Contracts	1,782,766	2,022,150	(239,384)	-11.84%
Rent & Improvements	831,734	820,700	11,034	1.34%
Office Costs	648,357	676,347	(27,990)	-4.14%
Professional Services	977,203	978,000	(797)	-0.08%
Miscellaneous	40,243	51,000	(10,757)	-21.09%
Depreciation	218,170	255,000	(36,830)	-14.44%
Total Operating Expenses	4,498,473	4,803,197	(304,724)	-6.34%
Indirect Expenses	(425,619)	(415,818)	(9,802)	2.36%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	14,703,637	15,888,893	(1,185,255)	-7.46%
Change in Assets (A - B)	454,005	(817,982)	1,271,986	-155.50%
Fixed Assets				
Depreciation	(218,170)	(255,000)	36,830	-14.44%
Computer & Software CapEx	88,437	170,000	(81,563)	-47.98%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	54,178	-	54,178	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(75,555)	(85,000)	9,445	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(75,555)	(85,001)	9,445	-11.11%
TOTAL BUDGET (B + C)	14,628,082	15,803,893	(1,175,810)	-7.44%
Change in Working Capital (A-B-C)	529,560	(732,981)	1,262,541	-172.25%
FTE's	35.03	38.86	(3.83)	-9.86%

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

NON-STATUTORY	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	1,058,866	1,058,866	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	5,696	-	5,696	
Miscellaneous	-	-	-	
Total Funding (A)	1,064,562	1,058,866	5,696	0.54%
Expenses				
Personnel Expenses				
Salaries	322,129	371,938	(49,809)	-13.39%
Payroll Taxes	24,748	23,696	1,052	4.44%
Employee Benefits	53,553	102,779	(49,226)	-47.90%
Savings & Retirement	28,492	43,182	(14,690)	-34.02%
Total Personnel Expenses	428,922	541,596	(112,674)	-20.80%
Meeting Expenses				
Meetings	1,749	5,000	(3,251)	-65.02%
Travel	23,581	56,800	(33,219)	-58.48%
Conference Calls	-	-	-	
Total Meeting Expenses	25,330	61,800	(36,470)	-59.01%
Operating Expenses				
Consultants & Contracts	588	55,360	(54,772)	-98.94%
Rent & Improvements	-	-	-	
Office Costs	407	-	407	
Professional Services	-	-	-	
Miscellaneous	222	4,000	(3,778)	-94.45%
Depreciation	9,635	14,000	(4,365)	-31.18%
Total Operating Expenses	10,852	73,360	(62,508)	-85.21%
Indirect Expenses	425,619	415,818	9,801	2.36%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	890,723	1,092,574	(201,851)	-18.47%
Change in Assets (A - B)	173,839	(33,707)	207,547	-615.73%
Fixed Assets				
Depreciation	(9,635)	(14,000)	4,365	-31.18%
Computer & Software CapEx	4,171	30,000	(25,829)	-86.10%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	2,621	-	2,621	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(2,843)	16,000	(18,843)	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(2,843)	16,000	(18,843)	-117.77%
TOTAL BUDGET (B + C)	887,880	1,108,574	(220,694)	-19.91%
Change in Working Capital (A-B-C)	176,683	(49,707)	226,390	-455.45%
FTE's	2.14	2.14	-	0.00%

TOTAL STATUTORY

Personnel Expenses

Multiple positions were open over varying periods throughout the year and resulted in lower than budgeted personnel expenses including salaries, benefits and savings & retirement. Staff was reallocated during the year to continue to meet NPCC's Regional Delegation Agreement (RDA) responsibilities. Despite not being fully staffed, NPCC performed all of its 2019 delegated responsibilities as outlined in the RDA as well as exceeding target attainment of its corporate goals and objectives for the calendar year. Payroll taxes were over budget due to additional tax recorded in 2019 related to variable incentive payments earned in 2019 and paid in early 2020.

Meeting Expenses

Efforts to hold more meetings onsite, at member facilities or to conduct webinars, where effective for NPCC registered entities, will continue. Additionally, NPCC continues to limit the number of attendees sent to off-site meetings when appropriate and encourages participation via webinar and teleconference when available. Staff vacancies also resulted in lower than budgeted travel expenses for the year. Conference calls expense is underbudget based on ERO group pricing rate.

Consultants and Contracts

Consultants and contracts expenses were under budget primarily in the areas of Situation Awareness and Infrastructure Security (SAIS) and Reliability Assessments and Performance Analysis (RAPA) where consulting support was utilized less than projected. Increased staff efforts enabled NPCC to perform all of its responsibilities in these program areas despite the underspend.

Depreciation

Under budget variance resulting from assets placed in service being less than projected.

Fixed Assets

Under budget variance is due to the timing of scheduled software development projects, which include website enhancements and the continued refinement of document management software and processes. Equipment capital expenditures include hardware related to CRISP implementation.

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.
2019 Statement of Activities Summary

RELIABILITY STANDARDS	2019	2019	2019 Variance	
	Actual	Budget	from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	1,035,390	1,035,390	-	0.00%
Penalty Sanctions	-	-	-	-
Total ERO Funding	<u>1,035,390</u>	<u>1,035,390</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	-
Non-Statutory Assessments	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest & Investment Income	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	<u>1,035,390</u>	<u>1,035,390</u>	<u>-</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	404,754	382,872	21,882	5.72%
Payroll Taxes	30,235	22,735	7,500	32.99%
Employee Benefits	112,097	106,764	5,333	5.00%
Savings & Retirement	40,906	41,599	(693)	-1.67%
Total Personnel Expenses	<u>587,992</u>	<u>553,970</u>	<u>34,022</u>	<u>6.14%</u>
Meeting Expenses				
Meetings	3,152	7,000	(3,848)	-54.97%
Travel	69,336	94,900	(25,564)	-26.94%
Conference Calls	-	-	-	-
Total Meeting Expenses	<u>72,488</u>	<u>101,900</u>	<u>(29,412)</u>	<u>-28.86%</u>
Operating Expenses				
Consultants & Contracts	3,769	10,000	(6,231)	-62.31%
Rent & Improvements	-	-	-	-
Office Costs	1,205	-	1,205	-
Professional Services	-	-	-	-
Miscellaneous	117	-	117	-
Depreciation	-	-	-	-
Total Operating Expenses	<u>5,091</u>	<u>10,000</u>	<u>(4,909)</u>	<u>-49.09%</u>
Indirect Expenses	<u>399,747</u>	<u>375,014</u>	<u>24,734</u>	<u>6.60%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses (B)	<u>1,065,318</u>	<u>1,040,884</u>	<u>24,435</u>	<u>2.35%</u>
Change in Assets (A - B)	<u>(29,929)</u>	<u>(5,494)</u>	<u>(24,435)</u>	<u>444.75%</u>
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allocation of Fixed Assets	(5,549)	(5,494)	(55)	1.00%
Total Inc(Dec) in Fixed Assets (C)	<u>(5,549)</u>	<u>(5,494)</u>	<u>(55)</u>	<u>1.00%</u>
TOTAL BUDGET (B + C)	<u>1,059,770</u>	<u>1,035,390</u>	<u>24,380</u>	<u>2.35%</u>
Change in Working Capital (A-B-C)	<u>(24,380)</u>	<u>-</u>	<u>(24,380)</u>	<u>-</u>
FTE's	<u>1.93</u>	<u>1.93</u>	<u>-</u>	<u>0.00%</u>

RELIABILITY STANDARDS

Meeting Expenses

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

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

**COMPLIANCE ENFORCEMENT and ORGANIZATION
REGISTRATION**

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	8,183,815	8,183,815	-	0.00%
Penalty Sanctions	-	-	-	-
Total ERO Funding	8,183,815	8,183,815	-	0.00%
Federal Grants	-	-	-	-
Non-Statutory Assessments	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest & Investment Income	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	8,183,815	8,183,815	-	0.00%
Expenses				
Personnel Expenses				
Salaries	2,490,524	2,815,882	(325,358)	-11.55%
Payroll Taxes	186,949	191,849	(4,900)	-2.55%
Employee Benefits	631,897	585,543	46,354	7.92%
Savings & Retirement	261,163	301,025	(39,862)	-13.24%
Total Personnel Expenses	3,570,533	3,894,299	(323,766)	-8.31%
Meeting Expenses				
Meetings	3,530	15,000	(11,470)	-76.47%
Travel	217,284	295,400	(78,116)	-26.44%
Conference Calls	-	-	-	-
Total Meeting Expenses	220,814	310,400	(89,586)	-28.86%
Operating Expenses				
Consultants & Contracts	1,318,822	1,357,150	(38,328)	-2.82%
Rent & Improvements	-	-	-	-
Office Costs	7,044	-	7,044	-
Professional Services	-	-	-	-
Miscellaneous	1,374	-	1,374	-
Depreciation	-	-	-	-
Total Operating Expenses	1,327,240	1,357,150	(29,910)	-2.20%
Indirect Expenses	3,276,452	3,303,230	(26,778)	-0.81%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	8,395,039	8,865,080	(470,041)	-5.30%
Change in Assets (A - B)	(211,224)	(681,264)	470,041	-69.00%
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Incr(Dec) in Fixed Assets	-	-	-	-
Allocation of Fixed Assets	(43,125)	(48,392)	5,267	-10.88%
Total Inc(Dec) in Fixed Assets (C)	(43,125)	(48,392)	5,267	-10.88%
TOTAL BUDGET (B + C)	8,351,914	8,816,688	(464,773)	-5.27%
Change in Working Capital (A-B-C)	(168,099)	(632,872)	464,773	-73.44%
FTE's	15.00	17.00	(2.00)	-11.76%

COMPLIANCE ENFORCEMENT and ORGANIZATION REGISTRATION

Total Expenses

Despite the under budget variance in total expenses, NPCC's Compliance Enforcement and Organization Registration program area performed all of its 2019 delegated responsibilities as well as exceeding target attainment of its goals and objectives, including:

- Conducted 26 off-site Operations & Planning (O&P) audits, 5 on-site O&P audits, 1 off-site O&P spot checks, 8 on-site CIP audits, and 24 off-site CIP self-certifications;
- Participated on 3 MRRE audits;
- Performed 35 Inherent Risk Assessments (IRA);
- Developed 27 Compliance Oversight Plans (COP);
- Performed 16 Evaluation of Internal Controls (EIC) (11 O&P, 5 CIP);
- Processed 12 new Technical Feasibility Exception (TFE) submittals from five registered entities and 15 Material Change Reports (MCR);
- Closed 179 Violations;
- Accepted 253 Mitigation Activities;
- Processed 5 new entity registrations, 9 entity delistings, 9 function deactivations, 10 registered entity name changes, 2 added functions, and 3 certification reviews.

Personnel Expenses

Two vacancies during the year resulted in lower salary expense and associated incentive compensation expenses. Employee benefits were over budget as a result of more employees enrolling in NPCC's medical plan and/or electing family coverage rather than retaining insurance from a prior employer and/or at a single or couple rate as many had in past years.

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 vacancies in this program.

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 than budgeted in this program for the year.

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	3,332,686	3,332,686	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	<u>3,332,686</u>	<u>3,332,686</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>3,332,686</u>	<u>3,332,686</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	1,081,347	1,135,264	(53,917)	-4.75%
Payroll Taxes	79,144	69,027	10,117	14.66%
Employee Benefits	265,756	219,655	46,101	20.99%
Savings & Retirement	114,929	123,322	(8,393)	-6.81%
Total Personnel Expenses	<u>1,541,176</u>	<u>1,547,268</u>	(6,092)	-0.39%
Meeting Expenses				
Meetings	15,072	23,000	(7,928)	-34.47%
Travel	172,772	216,200	(43,428)	-20.09%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>187,844</u>	<u>239,200</u>	(51,356)	-21.47%
Operating Expenses				
Consultants & Contracts	354,991	430,000	(75,009)	-17.44%
Rent & Improvements	-	-	-	
Office Costs	4,336	-	4,336	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>359,327</u>	<u>430,000</u>	(70,673)	-16.44%
Indirect Expenses	<u>1,202,212</u>	<u>1,132,814</u>	69,398	6.13%
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>3,290,559</u>	<u>3,349,282</u>	(58,723)	-1.75%
Change in Assets (A - B)	<u>42,127</u>	<u>(16,596)</u>	58,723	-353.84%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	(17,049)	(16,596)	(453)	2.73%
Total Inc(Dec) in Fixed Assets (C)	<u>(17,049)</u>	<u>(16,596)</u>	(453)	2.73%
TOTAL BUDGET (B + C)	<u>3,273,510</u>	<u>3,332,686</u>	(59,176)	-1.78%
Change in Working Capital (A-B-C)	<u>59,176</u>	<u>-</u>	59,176	
FTE's	<u>5.93</u>	<u>5.83</u>	<u>0.10</u>	<u>1.72%</u>

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

Personnel Expenses

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

Meeting Expenses

NPCC continues to limit the number of attendees sent to off-site meetings when appropriate and encourages participation via webinar and teleconference when available.

Consultants and Contracts

Consulting support was utilized less than projected. Increased staff efforts enabled NPCC to perform all of its responsibilities in this program area despite the underspend.

Office Costs

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

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	184,943	184,943	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	184,943	184,943	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	74,790	67,500	7,290	10.80%
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	259,733	252,443	7,290	2.89%
Expenses				
Personnel Expenses				
Salaries	19,688	18,600	1,088	5.85%
Payroll Taxes	1,505	1,513	(8)	-0.53%
Employee Benefits	4,039	6,805	(2,766)	-40.65%
Savings & Retirement	2,756	2,379	377	15.86%
Total Personnel Expenses	27,988	29,297	(1,309)	-4.47%
Meeting Expenses				
Meetings	136,261	189,000	(52,739)	-27.90%
Travel	2,889	15,000	(12,111)	-80.74%
Conference Calls	-	-	-	
Total Meeting Expenses	139,150	204,000	(64,850)	-31.79%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	21	-	21	
Professional Services	-	-	-	
Miscellaneous	4,002	-	4,002	
Depreciation	-	-	-	
Total Operating Expenses	4,023	-	4,023	
Indirect Expenses	15,560	19,431	(3,871)	-19.92%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	186,721	252,728	(66,007)	-26.12%
Change in Assets (A - B)	73,012	(285)	73,297	-25748.65%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(287)	(285)	(3)	1.00%
Total Inc(Dec) in Fixed Assets (C)	(287)	(285)	(3)	1.00%
TOTAL BUDGET (B + C)	186,434	252,443	(66,009)	-26.15%
Change in Working Capital (A-B-C)	73,299	-	73,299	
FTE's	0.10	0.10	-	0.00%

TRAINING, EDUCATION and OPERATOR CERTIFICATION

Meeting expenses

Cost savings resulted from streamlining NPCC Spring and Fall Compliance and Standards Workshops from a three-day format to a two-day format. Efforts to hold more meetings onsite, at member facilities or to conduct webinars, where effective for NPCC registered entities, will continue.

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	2,366,685	2,366,685	-	0.00%
Penalty Sanctions	-			
Total ERO Funding	<u>2,366,685</u>	<u>2,366,685</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>2,366,685</u>	<u>2,366,685</u>	<u>-</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	654,387	832,408	(178,021)	-21.39%
Payroll Taxes	53,070	57,432	(4,362)	-7.59%
Employee Benefits	143,833	201,196	(57,363)	-28.51%
Savings & Retirement	60,955	89,043	(28,088)	-31.54%
Total Personnel Expenses	<u>912,245</u>	<u>1,180,079</u>	<u>(267,834)</u>	<u>-22.70%</u>
Meeting Expenses				
Meetings	3,438	10,000	(6,562)	-65.62%
Travel	111,696	89,300	22,396	25.08%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>115,134</u>	<u>99,300</u>	<u>15,834</u>	<u>15.95%</u>
Operating Expenses				
Consultants & Contracts	30,000	130,000	(100,000)	-76.92%
Rent & Improvements	-	-	-	
Office Costs	13,594	-	13,594	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>43,594</u>	<u>130,000</u>	<u>(86,406)</u>	<u>-66.47%</u>
Indirect Expenses	<u>695,020</u>	<u>971,538</u>	<u>(276,518)</u>	<u>-28.46%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>1,765,993</u>	<u>2,380,918</u>	<u>(614,924)</u>	<u>-25.83%</u>
Change in Assets (A - B)	<u>600,691</u>	<u>(14,233)</u>	<u>614,924</u>	<u>-4320.39%</u>
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	(9,545)	(14,233)	4,688	-32.94%
Total Inc(Dec) in Fixed Assets (C)	<u>(9,545)</u>	<u>(14,233)</u>	<u>4,688</u>	<u>-32.94%</u>
TOTAL BUDGET (B + C)	<u>1,756,448</u>	<u>2,366,685</u>	<u>(610,236)</u>	<u>-25.78%</u>
Change in Working Capital (A-B-C)	<u>610,236</u>	<u>-</u>	<u>610,236</u>	
FTE's	3.32	5.00	(1.68)	-33.60%

SITUATION AWARENESS and INFRASTRUCTURE SECURITY

Personnel

Staff vacancies during the year resulted in lower than budgeted personnel expenses in this program area.

Travel

Cross-training of staff in this program area resulted in higher than budgeted travel expenses for the year.

Consultants and Contracts

Consulting support was utilized less than projected. Increased staff efforts enabled NPCC to perform all of its responsibilities in this program area despite the underspend.

Office Costs

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

Northeast Power Coordinating Council, Inc.
2019 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(100,108)	(100,108)	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	(100,108)	(100,108)	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	79,441	-	79,441	
Miscellaneous	-	-	-	
Total Funding (A)	(20,667)	(100,108)	79,441	-79.36%
Expenses				
Personnel Expenses				
Salaries	2,105,706	2,147,254	(41,548)	-1.93%
Payroll Taxes	151,276	107,437	43,839	40.80%
Employee Benefits	412,729	493,115	(80,386)	-16.30%
Savings & Retirement	261,954	296,142	(34,188)	-11.54%
Total Personnel Expenses	2,931,665	3,043,948	(112,283)	-3.69%
Meeting Expenses				
Meetings	194,658	126,750	67,908	53.58%
Travel	104,192	135,100	(30,908)	-22.88%
Conference Calls	24,904	36,000	(11,096)	-30.82%
Total Meeting Expenses	323,754	297,850	25,904	8.70%
Operating Expenses				
Consultants & Contracts	75,184	95,000	(19,816)	-20.86%
Rent & Improvements	831,734	820,700	11,034	1.34%
Office Costs	622,157	676,347	(54,190)	-8.01%
Professional Services	977,203	978,000	(797)	-0.08%
Miscellaneous	34,750	51,000	(16,250)	-31.86%
Depreciation	218,170	255,000	(36,830)	-14.44%
Total Operating Expenses	2,759,198	2,876,047	(116,849)	-4.06%
Indirect Expenses	(6,014,611)	(6,217,845)	203,234	-3.27%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	(20,667)	(100,108)	79,441	-79.36%
Fixed Assets				
Depreciation	(218,170)	(255,000)	36,830	-14.44%
Computer & Software CapEx	88,437	170,000	(81,563)	-47.98%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	54,178	-	54,178	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(75,555)	(85,000)	9,445	
Allocation of Fixed Assets	75,555	85,000	(9,445)	-11.11%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	(20,667)	(100,108)	79,441	-79.36%
FTE's	8.75	9.00	(0.25)	-2.78%

ADMINISTRATIVE SERVICES

Interest & Investment Income

NPCC accounts for but has not budgeted for interest & investment income as returns in recent years have been low. The transfer of operating reserves into a 100% U.S. Treasury Securities fund during 2019 has resulted in higher returns. Accordingly, NPCC budgeted for investment income beginning in 2020.

Personnel

Payroll taxes were over budget due to additional tax recorded in 2019 related to variable incentive payments earned in 2019 and paid in early 2020. Payroll tax accruals have been adjusted for 2020. In the benefits area, medical insurance coverage elections varied from assumptions which were budgeted in this program area, resulting in lower expense than budgeted.

Meeting Expenses

Meeting expenses were overbudget due to costs at the locations of planned meetings varying above the average meeting costs. 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. Conference calls expense is underbudget based on ERO group pricing rate.

Consultants and Contracts

Lower than budgeted expense related to a limited compensation study conducted this year.

Depreciation

Under budget variance resulting from assets placed in service being less than projected.

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

Under budget variance is due to the timing of scheduled software development projects, which include website enhancements and the continued refinement of document management software and processes. Equipment capital expenditures include hardware related to CRISP implementation.

NPCC

Penalty Sanctions

Date Invoiced	Date Received	Entity	Penalty Amount	Year to Recognize for Business Plan & Budget												
				2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
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	<u>\$ 212,000.00</u>													
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	<u>\$ 170,500.00</u>													
2/20/2015	3/5/2015		\$ 10,000.00							\$ 10,000.00						
		Subtotal - 2015	<u>\$ 10,000.00</u>													
12/12/2016	12/16/2016		\$ 75,000.00									\$ 75,000.00				
		Subtotal - 2016	<u>\$ 75,000.00</u>													
			\$ -													
		Subtotal - 2017	<u>\$ -</u>													
7/2/2018	7/16/2018		\$ 120,000.00											\$ 120,000.00		
		Subtotal - 2018	<u>\$ 120,000.00</u>													
9/3/2019	9/16/2019		\$ 50,000.00													\$ 50,000.00
9/3/2019	9/10/2019		\$ 20,000.00													\$ 20,000.00
12/11/2019	12/24/2019		\$ 84,000.00													\$ 84,000.00
		Subtotal - 2019	<u>\$ 154,000.00</u>													
			<u>\$ 2,079,300.00</u>	<u>\$ 308,500.00</u>	<u>\$ 614,000.00</u>	<u>\$ 297,300.00</u>	<u>\$ 153,000.00</u>	<u>\$ 290,500.00</u>	<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 75,000.00</u>	<u>\$ -</u>	<u>\$ 120,000.00</u>	<u>\$ 154,000.00</u>		

2019 Penalties Reconciliation	12/31/2019	12/31/2018	Change in 2019
Total Cumulative Penalties - GAAP/PWC Audit	\$ 2,079,300.00	\$ 1,925,300.00	\$ 154,000.00
Total Cumulative Penalties - True Up Report/BP&B	1,925,300.00	1,805,300.00	120,000.00
NERC Unrecognized Penalties¹	\$ 154,000.00	\$ 120,000.00	\$ 34,000.00

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, 2019 and 2018**

Northeast Power Coordinating Council, Inc.
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December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors and the Members of Northeast Power Coordinating Council, Inc.

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc., which comprise the Statements of Financial Position as of December 31, 2019 and December 31, 2018, and the related Statements of Activities and Statements of Cash Flows and 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. as of December 31, 2019 and 2018, its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

New York, New York

March 19, 2020

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash	\$ 4,623,803	\$ 6,912,908
Restricted cash	424,223	270,293
Investments	4,723,922	1,840,294
Prepaid expenses	457,033	244,237
Other assets	332,834	247,216
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$2,502,121 and \$2,274,315, respectively	<u>532,843</u>	<u>611,242</u>
Total assets	<u>\$ 11,094,658</u>	<u>\$ 10,126,190</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 2,875,131	\$ 2,817,673
Deferred revenue	724,702	509,901
Deferred rent	<u>440,431</u>	<u>526,061</u>
Total liabilities	<u>4,040,264</u>	<u>3,853,635</u>
Net assets		
Without donor restrictions:		
Available for operations	6,054,394	5,272,555
Board designated for future use	<u>1,000,000</u>	<u>1,000,000</u>
Total without donor restrictions	<u>7,054,394</u>	<u>6,272,555</u>
Total net assets	<u>7,054,394</u>	<u>6,272,555</u>
Total liabilities and net assets	<u>\$ 11,094,658</u>	<u>\$ 10,126,190</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
<u>Operating</u>		
Revenue		
Criteria Services assessments	\$ 1,058,867	\$ 1,019,141
Regional Entity assessments	15,003,411	14,341,787
Penalty sanctions	154,000	120,000
Workshops	74,790	63,449
Total revenue	<u>16,291,068</u>	<u>15,544,377</u>
Expenses		
Salaries and employee benefits	9,973,202	9,903,451
Administrative and consultant fees	2,131,148	2,500,876
Professional fees	612,678	574,705
Meetings and travel	1,059,610	954,993
Telephone and telecommunications	174,946	197,547
Office supplies and expense	557,490	482,542
Equipment leases	141,701	115,764
Rent expense	631,269	625,013
Insurance expense	44,051	63,704
Miscellaneous	40,465	49,604
Depreciation and amortization	227,806	265,531
Total expenses	<u>15,594,366</u>	<u>15,733,730</u>
Change in net assets from operating activities without donor restrictions	696,702	(189,353)
<u>Non-operating</u>		
Interest and dividend income	<u>85,137</u>	<u>28,777</u>
Change in net assets without donor restrictions	781,839	(160,576)
Net assets		
Beginning of year	<u>6,272,555</u>	<u>6,433,131</u>
End of year	<u>\$ 7,054,394</u>	<u>\$ 6,272,555</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 781,839	\$ (160,576)
Depreciation and amortization	227,806	265,531
(Increase) decrease in prepaid expenses	(212,796)	54,017
(Increase) in other assets	(85,618)	(31,804)
Increase in accrued expenses and other liabilities	57,458	175,825
Increase (decrease) in deferred revenue	214,801	(174,325)
(Decrease) in deferred rent	(85,630)	(53,644)
Net cash provided by operating activities	<u>897,860</u>	<u>75,024</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(149,407)	(71,179)
Purchases of investments	(2,883,628)	(23,416)
Net cash (used for) investing activities	<u>(3,033,035)</u>	<u>(94,595)</u>
Net (decrease) in cash and restricted cash	(2,135,175)	(19,571)
Cash and restricted cash		
Beginning of year	<u>7,183,201</u>	<u>7,202,772</u>
End of year	<u>\$ 5,048,026</u>	<u>\$ 7,183,201</u>
Reconciliation of cash and restricted cash reported in the statement of financial position		
Cash	\$ 4,623,803	\$ 6,912,908
Restricted cash	<u>424,223</u>	<u>270,293</u>
Total cash and restricted cash	<u>\$ 5,048,026</u>	<u>\$ 7,183,201</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

1. Background

Northeast Power Coordinating Council, Inc. (“NPCC” or the “Company”) is a New York State not-for-profit corporation whose purpose is to promote and enhance the reliable and efficient operation of the international, interconnected bulk power system in Northeastern North America through its Regional Entity and Criteria Services divisions. The Company’s Regional Entity division is responsible for the development of regional reliability standards and compliance assessment and enforcement of continent-wide and regional reliability standards, coordination of system planning, design and operations, and assessment of reliability. These responsibilities are pursuant to an agreement with the North American Electric Reliability Corporation (“NERC”), an Electric Reliability Organization (“ERO”), under authority of the U.S. Federal Energy Regulatory Commission (“FERC”), and by Memoranda of Understanding with applicable Canadian Provincial regulatory and/or governmental authorities. The Company’s Criteria Services division establishes Regionally-specific criteria, and monitors and enforces compliance with such criteria. In the development of Regionally-specific reliability criteria, the Company, to the extent possible, facilitates attainment of fair, effective and efficient competitive electric markets.

The Company is primarily funded through the NERC based on the Regional Entity division annual business plan and budget submitted to and approved by the FERC and Canadian provincial regulatory and/or governmental authorities. The Company’s Criteria Services division is funded by Regional independent system operators or balancing authority areas based upon a “Net Energy for Load” formula.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

maintained in perpetuity. NPCC did not have any net assets with donor restrictions at December 31, 2019 and December 31, 2018.

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

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

ASU 2014-09 was to be effective starting with 2019, but NPCC early adopted ASU 2014-09 effective January 1, 2018.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, to address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires restricted cash or restricted cash equivalents to be included in the beginning-of-period total amounts on the statement of cash flows. The Company adopted the new guidance retrospectively as of January 1, 2018. As a result, the beginning-of-period amount reported on the statement of cash flows increased by \$225,143 to include amounts previously reported as restricted cash. The adoption of this ASU did not affect "change in net assets" or "net assets" as previously reported.

In February 2016, the FASB issued ASU 2016-02, *(Topic 842): Leases*, which establishes a right of use model ("ROU") that requires a lessee to record a ROU asset and a lease liability 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 income statement. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risks and rewards or control, then the lease would be classified as an operating lease. The new standard requires a modified retrospective approach to adoption. The Company is currently evaluating the impact Topic 842 will have on its financial statements. The new standard is effective for annual periods beginning after December 15, 2020.

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.

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

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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 remaining 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. Criteria Services assessments collected prior to the membership year are recorded as deferred revenue. For the Regional Entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Regional Entity assessments received are recorded as income in the year to which they were applied within the NPCC Business Plan and Budget irrespective of when billed or collected. The Company recognizes revenue as the performance obligations for Criteria Services and Regional Entity are satisfied throughout a membership year. The amount of revenue recognized reflects the consideration the Company expects to receive from members in connection with the Company's activities. The Company uses the input method to recognize revenue on the basis of the Company's efforts to satisfy the performance obligations evenly throughout the membership year. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

Rent Expense

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the 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, 2019 and 2018 was approximately \$156,000 and \$192,000, respectively.

Income Taxes

The Company has been classified as exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code. The Company was subject to an unrelated business income tax on transportation benefits starting January 1, 2018. On December 20, 2019, the tax on transportation benefits provided by nonprofit employers to their employees was repealed retroactively. The Company will file for refunds of taxes paid for years 2018 and 2019 totaling approximately \$32,000.

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

Use of Estimates

The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those

Northeast Power Coordinating Council, Inc.
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estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

Reclassifications

Certain reclassifications have been made to amounts previously reported in the financial statements to conform to the current year's presentation. Such reclassifications had no effect on the change in net assets.

3. Investments

The Company's primary banking relationship is with JP Morgan Chase. Regional Entity and Criteria Services revenues are invested from time-to-time in a JPMorgan 100% U.S. Treasury Securities Money Market Fund (the "Fund"). The Fund aims to provide current income while maintaining liquidity and safety of principal. The Fund invests primarily in debt securities of the U.S. Treasury, but is not insured or guaranteed.

The Fund has historically maintained a net asset value of \$1.00 per share. Management has determined that the likelihood of sustaining losses from the Fund to be remote.

At December 31, 2019 and 2018, the Company owned 4,723,922 and 1,840,294 units, respectively, of \$1 par value per unit. In 2019 and 2018, the funds earned average yields of 1.12% and 1.29%, 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, 2019 and 2018 consist of the following:

	Depreciable Life	2019	2018
Furniture	10 years	\$ 204,968	\$ 204,968
Computer equipment	3 years	497,878	441,079
Website	3 years	232,000	232,000
Software	3 years	1,059,379	1,032,819
Leasehold improvements	15 years (see Note 2)	974,691	974,691
		<u>2,968,916</u>	<u>2,885,557</u>
Less: Accumulated depreciation and amortization		<u>(2,502,121)</u>	<u>(2,274,315)</u>
		466,795	611,242
Assets not yet in service		66,048	-
		<u>\$ 532,843</u>	<u>\$ 611,242</u>

Depreciation and amortization expense totaled \$227,806 and \$265,531 in 2019 and 2018, respectively.

5. Net Assets Without Donor Restrictions

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

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan which provides for safe harbor matching contributions. All employees are immediately eligible for the plan upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Company contributions to the 401(k) plan were \$221,394 and \$228,716 for 2019 and 2018, respectively. Additionally, upon completion of 1,000 hours within a calendar year of service, the Company's employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2019 and 2018 was 8% of base compensation and totaled \$449,742 and \$459,055, 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 annual compensation limits. The Company contributed \$38,000 and \$37,000 to this supplemental plan for 2019 and 2018, respectively. During 2013, the Company adopted a 457(f) plan for the President and CEO. The Company contributed \$35,000 to this plan for each of the years 2019 and 2018.

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC's office lease, which commenced in 2009, provides for base rent along with additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$150,000. NPCC executed various computer and equipment leases with expiration dates through 2024. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$772,970 and \$740,777 for 2019 and 2018, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2019 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2020	\$ 720,392	\$ 141,764	\$ 862,156
2021	720,392	91,627	\$ 812,019
2022	720,392	87,652	\$ 808,044
2023	720,392	43,514	\$ 763,906
2024	240,131	7,346	\$ 247,477
Thereafter	-	-	\$ -
	\$ 3,121,699	\$ 371,903	\$ 3,493,602

8. Salaries and employee benefits

During 2019 and 2018, salaries and employee benefits consist of the following:

Northeast Power Coordinating Council, Inc.
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	2019	2018
President, COO and technical staff	\$ 6,886,319	\$ 6,914,556
Administrative support	178,590	199,694
Payroll taxes, insurance, educational assistance, savings and supplemental plans	<u>2,908,293</u>	<u>2,789,201</u>
Total salaries and employee benefits	<u>\$ 9,973,202</u>	<u>\$ 9,903,451</u>

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,743,826 and \$3,075,581 in 2019 and 2018, respectively, and consist of the following:

	2019	2018
Consultants	\$ 1,597,743	\$ 1,768,513
Accounting, legal and other services	1,118,765	1,277,212
Savings and supplemental plan administration	<u>27,318</u>	<u>29,856</u>
Total administrative, consultant and professional fees	<u>\$ 2,743,826</u>	<u>\$ 3,075,581</u>

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

10. Functional Classification

The Company is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NPCC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NPCC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities). The following tables summarizes operational and administrative programs on a functional basis for the years ended December 31, 2019 and 2018:

Northeast Power Coordinating Council, Inc.
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	Programs		Supporting Services	Total
	Regional Entity	Criteria Services	Management and General	
Year ended December 31, 2019				
Salaries and employee benefits	\$ 6,654,152	\$ 431,171	\$ 2,887,879	\$ 9,973,202
Administrative and consultant fees	1,707,583	-	423,565	2,131,148
Professional fees	428,874	36,761	147,043	612,678
Meetings and travel	657,073	25,330	377,207	1,059,610
Telephone and telecommunications	122,462	10,497	41,987	174,946
Office supplies and expense	390,292	33,440	133,758	557,490
Equipment leases	99,191	8,502	34,008	141,701
Rent expense	441,888	37,876	151,505	631,269
Insurance expense	30,836	2,643	10,572	44,051
Miscellaneous	28,325	2,428	9,712	40,465
Depreciation and amortization	159,465	13,668	54,673	227,806
Total expenses	<u>\$ 10,720,141</u>	<u>\$ 602,316</u>	<u>\$ 4,271,909</u>	<u>\$ 15,594,366</u>

	Programs		Supporting Services	Total
	Regional Entity	Criteria Services	Management and General	
Year ended December 31, 2018				
Salaries and employee benefits	\$ 6,630,990	\$ 503,213	\$ 2,769,248	\$ 9,903,451
Administrative and consultant fees	2,029,138	47,693	424,045	2,500,876
Professional fees	425,282	28,735	120,688	574,705
Meetings and travel	700,140	49,854	204,999	954,993
Telephone and telecommunications	146,185	9,877	41,485	197,547
Office supplies and expense	368,446	22,648	91,448	482,542
Equipment leases	85,666	5,788	24,310	115,764
Rent expense	462,509	31,251	131,253	625,013
Insurance expense	47,141	3,185	13,378	63,704
Miscellaneous	36,707	2,480	10,417	49,604
Depreciation and amortization	196,492	13,277	55,762	265,531
Total expenses	<u>\$ 11,128,696</u>	<u>\$ 718,001</u>	<u>\$ 3,887,033</u>	<u>\$ 15,733,730</u>

11. Liquidity and Availability

NPCC regularly monitors liquidity required to meet its operating needs. NPCC is substantially supported by assessment revenue from the Regional Entity and the Criteria Services divisions. As part of NPCC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

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

Northeast Power Coordinating Council, Inc.
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December 31, 2019 and 2018

	2019	2018
Financial assets:		
Cash	\$ 4,623,803	\$ 6,912,908
Restricted cash	120,000	-
Investments	<u>4,723,922</u>	<u>1,840,294</u>
Financial assets, at December 31,	<u>9,467,725</u>	<u>8,753,202</u>
Less: Assets unavailable for general expenditures within one year:		
Board-designated reserve - BCR	<u>1,000,000</u>	<u>1,000,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,467,725</u>	<u>\$ 7,753,202</u>

12. Revenues

The following table shows the Company's revenues disaggregated according to the timing of satisfaction of performance obligations for the years ended December 31, 2019 and 2018:

	2019	2018
Revenue recognized at a point in time:		
Penalty sanctions	\$ 154,000	\$ 120,000
Workshops	<u>74,790</u>	<u>63,449</u>
Total revenue recognized at a point in time	<u>228,790</u>	<u>183,449</u>
Revenue recognized over time:		
Criteria Services assessments	1,058,867	1,019,141
Regional Entity assessments	<u>15,003,411</u>	<u>14,341,787</u>
Total revenue recognized over time	<u>16,062,278</u>	<u>15,360,928</u>
Total revenues	<u>\$ 16,291,068</u>	<u>\$ 15,544,377</u>

13. Related Party Transactions

The NERC, through agreements with the FERC in the U.S. and Canadian Provincial regulatory and/or governmental agreements within Canada, delegates enforcement authority to six 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 2019 and 2018, total Criteria Services assessments billed amounted to \$1,058,867 and \$1,019,141, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
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Description	2019		2018	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	28.22%	\$ 298,715	28.95%	\$ 295,017
Independent Electricity System Operator	21.83%	231,148	21.78%	222,007
ISO-New England, Inc.	20.03%	212,124	19.78%	201,628
New Brunswick System Operator	2.28%	24,142	2.18%	22,199
New York Independent System Operator	25.84%	273,634	25.57%	260,590
Nova Scotia Power Inc.	1.80%	19,104	1.74%	17,700
Total criteria services assessments	100.00%	\$ 1,058,867	100.00%	\$ 1,019,141

14. Line of Credit

On March 18, 2013, pursuant to an agreement with a lender, the Company obtained a line of credit in the amount of \$1,000,000. The line was renewed on an annual basis. The Company chose not to renew the line of credit in 2019. There were no borrowings against the line of credit as of and during the years ended December 31, 2019 and 2018.

15. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 19, 2020, the date the financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our members, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

ATTACHMENT 4

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 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 1, 2020

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

ReliabilityFirst's 2019 Actual Cost-To-Budget Comparison

Dear Mr. Andy Sharp:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year 2019 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 2019, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the Electric Reliability Organization (ERO). The financial information included in this comparison is based on the results of ReliabilityFirst's 2019 independent audit that was performed by RSM US LLP and completed on March 24, 2020. For the year ending December 31, 2019, ReliabilityFirst was \$327K (1.4%) under 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 Full Time Equivalents (FTEs) count to the direct programs.

- Direct Programs include:
 - 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 greater than anticipated growth in value of the ReliabilityFirst's investment portfolio. This variance was allocated proportionately to each direct program based on FTE count.

The variance in Miscellaneous Income was due to the write off of unused employee flexible spending account funds and the cash redemption of the corporate credit card rewards, neither of which were budgeted. This variance was allocated proportionately to each direct program based on FTE count.

Budget Expenses

Personnel Expenses

Employee Benefits were under budget due to employees selecting medical plans that differed from budgeted plans, and increased usage of the high deductible health plans versus the traditional PPO plans. ReliabilityFirst also negotiated a 0% increase in medical premiums, which was much less than the budgeted 15% increase. Employee Benefits were also under budget due to underutilized budgeted employee training.

Savings & Retirement Costs were under budget due to differences between how budget and actual amounts were calculated and recorded, along with unpaid retirement contributions for employees who did not meet plan requirements.

Meeting Expenses

Meetings were over budget primarily due to increased costs associated with the semiannual Reliability and CIP workshops, quarterly board of director meetings, and an annual offsite leadership retreat.

Conference Calls were under budget primarily due to lower contract rates that were negotiated in 2018 with a new conference call service provider

Operating Expenses

Contracts and Consultants expense was under budget due to an amount budgeted to support the advanced customization of the corporate internal and external websites that was not utilized, along with lower actual than budgeted costs for a security assessment.

Fixed Assets

Computer Hardware & Software was under budget due to revaluating and rescheduling of budgeted upgrades.

Leasehold Improvement actuals were over budget due to modifications to the reception area that addressed identified security issues and preparation for a future office expansion, neither of which were included in the budget.

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 \$2,144,752 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in 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 2019.

ReliabilityFirst Corporation's 2019 Actual Cost-To-Budget Comparison

Statement of Activities, Fixed Assets and Change in Working Capital January 1, 2019 - December 31, 2019 ReliabilityFirst Corporation				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 21,255,831	\$ 21,255,831	\$ -	0.0%
Penalty Sanctions	327,215	327,215	-	0.0%
Total ReliabilityFirst Funding	\$ 21,583,046	\$ 21,583,046	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Investment	210,398	50,000	160,398	320.8%
Miscellaneous	2,613	-	2,613	-
Total Funding	\$ 21,796,057	\$ 21,633,046	\$ 163,011	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 13,717,521	\$ 13,701,387	\$ 16,134	0.1%
Payroll Taxes	848,158	807,085	41,073	5.1%
Employee Benefits	2,051,727	2,307,002	(255,275)	-11.1%
Retirement Costs	2,148,072	2,252,748	(104,676)	-4.6%
Total Personnel Expenses	\$ 18,765,478	\$ 19,068,222	\$ (302,744)	-1.6%
Meeting Expenses				
Meetings	\$ 387,892	\$ 314,200	\$ 73,692	23.5%
Travel	646,732	678,600	(31,868)	-4.7%
Conference Calls	29,062	52,200	(23,138)	-44.3%
Total Meeting Expenses	\$ 1,063,686	\$ 1,045,000	\$ 18,686	1.8%
Operating Expenses				
Contracts & Consultants	\$ 477,595	\$ 528,612	\$ (51,017)	-9.7%
Office Rent	557,658	521,086	36,572	7.0%
Office Costs	866,169	815,130	51,039	6.3%
Professional Services	422,690	423,522	(832)	-0.2%
Miscellaneous	44,121	43,886	235	0.5%
Depreciation	439,198	458,903	(19,705)	-4.3%
Total Operating Expenses	\$ 2,807,431	\$ 2,791,139	\$ 16,292	0.6%
Total Direct Expenses	\$ 22,636,595	\$ 22,904,361	\$ (267,766)	-1.2%
Indirect Expenses	\$ -	\$ -	\$ -	-
Non-Operating Expenses	-	-	-	-
Total Expenses	\$ 22,636,595	\$ 22,904,361	\$ (267,766)	-1.2%
Change in Assets	\$ (840,538)	\$ (1,271,315)	\$ 430,777	-33.9%
Fixed Assets				
Depreciation	\$ (439,198)	\$ (458,903)	\$ 19,705	-4.3%
Computer Hardware & Software CapEx	78,891	180,000	(101,109)	-56.2%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	1,595	-	1,595	-
Leasehold Improvements	43,250	23,000	20,250	88.0%
	\$ (315,462)	\$ (255,903)	\$ (59,559)	23.3%
Allocation of Fixed Assets	-	-	\$ -	-
Inc/(Dec) in Fixed Assets	\$ (315,462)	\$ (255,903)	\$ (59,559)	23.3%
Total Budget	\$ 22,321,133	\$ 22,648,458	\$ (327,325)	-1.4%
Total Change in Working Capital	\$ (525,076)	\$ (1,015,412)	\$ 490,336	-48.3%
WC - 12/31/2018	2,613,257	1,173,486	1,439,771	
Less: Adjustment for future liabilities	(883,684)	-	(883,684)	
Available Working Capital	1,729,573	1,173,486	556,087	
Change in reserves from current year operations	(525,076)	(1,015,412)	490,336	
Other Adjustments to Reserves	(158,074)	(158,074)	-	
Total Working Capital	1,046,423	-	1,046,423	
Working Capital Reserve	2,144,752	2,144,752	-	
Operating Reserve	1,000,000	1,000,000	-	
Total Working Capital and Operating Reserve	4,191,175	3,144,752	1,046,423	
FTEs	77.84	78.20	(0.36)	-0.5%

Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Hosted the second annual Innovation Awards and Retreat where employees presented new ideas and projects, were recognized for exceptional work in the area of innovation, and had access to individuals who could help them refine their innovations and bring them to fruition
- Continued to mature the Regional Risk Assessment program by implementing a two-fold risk prioritization process, including: a traditional risk ranking analysis, and an analysis of each risk category's network effect.
- Conducted 57 Inherent Risk Assessments (IRAs)
- Launched a Cyber Resilience Assessment Tool, which allows entities to evaluate and benchmark their cyber resilience posture, as well as measure effectiveness
- Completed analysis of 13 open events from 2018 and analyzed 74 new events that occurred in 2019
- Experienced no Category 2 or higher events within the regional footprint, for the fourth consecutive year
- Conducted summer and winter seasonal assessments, transmission reliability assessments, and a long-term resource assessment
- Performed 53 Operations & Planning (O & P) engagements, 13 CIP engagements, and 80 compliance assessment reviews
- Introduced Internal Controls and Human Performance Knowledge Center pages on the ReliabilityFirst's public website.
- Held Spring and Fall Reliability and CIP Workshops, which included sessions on regulatory changes and impact on compliance matters, internal controls, fuel security and emergency planning, resource planning in relation to the changing resource mix, distributed energy resources, human performance, and numerous other topics beneficial to industry stakeholders
- Performed 76 Assist Visits
- Held second annual Human Performance Workshop
- Hosted a Short Circuit Modeling Workshop, where registered entities worked together to help ensure their short circuit model data assumptions are verified and to eliminate errors in models
- Committed to taking an active role in bettering the community, staff participated in multiple volunteer opportunities through Northeast Ohio and their hometown communities.

For more information on these major accomplishments see [2019 Annual Report](#)

Explanation of Variances - Reliability Standards

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, 2019 - December 31, 2019				
Reliability Assurance and Compliance Monitoring				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 13,747,063	\$ 13,747,063	\$ -	0.0%
Penalty Sanctions	196,543	196,543	-	0.0%
Total ReliabilityFirst Funding	\$ 13,943,606	\$ 13,943,606	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	134,483	30,032	104,451	347.8%
Miscellaneous	1,670	-	1,670	-
Total Funding	\$ 14,079,759	\$ 13,973,638	\$ 106,121	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 6,645,361	\$ 6,588,226	\$ 57,135	0.9%
Payroll Taxes	428,829	403,366	25,463	6.3%
Employee Benefits	908,855	1,052,760	(143,905)	-13.7%
Retirement Costs	1,014,398	1,028,339	(13,941)	-1.4%
Total Personnel Expenses	\$ 8,997,443	\$ 9,072,691	\$ (75,248)	-0.8%
Meeting Expenses				
Meetings	\$ 14,296	\$ 20,900	\$ (6,604)	-31.6%
Travel	362,360	413,000	(50,640)	-12.3%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 376,656	\$ 433,900	\$ (57,244)	-13.2%
Operating Expenses				
Contracts & Consultants	\$ 134,758	\$ 88,950	\$ 45,808	51.5%
Office Rent	-	-	-	-
Office Costs	299,611	250,379	49,232	19.7%
Professional Services	-	-	-	-
Miscellaneous	1,922	3,750	(1,828)	-48.7%
Depreciation	1,134	5,000	(3,866)	-77.3%
Total Operating Expenses	\$ 437,425	\$ 348,079	\$ 89,346	25.7%
Total Direct Expenses	\$ 9,811,524	\$ 9,854,670	\$ (43,146)	-0.4%
Indirect Expenses	\$ 4,638,012	\$ 4,261,174	\$ 376,838	8.8%
Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ 14,449,536	\$ 14,115,844	\$ 333,692	2.4%
Change in Assets	\$ (369,777)	\$ (142,206)	\$ (227,571)	160.0%
Fixed Assets				
Depreciation	(1,134)	(5,000)	3,866	-77.3%
Computer Hardware & Software CapEx	-	30,000	(30,000)	-100.0%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
	(1,134)	25,000	(26,134)	-104.5%
Allocation of Fixed Assets	\$ (194,186)	\$ (167,206)	\$ (26,980)	16.1%
Inc/(Dec) in Fixed Assets	\$ (195,320)	\$ (142,206)	\$ (53,114)	37.4%
Total Budget	\$ 14,254,216	\$ 13,973,638	\$ 280,578	2.0%
Total Change in Working Capital	\$ (174,457)	\$ -	\$ (174,457)	-
FTEs	38.99	37.00	1.99	5.4%

Explanation of Variances – Reliability Assurance and Compliance Monitoring

Personnel Expenses

Employee Benefits were primarily under budget due to employees selecting medical plans that differed from budgeted plans, and increased usage of the high deductible health plans versus the traditional PPO plans. ReliabilityFirst also negotiated a 0% increase in medical premiums, which was much less than the budgeted 15% increase.

Savings & Retirement Costs were under budget due to differences between how budget and actual amounts were calculated and recorded.

Meeting Expenses

Travel was under budget due to lower than anticipated travel activity.

Operating Expenses

Contracts & Consultants were over budget due to the unbudgeted process to transfer data from the compliance portal to the data warehouse, along with the unbudgeted development of a self-assessment tools used to evaluate entities internal controls, organizational maturity, and cyber resilience.

Office Costs were over budget due to increased maintenance costs for the compliance portal, and the unbudgeted maintenance costs associated with the self-assessment tools used to evaluate entities' internal controls, organizational maturity, and cyber resilience.

Fixed Assets

Computer Hardware and Software was under budget due to spending less than anticipated on continuous improvement initiatives aimed to help entities achieve excellence in reliability, risk identification, security, and resiliency, along with the amount budgeted to upgrade the audit management software which was not utilized.

Enforcement Management

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2019 - December 31, 2019				
Enforcement Management				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 2,146,889	\$ 2,146,889	\$ -	0.0%
Penalty Sanctions	37,184	37,184	-	0.0%
Total ReliabilityFirst Funding	\$ 2,184,073	\$ 2,184,073	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	23,903	5,682	18,221	320.7%
Miscellaneous	297	-	297	-
Total Funding	\$ 2,208,273	\$ 2,189,755	\$ 18,518	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 940,935	\$ 987,123	\$ (46,188)	-4.7%
Payroll Taxes	67,906	64,657	3,249	5.0%
Employee Benefits	103,927	178,498	(74,571)	-41.8%
Retirement Costs	129,310	152,760	(23,450)	-15.4%
Total Personnel Expenses	\$ 1,242,078	\$ 1,383,038	\$ (140,960)	-10.2%
Meeting Expenses				
Meetings	\$ 975	\$ 1,600	\$ (625)	-39.1%
Travel	23,007	23,000	7	0.0%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 23,982	\$ 24,600	\$ (618)	-2.5%
Operating Expenses				
Contracts & Consultants	\$ -	\$ -	\$ -	-
Office Rent	-	-	-	-
Office Costs	8,465	7,582	883	11.6%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	\$ 8,465	\$ 7,582	\$ 883	11.6%
Total Direct Expenses	\$ 1,274,525	\$ 1,415,220	\$ (140,695)	-9.9%
Indirect Expenses	\$ 824,350	\$ 806,168	\$ 18,182	2.3%
Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ 2,098,875	\$ 2,221,388	\$ (122,513)	-5.5%
Change in Assets	\$ 109,398	\$ (31,633)	\$ 141,031	-445.8%
Fixed Assets				
Depreciation	-	-	-	-
Computer Hardware & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	\$ (34,514)	\$ (31,633)	\$ (2,881)	9.1%
Inc/(Dec) in Fixed Assets	\$ (34,514)	\$ (31,633)	\$ (2,881)	9.1%
Total Budget	\$ 2,064,361	\$ 2,189,755	\$ (125,394)	-5.7%
Total Change in Working Capital	\$ 143,912	\$ -	\$ 143,912	-
FTEs	6.93	7.00	(0.07)	-1.0%

Explanation of Variances – Enforcement Management

Personnel Expenses

Payroll Taxes were over budget due to actual tax rates being higher than budgeted rates.

Employee Benefits were under budget due to employees selecting medical plans that differed from budgeted plans, and increased usage of the high deductible health plans versus the traditional PPO plans. ReliabilityFirst also negotiated a 0% increase in medical premiums, which was much less than the budgeted 15% increase.

Savings & Retirement Costs were under budget due to differences between how budget and actual amounts were calculated and recorded, along with employees not taking full advantage of plan benefits.

Reliability Assessment and Performance Analysis

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2019 - December 31, 2019				
Reliability Assessment and Performance Analysis				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,862,565	\$ 2,862,565	\$ -	0.0%
Penalty Sanctions	40,371	40,371	-	0.0%
Total ReliabilityFirst Funding	\$ 2,902,936	\$ 2,902,936	\$ -	0.0%
Membership Dues	-	-	-	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	22,695	6,169	16,526	267.9%
Miscellaneous	282	-	282	-
Total Funding	\$ 2,925,913	\$ 2,909,105	\$ 16,808	0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 1,275,813	\$ 1,343,225	\$ (67,412)	-5.0%
Payroll Taxes	81,139	82,911	(1,772)	-2.1%
Employee Benefits	138,783	156,771	(17,988)	-11.5%
Retirement Costs	197,788	212,370	(14,582)	-6.9%
Total Personnel Expenses	\$ 1,693,523	\$ 1,795,277	\$ (101,754)	-5.7%
Meeting Expenses				
Meetings	\$ 8,210	\$ 8,000	\$ 210	2.6%
Travel	106,358	94,650	11,708	12.4%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 114,568	\$ 102,650	\$ 11,918	11.6%
Operating Expenses				
Contracts & Consultants	\$ 88,130	\$ 126,812	\$ (38,682)	-30.5%
Office Rent	-	-	-	-
Office Costs	45,373	43,443	1,930	4.4%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	3,452	3,452	-	0.0%
Total Operating Expenses	\$ 136,955	\$ 173,707	\$ (36,752)	-21.2%
Total Direct Expenses	\$ 1,945,046	\$ 2,071,634	\$ (126,588)	-6.1%
Indirect Expenses	\$ 782,717	\$ 875,268	\$ (92,551)	-10.6%
Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ 2,727,763	\$ 2,946,902	\$ (219,139)	-7.4%
Change in Assets	\$ 198,150	\$ (37,797)	\$ 235,947	-624.2%
Fixed Assets				
Depreciation	(3,452)	(3,452)	-	0.0%
Computer Hardware & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
	(3,452)	(3,452)	-	0.0%
Allocation of Fixed Assets	\$ (32,771)	\$ (34,345)	\$ 1,574	-4.6%
Inc/(Dec) in Fixed Assets	\$ (36,223)	\$ (37,797)	\$ 1,574	-4.2%
Total Budget	\$ 2,691,540	\$ 2,909,105	\$ (217,565)	-7.5%
Total Change in Working Capital	\$ 234,373	\$ -	\$ 234,373	-
FTEs	6.58	7.60	(1.02)	-13.4%

Explanation of Variances - Reliability Assessment and Performance Analysis

Personnel Expenses

Personnel expenses were under budget due to the reallocation of one vacant position to the Situation Awareness Program, to support the development and ongoing management of the Data Warehouse. In addition to the effect of the vacant position, Employee Benefits were also under budget due to negotiating a 0% increase in medical premiums, which was much less than the budgeted 15% increase, and underutilized budgeted training.

Meeting Expenses

Travel was over budget due to higher than anticipated travel activity.

Operating Expenses

Contracts and Consultants were under budget due to budgeted assessments and studies that were not performed as anticipated.

Training and Education

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2019 - December 31, 2019				
Training and Education				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 1,092,466	\$ 1,092,466	\$ -	0.0%
Penalty Sanctions	15,934	15,934	-	0.0%
Total ReliabilityFirst Funding	\$ 1,108,400	\$ 1,108,400	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	7,485	2,435	5,050	207.4%
Miscellaneous	93	-	93	-
Total Funding	\$ 1,115,978	\$ 1,110,835	\$ 5,143	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 326,082	\$ 386,731	\$ (60,649)	-15.7%
Payroll Taxes	19,629	24,369	(4,740)	-19.5%
Employee Benefits	66,708	80,980	(14,272)	-17.6%
Retirement Costs	49,428	61,089	(11,661)	-19.1%
Total Personnel Expenses	\$ 461,847	\$ 553,169	\$ (91,322)	-16.5%
Meeting Expenses				
Meetings	\$ 216,386	\$ 181,500	\$ 34,886	19.2%
Travel	8,137	6,000	2,137	35.6%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 224,523	\$ 187,500	\$ 37,023	19.7%
Operating Expenses				
Contracts & Consultants	\$ 22,680	\$ 20,000	\$ 2,680	13.4%
Office Rent	-	-	-	-
Office Costs	5,441	8,222	(2,781)	-33.8%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	-	3,000	(3,000)	-100.0%
Total Operating Expenses	\$ 28,121	\$ 31,222	\$ (3,101)	-9.9%
Total Direct Expenses	\$ 714,491	\$ 771,891	\$ (57,400)	-7.4%
Indirect Expenses	\$ 258,130	\$ 345,501	\$ (87,371)	-25.3%
Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ 972,621	\$ 1,117,392	\$ (144,771)	-13.0%
Change in Assets	\$ 143,357	\$ (6,557)	\$ 149,914	-2286.3%
Fixed Assets				
Depreciation	-	(3,000)	3,000	-100.0%
Computer Hardware & Software CapEx	-	10,000	(10,000)	-100.0%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
	-	7,000	(7,000)	-100.0%
Allocation of Fixed Assets	\$ (10,807)	\$ (13,557)	\$ 2,750	-20.3%
Inc/(Dec) in Fixed Assets	\$ (10,807)	\$ (6,557)	\$ (4,250)	64.8%
Total Budget	\$ 961,814	\$ 1,110,835	\$ (149,021)	-13.4%
Total Change in Working Capital	\$ 154,164	\$ -	\$ 154,164	-
FTEs	2.17	3.00	(0.83)	-27.7%

Explanation of Variances – Training and Education

Personnel Expenses

Personnel Expenses were primarily under budget due to the realignment of one FTE to the Human Resources department. In addition to the effect of the realignment of a position, Employee Benefits were also impacted by underutilized budgeted training.

Meeting Expenses

Meetings were over budget due to increased costs associated with the semiannual Reliability and CIP workshops.

Travel was over budget due to higher than anticipated travel activity

Fixed Assets

Computer Hardware and Software was under budget due to spending less than anticipated on continuous improvement initiatives aimed to help entities achieve excellence in reliability, risk identification, security, and resiliency.

Situation Awareness and Infrastructure Security

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2019 - December 31, 2019				
Situation Awareness and Infrastructure Security				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 2,422,260	\$ 2,422,260		-
Penalty Sanctions	37,183	37,183	-	0.0%
Total ReliabilityFirst Funding	\$ 2,459,443	\$ 2,459,443	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	21,833	5,682	16,151	284.2%
Miscellaneous	271	-	271	-
Total Funding	\$ 2,481,547	\$ 2,465,125	\$ 16,422	0.7%
Expenses				
Personnel Expenses				
Salaries	\$ 1,031,170	\$ 1,056,516	\$ (25,346)	-2.4%
Payroll Taxes	66,740	64,475	2,265	3.5%
Employee Benefits	195,198	217,786	(22,588)	-10.4%
Retirement Costs	144,890	166,948	(22,058)	-13.2%
Total Personnel Expenses	\$ 1,437,998	\$ 1,505,725	\$ (67,727)	-4.5%
Meeting Expenses				
Meetings	\$ 14,654	\$ 2,000	\$ 12,654	632.7%
Travel	52,660	49,450	3,210	6.5%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 67,314	\$ 51,450	\$ 15,864	30.8%
Operating Expenses				
Contracts & Consultants	\$ 88,108	\$ 90,000	\$ (1,892)	-2.1%
Office Rent	-	-	-	-
Office Costs	34,330	43,416	(9,086)	-20.9%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	7,072	6,076	996	16.4%
Total Operating Expenses	\$ 129,510	\$ 139,492	\$ (9,982)	-7.2%
Total Direct Expenses	\$ 1,634,822	\$ 1,696,667	\$ (61,845)	-3.6%
Indirect Expenses	\$ 752,978	\$ 806,168	\$ (53,190)	-6.6%
Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ 2,387,800	\$ 2,502,835	\$ (115,035)	-4.6%
Change in Assets	\$ 93,747	\$ (37,710)	\$ 131,457	-348.6%
Fixed Assets				
Depreciation	(7,072)	(6,076)	(996)	16.4%
Computer Hardware & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
	(7,072)	(6,076)	(996)	16.4%
Allocation of Fixed Assets	\$ (31,526)	\$ (31,634)	\$ 108	-0.3%
Inc/(Dec) in Fixed Assets	\$ (38,598)	\$ (37,710)	\$ (888)	2.4%
Total Budget	\$ 2,349,202	\$ 2,465,125	\$ (115,923)	-4.7%
Total Change in Working Capital	\$ 132,345	\$ -	\$ 132,345	-
FTEs	6.33	7.00	(0.67)	-9.6%

Explanation of Variances - Situation Awareness and Infrastructure Security

Personnel Expenses

Personnel Expenses were primarily under budget due to not filling the vacant position that was allocated from the Reliability Assessment and Performance Analysis Program, to support the development and ongoing management of the Data Warehouse. In addition to the effect of the vacant position, Employee Benefits were also under budget due to negotiating a 0% increase in medical premiums, which was much less than the budgeted 15% increase, and underutilized budgeted training.

Payroll Taxes were over budget due to actual tax rates being higher than budgeted tax rates.

Meeting Expenses

Meeting expenses were over budget due to unbudgeted costs associated with a Critical Infrastructure Protection Committee (CIPC) meeting held during the fall Compliance Workshop.

Administrative Services

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2019 - December 31, 2019				
Administrative Services				
	2019 Actual	2019 Budget	2019 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ (1,015,412)	\$ (1,015,412)	\$ -	0.0%
Penalty Sanctions	-	-	-	-
Total ReliabilityFirst Funding	<u>\$ (1,015,412)</u>	<u>\$ (1,015,412)</u>	<u>\$ -</u>	<u>0.0%</u>
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	<u>\$ (1,015,412)</u>	<u>\$ (1,015,412)</u>	<u>\$ -</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 3,498,163	\$ 3,339,566	\$ 158,597	4.7%
Payroll Taxes	183,915	167,307	16,608	9.9%
Employee Benefits	638,255	620,207	18,048	2.9%
Retirement Costs	612,256	631,242	(18,986)	-3.0%
Total Personnel Expenses	<u>\$ 4,932,589</u>	<u>\$ 4,758,322</u>	<u>\$ 174,267</u>	<u>3.7%</u>
Meeting Expenses				
Meetings	\$ 133,370	\$ 100,200	\$ 33,170	33.1%
Travel	94,209	92,500	1,709	1.8%
Conference Calls	29,063	52,200	(23,137)	-44.3%
Total Meeting Expenses	<u>\$ 256,642</u>	<u>\$ 244,900</u>	<u>\$ 11,742</u>	<u>4.8%</u>
Operating Expenses				
Contracts & Consultants	\$ 143,920	\$ 202,850	\$ (58,930)	-29.1%
Office Rent	557,658	521,086	36,572	7.0%
Office Costs	472,949	462,088	10,861	2.4%
Professional Services	422,690	423,522	(832)	-0.2%
Miscellaneous	42,199	40,136	2,063	5.1%
Depreciation	427,540	441,375	(13,835)	-3.1%
Total Operating Expenses	<u>\$ 2,066,956</u>	<u>\$ 2,091,057</u>	<u>\$ (24,101)</u>	<u>-1.2%</u>
Total Direct Expenses	<u>\$ 7,256,187</u>	<u>\$ 7,094,279</u>	<u>\$ 161,908</u>	<u>2.3%</u>
Indirect Expenses	<u>\$ (7,256,187)</u>	<u>\$ (7,094,279)</u>	<u>\$ (161,908)</u>	<u>2.3%</u>
Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Change in Assets	<u>\$ (1,015,412)</u>	<u>\$ (1,015,412)</u>	<u>\$ -</u>	<u>0.0%</u>
Fixed Assets				
Depreciation	(427,540)	(441,375)	13,835	-3.1%
Computer Hardware & Software	78,891	140,000	(61,109)	-43.6%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	1,595	-	1,595	-
Leasehold Improvements	43,250	23,000	20,250	88.0%
	<u>(303,804)</u>	<u>(278,375)</u>	<u>(25,429)</u>	<u>9.1%</u>
Allocation of Fixed Assets	\$ 303,804	\$ 278,375	\$ 25,429	9.1%
Inc/(Dec) in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Budget	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Change in Working Capital	<u>\$ (1,015,412)</u>	<u>\$ (1,015,412)</u>	<u>\$ -</u>	<u>0.0%</u>
FTEs	16.84	16.60	0.24	1.4%

Explanation of Variances – Administrative Services

Personnel Expenses

Savings & Retirement Costs were under budget due to differences between how budget and actual amounts were calculated and recorded.

Meeting Expenses

Meetings Expense was over budget due to higher than expected costs for the quarterly board of director meetings and an annual offsite leadership retreat.

Conference Calls were under budget due to lower contract rates that were negotiated in the prior year with a new conference call service provider.

Operating Expense

Contracts and Consultants were under budget due to the amount budgeted to support the advanced customization of the corporate internal and external websites which was not utilized, along with spending less than budgeted for a security assessment.

Fixed Assets

Computer Hardware & Software was under budget due to reevaluating and rescheduling of budgeted upgrades.

Leasehold Improvement actuals were over budget due to modifications to the reception area that addressed identified security issues and preparation for a future office expansion, neither of which were included in the budget.

ReliabilityFirst Corporation

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

To the Finance and Audit Committee
ReliabilityFirst Corporation

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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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.

RSM US LLP

Chicago, Illinois
March 24, 2020

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 2,836,707	\$ 3,341,782
Cash - regulatory designated	4,417,627	445,842
Investments	6,430,393	6,219,995
Accounts receivable	79,512	153,301
Prepaid expenses	208,076	236,965
Total current assets	13,972,315	10,397,885
Noncurrent assets:		
Deferred compensation plan assets	349,547	257,468
Fixed assets:		
Furniture and equipment	371,514	369,919
Leasehold improvements	2,034,076	1,990,826
Computer software and hardware	3,403,513	3,324,622
	5,809,103	5,685,367
Less accumulated depreciation and amortization	3,863,996	3,424,798
	1,945,107	2,260,569
Total noncurrent assets	2,294,654	2,518,037
Total assets	\$ 16,266,969	\$ 12,915,922
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 188,640	\$ 170,324
Accrued expenses (current portion)	4,372,451	4,023,714
Deferred rent (current portion)	200,245	189,051
Total current liabilities	4,761,336	4,383,089
Long-term liabilities:		
Deferred revenue	350,000	350,000
Accrued expenses (net of current portion)	253,624	303,908
Deferred rent (net of current portion)	1,481,414	1,681,659
Deferred compensation	349,547	257,468
	2,434,585	2,593,035
Total liabilities	7,195,921	6,976,124
Net assets:		
Without donor restrictions:		
Undesignated	1,508,669	1,175,717
Operating reserve fund	1,000,000	1,000,000
Working capital reserve fund	2,144,752	3,318,239
Regulatory designated funds	4,417,627	445,842
Total net assets	9,071,048	5,939,798
Total liabilities and net assets	\$ 16,266,969	\$ 12,915,922

ReliabilityFirst Corporation

**Statements of Activities
Years Ended December 31, 2019 and 2018**

	2019	2018
Net assets without donor restrictions or regulatory designations:		
Revenues:		
Quarterly assessments	\$ 21,255,831	\$ 20,147,707
Investment income	210,398	88,147
Penalty sanctions released from regulatory designations	327,215	1,912,877
Miscellaneous	2,613	6,593
Total revenues	<u>21,796,057</u>	<u>22,155,324</u>
Expenses:		
Program:		
Reliability Assurance and Compliance Monitoring	9,811,523	9,059,070
Enforcement	1,274,525	1,131,552
Assessment	1,945,046	2,144,894
Training and Education	714,491	663,461
Situational Awareness	1,634,822	1,505,207
Total program expenses	<u>15,380,407</u>	<u>14,504,184</u>
General and Administrative	<u>7,256,185</u>	<u>6,568,321</u>
Total expenses	<u>22,636,592</u>	<u>21,072,505</u>
(Decrease) increase in net assets without donor restrictions or regulatory designations	<u>(840,535)</u>	<u>1,082,819</u>
Net assets without donor restrictions and with regulatory designations:		
Penalty sanctions subject to regulatory designations, received in the current year	4,299,000	183,559
Penalty sanctions subject to regulatory designations, reclassified from restrictions	-	2,175,160
Penalty sanctions released from regulatory designations	<u>(327,215)</u>	<u>(1,912,877)</u>
Increase in net assets without donor restrictions and with regulatory designations	<u>3,971,785</u>	<u>445,842</u>
Net assets with restrictions:		
Penalty sanctions reclassified from restrictions (Note 1)	<u>-</u>	<u>(2,175,160)</u>
Increase (decrease) in net assets	<u>3,131,250</u>	<u>(646,499)</u>
Net assets at beginning of year	<u>5,939,798</u>	<u>6,586,297</u>
Net assets at end of year	<u><u>\$ 9,071,048</u></u>	<u><u>\$ 5,939,798</u></u>

See notes to financial statements.

ReliabilityFirst Corporation

**Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	\$ 6,645,358	\$ 940,935	\$ 1,275,813	\$ 326,082	\$ 1,031,170	\$10,219,358	\$ 3,498,163	\$13,717,521
Payroll taxes	428,829	67,906	81,139	19,629	66,740	664,243	183,915	848,158
Employee benefits	908,856	103,927	138,783	66,708	195,198	1,413,472	638,255	2,051,727
Savings and retirement	1,014,399	129,310	197,788	49,428	144,890	1,535,815	612,256	2,148,071
Total personnel expenses	8,997,442	1,242,078	1,693,523	461,847	1,437,998	13,832,888	4,932,589	18,765,477
Meeting expenses:								
Meetings	14,296	975	8,210	216,386	14,654	254,521	133,370	387,891
Travel	362,360	23,007	106,358	8,137	52,660	552,522	94,209	646,731
Conference calls	-	-	-	-	-	-	29,063	29,063
Total meeting expenses	376,656	23,982	114,568	224,523	67,314	807,043	256,642	1,063,685
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	557,658	557,658
Contracts	134,758	-	88,130	22,680	88,108	333,676	143,920	477,596
Office costs	55,161	8,465	10,007	5,441	7,536	86,610	143,131	229,741
Professional services	-	-	-	-	-	-	422,690	422,690
Computer purchase and maintenance	244,450	-	35,366	-	26,794	306,610	318,352	624,962
Furniture	-	-	-	-	-	-	11,466	11,466
Miscellaneous	1,922	-	-	-	-	1,922	42,197	44,119
Depreciation and amortization	1,134	-	3,452	-	7,072	11,658	427,540	439,198
Total operating expenses	437,425	8,465	136,955	28,121	129,510	740,476	2,066,954	2,807,430
Total	\$ 9,811,523	\$ 1,274,525	\$ 1,945,046	\$ 714,491	\$ 1,634,822	\$15,380,407	\$ 7,256,185	\$22,636,592

See notes to financial statements.

ReliabilityFirst Corporation

**Schedule of Expenses
Year Ended December 31, 2018**

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	\$ 6,111,126	\$ 796,557	\$ 1,421,938	\$ 361,098	\$ 1,002,888	\$ 9,693,607	\$ 3,031,575	\$12,725,182
Payroll taxes	370,643	54,409	88,616	24,083	58,335	596,086	157,177	753,263
Employee benefits	860,189	131,684	155,834	58,700	148,692	1,355,099	559,254	1,914,353
Savings and retirement	924,526	117,495	214,189	61,582	129,047	1,446,839	533,790	1,980,629
Total personnel expenses	8,266,484	1,100,145	1,880,577	505,463	1,338,962	13,091,631	4,281,796	17,373,427
Meeting expenses:								
Meetings	31,585	912	8,233	145,979	2,907	189,616	122,730	312,346
Travel	377,160	25,114	106,886	8,602	40,375	558,137	91,304	649,441
Conference calls	-	-	-	-	-	-	38,852	38,852
Total meeting expenses	408,745	26,026	115,119	154,581	43,282	747,753	252,886	1,000,639
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	540,592	540,592
Contracts	108,719	-	100,429	-	96,812	305,960	140,219	446,179
Office costs	53,311	5,381	9,326	3,417	5,292	76,727	103,041	179,768
Professional services	-	-	-	-	-	-	396,089	396,089
Computer purchase and maintenance	212,126	-	34,936	-	15,662	262,724	388,955	651,679
Furniture	-	-	-	-	-	-	1,845	1,845
Miscellaneous	1,985	-	1,055	-	-	3,040	39,037	42,077
Depreciation and amortization	7,700	-	3,452	-	5,197	16,349	423,861	440,210
Total operating expenses	383,841	5,381	149,198	3,417	122,963	664,800	2,033,639	2,698,439
Total	\$ 9,059,070	\$ 1,131,552	\$ 2,144,894	\$ 663,461	\$ 1,505,207	\$14,504,184	\$ 6,568,321	\$21,072,505

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,131,250	\$ (646,499)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	439,198	440,210
Unrealized (gain) loss on investments	(60,923)	72,061
Realized (gain) loss on investments	(4,585)	11,516
Changes in assets and liabilities:		
Accounts receivable	73,789	(55,563)
Prepaid expenses	28,889	11,094
Accounts payable	2,416	(48,152)
Accrued expenses	347,595	(243,530)
Deferred rent	(189,051)	(177,857)
Net cash provided by (used in) operating activities	3,768,578	(636,720)
Cash flows from investing activities:		
Purchase of investments	(5,141,930)	(2,244,857)
Sale of investments	4,997,040	2,573,132
Purchases of fixed assets	(156,978)	(299,410)
Net cash (used in) provided by investing activities	(301,868)	28,865
Net increase (decrease) in cash	3,466,710	(607,855)
Cash at beginning of year	3,787,624	4,395,479
Cash at end of year	\$ 7,254,334	\$ 3,787,624
Supplemental disclosure of noncash investing activities:		
Accrued acquisition of fixed assets	\$ 64,633	\$ 97,875
Reconciliation of cash:		
Cash	\$ 2,836,707	\$ 3,341,782
Cash - regulatory designated	4,417,627	445,842
Total	\$ 7,254,334	\$ 3,787,624

See notes to financial statements.

ReliabilityFirst Corporation

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 six 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 unconditional contributions without donor restriction at the time they are received.

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. Penalty sanctions are classified as regulatory designated funds until the fiscal year in which they are applied as a general offset to budget requirements.

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.

Cash – regulatory designated: Cash received for penalty sanctions classified as regulatory designated funds are restricted in use and presented separately on the statements of financial position. These cash receipts are maintained in a separate deposit account from the Corporation's unrestricted cash.

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, 2019 and 2018.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 net assets without donor restrictions.

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.

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: Conditional contributions received by the Corporation prior to when the conditions are met 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% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the period covered by these financial statements.

The Corporation currently files Form 990 in the U.S. federal jurisdiction. The Corporation also files the charitable registration annual report in the State of Ohio.

Net assets: An amount of \$1,000,000 of the Corporation's net assets without donor restrictions at December 31, 2019 and 2018 is designated by the Board of Directors for the Corporation's operating reserve fund. The operating reserve fund is designated each year with the intention of providing for unbudgeted and unexpected expenditures. An additional \$2,144,752 and \$3,318,239 has been designated by the Board of Directors for the Corporation's working capital reserve fund at December 31, 2019 and 2018, 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.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Net assets with regulatory designations result from the receipt of penalty sanctions, which are governed by stipulations from NERC as to when the funds can be used. Amounts of \$327,215 and \$1,912,877 were released from regulatory designations during 2019 and 2018, respectively. Net assets with regulatory designations at December 31, 2019 and 2018, were \$4,417,627 and \$445,842, respectively.

Functional allocation of expenses: The Corporation is required to provide information about expenses reported by their functional classification, which is a method of aggregating and reporting expenses according to the purpose for which they were incurred. The Corporation incurs expenses that directly relate to, and can be assigned to, a specific operational program or administrative function based on the employee incurring the expense. Expenses which cannot specifically be attributable to a specific operational program are recorded as part of general and administrative expenses on the statements of activities.

New accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued *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 replaces most existing revenue recognition guidance in U.S. GAAP. The Corporation determined that the updated standard has no impact on the financial statements.

In June 2018, the FASB issued *ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The new standard was adopted by the Corporation in the year ended December 31, 2019. The adoption did not have a significant impact on the Corporation's financial statements.

Recent accounting pronouncements: 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 statement of financial position 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. Clarifications to this ASU were issued by the FASB in July 2018 under *ASU 2018-10, Codification Improvements to Topic 842, Leases* and *ASU 2018-11, Leases (Topic 842) Targeted Improvements*. The new standard will be effective for the Corporation in 2021.

The Corporation is currently evaluating the impact of the pending adoption of the new standard 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.

These financial statements do not include any adjustments related to the economic impact of COVID-19 (novel coronavirus). The extent of the impact is currently being monitored and evaluated by the Corporation, although potential impact is unknown at this time.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Availability and Liquidity

The table below represents financial assets available for general expenditures within one year of December 31, 2019 and 2018:

	2019	2018
Financial assets at year end		
Cash	\$ 2,836,707	\$ 3,341,782
Cash - regulatory designated	4,417,627	445,842
Investments	6,430,393	6,219,995
Accounts receivable	79,512	153,301
Total financial assets	<u>13,764,239</u>	<u>10,160,920</u>
Less amounts unavailable for general expenditures within one year, due to:		
Operating reserve fund	(1,000,000)	(1,000,000)
Working capital reserve fund	(2,144,752)	(3,318,239)
Regulatory imposed time restriction	<u>(4,150,000)</u>	<u>(118,627)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,469,487</u>	<u>\$ 5,724,054</u>

The Corporation has a goal to maintain financial assets to meet normal operating expenses, liabilities and other obligations as they come due. In addition, as part of its liquidity management, the Corporation invests cash in excess of normal operating expenses in various short term investments, including U.S. Treasury obligations, U.S. Government agency securities, and corporate bonds. As described in Note 4, the Corporation also has a line of credit in the amount of \$500,000, which it could draw upon in the event of an unanticipated liquidity need.

Note 3. 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.
- 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.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

- **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, 2019 and 2018, there were no such transfers.

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2019 and 2018:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ 951,353	\$ -	\$ -	\$ 951,353
U.S. Treasury obligations	1,317,488	-	-	1,317,488
Corporate bonds	-	3,573,991	-	3,573,991
	<u>\$ 2,268,841</u>	<u>\$ 3,573,991</u>	<u>\$ -</u>	<u>5,842,832</u>
Cash and cash equivalents				587,561
				<u>\$ 6,430,393</u>

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ 1,236,024	\$ -	\$ -	\$ 1,236,024
U.S. Treasury obligations	770,420	-	-	770,420
Corporate bonds	-	4,020,239	-	4,020,239
	<u>\$ 2,006,444</u>	<u>\$ 4,020,239</u>	<u>\$ -</u>	<u>6,026,683</u>
Cash and cash equivalents				193,312
				<u>\$ 6,219,995</u>

The composition of investment income for 2019 and 2018 is as follows:

	2019	2018
Interest, net of investment fees	\$ 144,890	\$ 171,724
Realized gain (loss)	4,585	(11,516)
Unrealized gain (loss)	60,923	(72,061)
	<u>\$ 210,398</u>	<u>\$ 88,147</u>

ReliabilityFirst Corporation

Notes to Financial Statements

Note 4. Line of Credit

The Corporation has a \$500,000 line of credit with an expiration date of July 1, 2020. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 3.28%. The Corporation did not make any drawdowns on the line during 2019 and 2018 and had no outstanding balance as of December 31, 2019 and 2018. As there were no drawdowns made, no corresponding interest was paid in 2019 or 2018. The Corporation intends to renew the line when it becomes due.

Note 5. Operating Leases

The Corporation leases its office and data center from unrelated third parties. The leases expire in February 2027 and February 2022, respectively. Rental expense for operating leases amounted to \$507,051 and \$502,810 in the years ended December 31, 2019 and 2018, respectively. Rent expense in 2019 and 2018 includes \$189,051 and \$177,857, 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, respectively. The deferred rent liability was \$1,681,659 and \$1,870,710 as of December 31, 2019 and 2018, respectively.

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

2020	\$ 708,334
2021	719,528
2022	677,802
2023	671,356
2024	682,549
Thereafter	1,516,480
	<u>\$ 4,976,049</u>

Note 6. Employee Retirement Plan

The Corporation has a salary deferral plan under Section 401(k) of the Internal Revenue Code (Code). All employees are eligible for a 100% match of their first 6% of voluntary salary deferral savings and the 3% 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% in 2019 and 2018). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16% of employees' eligible compensation in 2019 and 2018. The Corporation's contribution to the plan for 2019 and 2018 was approximately \$1,968,099 and \$1,768,658, respectively.

The Corporation also offers a deferred compensation plan under Section 457(b) of the Code. Select employees of the Corporation are eligible for the plan which provides an employer credit to an investment account, controlled by the Corporation in an amount equal to the difference between the contributions made to the employees' 401(k) and the contribution that would have been made if not for the annual contribution limit imposed by Section 415(c)(1)(A) of the Code or the compensation limit imposed by Section 401(a)(17) of the Code. The plan had 6 participants as of December 31, 2019, and 2018. Employer credits to the investment accounts in 2019 and 2018 were approximately \$39,268 and \$71,740, respectively. The balance of the investment accounts held by the Corporation for this plan are identified on the statements of financial position as "deferred compensation plan assets" with a matching liability to reflect the amount which is owed to the Corporation's employees.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 7. Conditional Grant from City of Independence, Ohio

In connection with the Corporation's office move in a previous year, the City of Independence, Ohio (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. The Corporation 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 conditions of the grant not being met as of December 31, 2019, and 2018.

ATTACHMENT 5

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



May 4, 2020

Andy Sharp
Vice President and Interim Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

SERC 2019 Actual Cost vs. Budget Variance Analysis

Dear Mr. Andy Sharp:

Enclosed is SERC's response to your request for the end of year 2019 Actual Cost to Budget Comparison and audited year-end financials.

The report below provides a summary of significant variances at the aggregate statutory level in the Overview Section followed by detailed explanations of variances by program area.

If you have any questions, please feel free to call or email me at 704-609-9201 or gkrogstie@serc1.org.

Yours truly,

George Krogstie

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake, President/CEO

Overview

The Actual Cost to Budget Comparison provides a summary of significant variances (greater than \$10,000 and 10 percent) at the aggregate statutory level followed by detailed explanations of variances by program area. SERC Reliability Corporation has no non-statutory activity, and therefore no statutory funding was used for non-statutory activities.

The financial information included in this comparison is based on the results of SERC's 2019 independent audit that was performed by GreerWalker LLP and completed on April 21, 2020. For the year ending December 31, 2019, SERC exceeded its budgeted funding by \$9,554,233, and incurred expenditures of \$4,022,761 over its 2019 total budget. The net impact was a \$5,531,461 favorable variance on SERC's Change in Working Capital vs. budget for the year.

Funding

Overall, funding exceeded budget by \$9,554,233. Funding was over budget attributable to recognition of \$6.5M in penalty funds, and \$2.9M in Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the July 1, 2019 transfer of 35 registered entities from the FRCC footprint to SERC. The Statement of Activities shows funding from receipt of Q3-Q4 FRCC assessments as "Miscellaneous" Funding, not Assessments.

Budget Expenses

Personnel

Total personnel costs were higher than budget, primarily due to onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC. Financial obligations associated with staff restructuring, unbudgeted relocation expenses and a paid time off true up adjusted for new FTEs transferred from FRCC also impacted the overage variance. Budgeted personnel cost include a 10% vacancy factor which results in 70.2 funded FTEs vs. 78 approved FTEs.

Meeting and Travel

Meeting and travel exceeded the budget due to FRCC integration and program activities, and increased event expenses associated with higher meeting attendance.

Operating Expenses

Contracts and Consultants expense was under budget primarily due to budgeted costs being more appropriately classified as software expense.

Office Costs exceeded budget as a result of expenses budgeted under contracts and consultants being more appropriately classified as software. Additional costs were also incurred with the integration of additional FTEs associated with FRCC.

SERC incurred legal fees associated with employment matters and review of SERC bylaws, driving the budget variance.

Fixed Assets

Fixed Asset variance is due to unbudgeted FRCC transition related expenses, including buildout of office space to accommodate additional staff, and upgrades to current document retention systems.

Non-Statutory Program

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

Cost Allocation

SERC records all direct costs to the appropriate program areas. Corporate services costs and capital expenditures are allocated as indirect costs to the program areas based on a full-time equivalent (FTE) ratio that is consistent with NERC's accounting methodology for allocation of overhead.

Direct Programs include:

- Reliability Standards
- Compliance Monitoring and Enforcement; Organization Registration and Certification Program
- Reliability Assessment and Performance Analysis
- Training, Education and Stakeholder Outreach
- Situation Awareness and Infrastructure Security

Corporate Services Programs include:

- Technical Committees and Member Forums
- General and Administrative
- Legal and Regulatory
- Analytics & Information Technology
- Human Resources
- Accounting and Finance

Audited Financial Statements

Revenue Recognition

The adoption of ASC 606 resulted in SERC recognizing revenue from penalty sanctions in the period the penalties are assessed versus deferral of penalty sanctions that would offset future member assessments. This cumulative effect of change in accounting principle resulted in an increase to net assets of \$960,201 effective January 1, 2019. The audit report shows the adjustment as a Cumulative Effect of Change in Accounting Principle below Total Expenses. SERC's Statement of Activities includes the adjustment in Penalty Sanctions for best consistency of presentation with the NERC format.

Loss on Disposal of Assets

SERC wrote off certain assets in 2019, primarily associated with its office rebuild, resulting in a \$118k loss on asset disposal. The audit report includes this loss in Miscellaneous Expense. SERC's Statement of Activities includes the adjustment in Depreciation for best consistency of presentation with the NERC format.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2019 through 12/31/2019

TOTAL STATUTORY

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	17,372,216	17,372,216	(0)
Penalty Sanctions	6,619,919	83,000	6,536,919
Total ERO Funding	\$23,992,135	\$ 17,455,216	\$ 6,536,919
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	173,335	126,050	47,285
Interest	72,177	1,000	71,177
Miscellaneous	2,933,352	34,500	2,898,852
Total Funding (A)	\$27,170,999	\$ 17,616,766	\$ 9,554,233
Expenses			
Personnel Expenses			
Salaries	12,460,250	10,276,729	2,183,521
Payroll Taxes	832,342	746,769	85,573
Employee Benefits	1,426,426	1,172,398	254,028
Savings & Retirement	1,438,105	1,330,427	107,678
Total Personnel Expenses	16,157,123	13,526,324	2,630,799
Meeting Expenses			
Meetings	489,744	306,700	183,044
Travel	880,254	648,922	231,332
Conference Calls	25,150	30,000	(4,850)
Total Meeting Expenses	1,395,148	985,622	409,526
Operating Expenses			
Consultants & Contracts	1,623,981	1,978,481	(354,500)
Rent & Improvements	740,385	785,196	(44,811)
Office Costs	892,906	535,986	356,920
Professional Services	150,038	110,340	39,698
Miscellaneous	(20,115)	3,000	(23,115)
Depreciation	403,556	371,688	31,868
Total Operating Expenses	3,790,751	3,784,691	6,060
Indirect Expenses	-	0	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	21,343,022	18,296,637	3,046,385
Change in Assets (A - B)	5,827,977	(679,871)	6,507,847
Fixed Assets			
Depreciation	(403,556)	(371,688)	(31,868)
Computer & Software CapEx	22,896	220,000	(197,104)
Furniture & Fixtures CapEx	345,767	-	345,767
Equipment CapEx	72,563	-	72,563
Leasehold Improvements	787,019	-	787,019
Incr(Dec) in Fixed Assets	824,689	(151,688)	(976,377)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	824,689	(151,688)	976,377
TOTAL BUDGET (B + C)	22,167,711	18,144,949	4,022,762
Change in Working Capital (A-B+C)	5,003,288	(528,183)	7,484,224
FTE's	78.0	78.0	-

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2019 through 12/31/2019
RELIABILITY STANDARDS

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	171,608	171,606	2	0.00%
Penalty Sanctions	65,607	833	64,774	7775.99%
Total ERO Funding	\$ 237,215	\$ 172,439	\$ 64,776	37.56%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 237,215	\$ 172,439	\$ 64,776	37.56%
Expenses				
Personnel Expenses				
Salaries	44,006	55,268	(11,262)	-20.38%
Payroll Taxes	3,705	4,035	(330)	-8.18%
Employee Benefits	2,992	6,631	(3,639)	-54.88%
Savings & Retirement	8,194	7,112	1,082	15.21%
Total Personnel Expenses	58,897	73,046	(14,149)	-19.37%
Meeting Expenses				
Meetings	-	-	-	
Travel	867	4,000	(3,133)	-78.33%
Conference Calls	-	-	-	
Total Meeting Expenses	867	4,000	(3,133)	-78.33%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	66,511	96,915	(30,404)	-31.37%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	126,275	173,961	(47,686)	-27.41%
Change in Assets (A - B)	110,940	(1,522)	112,462	-7389.09%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	5,375	(1,522)	6,897	-453.15%
Total Inc(Dec) in Fixed Assets (C)	5,375	(1,522)	6,897	-453.15%
TOTAL BUDGET (B + C)	131,650	172,439	(40,789)	-23.65%
Change in Working Capital (A-B-C)	105,565	-	105,565	
FTE's	0.34	0.45	(0.11)	-24.44%

**Reliability Standards
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Total Funding (Actual \$65k over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.

Personnel Expenses (Actual \$14k under budget)

- Due to the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses.
- SERC budgeted .45 FTEs in the Standards program during 2019 and finished with 0.34 FTE.

Indirect Expenses (Actual \$30k under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2019 based on the number of FTEs in those programs. Indirect expenses for Reliability Standards were under budget due to Reliability Standards' ratio of FTEs being lower than budgeted.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2019 through 12/31/2019 COMPLIANCE MONITORING & ENFORCEMENT; ORGANIZATION REGISTRATION AND CERTIFICATION				
	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	13,275,928	13,275,926	2	0.00%
Penalty Sanctions	4,970,833	62,921	4,907,912	7800.12%
Total ERO Funding	\$ 18,246,761	\$13,338,847	\$ 4,907,914	36.79%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	3,640	34,500	(30,860)	-89.45%
Total Funding (A)	\$ 18,250,401	\$13,373,347	\$ 4,877,054	36.47%
Expenses				
Personnel Expenses				
Salaries	5,848,915	4,319,499	1,529,416	35.41%
Payroll Taxes	401,319	315,323	85,996	27.27%
Employee Benefits	678,588	470,935	207,653	44.09%
Savings & Retirement	699,040	556,636	142,404	25.58%
Total Personnel Expenses	7,627,862	5,662,393	1,965,469	34.71%
Meeting Expenses				
Meetings	29,132	8,300	20,832	250.99%
Travel	490,310	349,400	140,910	40.33%
Conference Calls	-	-	-	
Total Meeting Expenses	519,442	357,700	161,742	45.22%
Operating Expenses				
Consultants & Contracts	184,017	120,375	63,642	52.87%
Rent & Improvements	-	-	-	
Office Costs	35,255	22,855	12,400	54.26%
Professional Services	-	-	-	
Miscellaneous	-	2,550	(2,550)	-100.00%
Depreciation	-	-	-	
Total Operating Expenses	219,272	145,780	73,492	50.41%
Indirect Expenses	7,850,256	7,322,466	527,790	7.21%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	16,216,832	13,488,339	2,728,493	20.23%
Change in Assets (A - B)	2,033,569	(114,992)	2,148,561	-1868.44%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	634,364	(114,992)	749,356	-651.7%
Total Inc(Dec) in Fixed Assets (C)	634,364	(114,992)	749,356	-651.66%
TOTAL BUDGET (B + C)	16,851,196	13,373,347	3,477,849	26.01%
Change in Working Capital (A-B-C)	1,399,205	-	1,399,205	
FTE's	40.13	34.00	6.13	18.03%

**Compliance Monitoring & Enforcement; Organization Registration and Certification
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Total Funding (Actual \$4.9M over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.

Personnel Expenses (Actual \$2.0M over budget)

- Personnel costs were higher than budget, primarily due to onboarding and relocation cost of incremental FTEs to administer program services for registered entities transferred from FRCC.
- SERC budgeted 34.0 FTEs in the Compliance program and finished 2019 with 40.13 FTEs, a difference of 6.1 FTEs.

Meeting & Travel Expense (Actual \$162k over budget)

- Increased travel and meetings due to FRCC integration and program activities, and increased event expenses associated with higher attendance resulted in higher travel and meeting expense.

Consultants and Contracts Expense (Actual \$64k over budget)

- SERC supplemented staff with contractors due to several vacant positions the first half of the year. Actual Consortium User Group expenses were less than anticipated.

Office Costs (Actual \$12k over budget)

- The budget variance is attributable to an unplanned software purchase and additional phone/internet and dues expenses for new FTEs.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2019 through 12/31/2019 RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS				
	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	2,187,980	2,187,978	2	0.00%
Penalty Sanctions	715,027	9,068	705,959	7785.17%
Total ERO Funding	\$2,903,007	\$ 2,197,046	\$ 705,961	32.13%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$2,903,007	\$ 2,197,046	\$ 705,961	32.13%
Expenses				
Personnel Expenses				
Salaries	605,721	641,291	(35,570)	-5.55%
Payroll Taxes	43,024	46,814	(3,790)	-8.10%
Employee Benefits	90,332	75,413	14,919	19.78%
Savings & Retirement	60,200	82,585	(22,385)	-27.11%
Total Personnel Expenses	799,277	846,103	(46,826)	-5.53%
Meeting Expenses				
Meetings	21,722	29,200	(7,478)	-25.61%
Travel	55,925	56,768	(843)	-1.48%
Conference Calls	-	-	-	
Total Meeting Expenses	77,647	85,968	(8,321)	-9.68%
Operating Expenses				
Consultants & Contracts	61,894	225,000	(163,106)	-72.49%
Rent & Improvements	-	-	-	
Office Costs	10,994	1,250	9,744	779.52%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	72,888	226,250	(153,362)	-67.78%
Indirect Expenses	766,833	1,055,297	(288,464)	-27.33%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	1,716,645	2,213,618	(496,973)	-22.45%
Change in Assets (A - B)	1,186,362	(16,572)	1,202,934	-7258.83%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	61,966	(16,572)	78,538	-473.92%
Total Inc(Dec) in Fixed Assets (C)	61,966	(16,572)	78,538	-473.92%
TOTAL BUDGET (B + C)	1,778,611	2,197,046	(418,435)	-19.05%
Change in Working Capital (A-B-C)	1,124,396	-	1,124,396	
FTE's	3.92	4.90	(0.98)	-20.00%

**Reliability Assessments and Performance Analysis
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Total Funding (Actual \$706k over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.

Consultants and Contracts Expense (Actual \$163k under budget)

- The budget anticipated additional modeling studies that were not performed in 2019 (\$115k), and a NERC Special Study (\$100k) did not occur.
- Modeling software was budgeted in Contracting/Consulting but expensed to Office Cost.

Indirect Expenses (Actual \$288k under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2019 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, Fixed Assets and Change in Working Capital
From 1/1/2019 through 12/31/2019
TRAINING, EDUCATION and STAKEHOLDER OUTREACH

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	% Variance
Funding				
ERO Funding				
Assessments	1,480,248	1,480,253	(5)	0.00%
Penalty Sanctions	484,877	6,107	478,770	7839.69%
Total ERO Funding	\$ 1,965,125	\$ 1,486,360	\$ 478,765	32.21%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	173,335	107,650	65,685	61.02%
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 2,138,460	\$ 1,594,010	\$ 544,450	34.16%
Expenses				
Personnel Expenses				
Salaries	835,097	472,590	362,507	76.71%
Payroll Taxes	49,859	34,701	15,158	43.68%
Employee Benefits	70,021	48,242	21,779	45.15%
Savings & Retirement	110,166	60,873	49,293	80.98%
Total Personnel Expenses	1,065,143	616,406	448,737	72.80%
Meeting Expenses				
Meetings	88,439	101,600	(13,161)	-12.95%
Travel	64,217	41,000	23,217	56.63%
Conference Calls	-	-	-	
Total Meeting Expenses	152,656	142,600	10,056	7.05%
Operating Expenses				
Consultants & Contracts	85,300	135,455	(50,155)	-37.03%
Rent & Improvements	-	-	-	
Office Costs	4,678	-	4,678	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	89,978	135,455	(45,477)	-33.57%
Indirect Expenses	993,753	710,710	283,043	39.83%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,301,530	1,605,171	696,359	43.38%
Change in Assets (A - B)	(163,070)	(11,161)	(151,909)	1361.07%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	80,303	(11,161)	91,464	-819.50%
Total Inc(Dec) in Fixed Assets (C)	80,303	(11,161)	91,464	-819.50%
TOTAL BUDGET (B + C)	2,381,833	1,594,010	787,823	49.42%
Change in Working Capital (A-B-C)	(243,373)	-	(243,373)	
FTE's	5.08	3.30	1.78	53.94%

**Training, Education and Stakeholder Outreach
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Total ERO Funding (Actual \$479k over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.

Workshop Fees (Actual \$66k over budget)

- Workshop and seminar fees exceeded budget due to increased attendance attributable to the addition of FRCC entities.

Personnel Expenses (Actual \$449k over budget)

- Personnel costs were higher than budget, primarily due to onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC and reallocation of FTEs among program areas.
- SERC budgeted 3.3 FTEs in the Training program during 2019 and finished with 5.1 FTEs.

Consultants and Contracts Expense (Actual \$50k under budget)

- The favorable variance to the budget is due to a reduced scope of work for the 2019 Restoration Drill.

Indirect Expenses (Actual \$283k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2019 based on the number of FTEs in those programs. Indirect expenses for Training, Education, and Stakeholder Outreach were over budget because the department's ratio of FTEs was higher than budgeted, and total Indirect Expenses were greater than budget.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2019 through 12/31/2019 SITUATION AWARENESS and INFRASTRUCTURE SECURITY				
	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	804,036	804,036	-	0.00%
Penalty Sanctions	321,374	4,071	317,303	7794.23%
Total ERO Funding	\$ 1,125,410	\$ 808,107	\$ 317,303	39.26%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 1,125,410	\$ 808,107	\$ 317,303	39.26%
Expenses				
Personnel Expenses				
Salaries	338,079	240,121	97,958	40.80%
Payroll Taxes	21,889	17,529	4,360	24.87%
Employee Benefits	36,282	26,828	9,454	35.24%
Savings & Retirement	37,131	30,960	6,171	19.93%
Total Personnel Expenses	433,381	315,438	117,943	37.39%
Meeting Expenses				
Meetings	-	-	-	
Travel	19,901	25,953	(6,052)	-23.32%
Conference Calls	-	-	-	
Total Meeting Expenses	19,901	25,953	(6,052)	-23.32%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	283	350	(67)	-19.14%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	283	350	(67)	-19.14%
Indirect Expenses	528,175	473,807	54,368	11.47%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	981,740	815,548	166,192	20.38%
Change in Assets (A - B)	143,670	(7,441)	151,111	-2030.79%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	42,681	(7,441)	50,122	-673.59%
Total Inc(Dec) in Fixed Assets (C)	42,681	(7,441)	50,122	-673.59%
TOTAL BUDGET (B + C)	1,024,421	808,107	216,314	26.77%
Change in Working Capital (A-B-C)	100,989	-	100,989	
FTE's	2.70	2.20	0.50	22.73%

**Situation Awareness and Infrastructure Security
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Total Funding (Actual \$317k over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.

Personnel Expenses (Actual \$118k over budget)

- Personnel costs were higher than budget, primarily due to onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC and reallocation of FTEs among program areas.
- SERC budgeted 2.2 FTEs in the Situation Awareness program during 2019 and finished with 2.7 FTEs.

Indirect Expenses (Actual \$54k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2019 based on the number of FTEs in those programs. Indirect expenses for Situational Awareness and Infrastructure Security were over budget because the department's ratio of FTEs was higher than budgeted, and total Indirect Expenses were greater than budget.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2019 through 12/31/2019
TECHNICAL COMMITTEES AND MEMBER FORUMS

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	18,400	(18,400)	-100.00%
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ 18,400	\$ (18,400)	-100.00%
Expenses				
Personnel Expenses				
Salaries	350,659	677,116	(326,457)	-48.21%
Payroll Taxes	24,997	49,429	(24,432)	-49.43%
Employee Benefits	84,036	58,360	25,676	44.00%
Savings & Retirement	29,823	87,206	(57,383)	-65.80%
Total Personnel Expenses	489,515	872,112	(382,597)	-43.87%
Meeting Expenses				
Meetings	43,425	56,900	(13,475)	-23.68%
Travel	58,996	39,500	19,496	49.36%
Conference Calls	-	-	-	
Total Meeting Expenses	102,421	96,400	6,021	6.25%
Operating Expenses				
Consultants & Contracts	123,428	140,900	(17,472)	-12.40%
Rent & Improvements	-	-	-	
Office Costs	501	-	501	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	123,929	140,900	(16,971)	-12.04%
Indirect Expenses	(715,865)	(1,109,412)	393,547	-35.47%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	18,400	(18,400)	-100.00%
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)	-	18,400	(18,400)	-100.00%
FTE's	2.08	4.70	(2.62)	-55.74%

**Technical Committees and Member Forums
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$383k under budget)

- Due to 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 2019 and finished the year with 2.08 FTEs.

Consultants and Contracts Expense (Actual \$17k under budget)

- Eastern Interconnection Reliability Assessment Group (ERAG) expenses were less than anticipated.

Indirect Expenses (Actual \$394k under budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2019 based on the number of FTEs in those programs. Indirect expenses were under budget because the department's ratio of FTEs was less than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2019 through 12/31/2019
CORPORATE SERVICES

	2019 Actual	2019 Budget	2019 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	(547,584)	(547,583)	(0)	0.00%
Penalty Sanctions	62,201	-	62,201	
Total ERO Funding	\$ (485,383)	\$ (547,583)	\$ 62,201	-11.36%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	72,177	1,000	71,177	7117.70%
Miscellaneous	2,929,712	-	2,929,712	
Total Funding (A)	\$ 2,516,506	\$ (546,583)	\$ 3,063,090	-560.41%
Expenses				
Personnel Expenses				
Salaries	4,437,773	3,870,844	566,929	14.65%
Payroll Taxes	287,549	278,938	8,611	3.09%
Employee Benefits	464,175	485,989	(21,814)	-4.49%
Savings & Retirement	493,551	505,055	(11,504)	-2.28%
Total Personnel Expenses	5,683,048	5,140,826	542,222	10.55%
Meeting Expenses				
Meetings	307,026	110,700	196,326	177.35%
Travel	190,038	132,301	57,737	43.64%
Conference Calls	25,150	30,000	(4,850)	-16.17%
Total Meeting Expenses	522,214	273,001	249,213	91.29%
Operating Expenses				
Consultants & Contracts	1,169,342	1,356,751	(187,409)	-13.81%
Rent & Improvements	740,385	785,196	(44,811)	-5.71%
Office Costs	841,195	511,531	329,664	64.45%
Professional Services	150,038	110,340	39,698	35.98%
Miscellaneous	(20,115)	450	(20,565)	-4570.00%
Depreciation	403,556	371,688	31,868	8.57%
Total Operating Expenses	3,284,401	3,135,956	148,445	4.73%
Indirect Expenses	(9,489,663)	(8,549,783)	(939,880)	10.99%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	2,516,506	(546,583)	3,063,090	-560.41%
Fixed Assets				
Depreciation	(403,556)	(371,688)	(31,868)	8.57%
Computer & Software CapEx	22,896	220,000	(197,104)	-89.59%
Furniture & Fixtures CapEx	345,767	-	345,767	
Equipment CapEx	72,563	-	72,563	
Leasehold Improvements	787,019	-	787,019	
Incr(Dec) in Fixed Assets	824,689	(151,688)	976,377	-643.67%
Allocation of Fixed Assets	(824,689)	151,688	(976,377)	-643.67%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	2,516,506	(546,583)	3,063,090	-560.41%
FTE's	23.8	28.5	(4.70)	-16.52%

Corporate Services
Variance Explanations as of December 31, 2019
Variances > +/- \$10,000 and 10%

Total Funding (Actual \$3.1M over budget)

- Attributable to recognition of penalty funds, and Q3 – Q4 Florida Regional Coordinating Council (FRCC) assessments associated with the transfer of 35 entities in the FRCC footprint to SERC.
- Recognition of interest income associated with new investment strategy.

Personnel Expenses (Actual \$542k over budget)

- Total personnel costs were higher than budget, primarily due to onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC.
- Financial obligations associated with staff restructuring drove the salary variance over budget.
- Paid Time Off (PTO) liability increased due to additional FTEs on staff. PTO liability is accrued to salaries in Corporate Services.
- SERC budgeted 28.5 FTEs in Corporate Services during 2019 and finished with 23.8 FTEs.

Meeting & Travel Expense (Actual \$249k over budget)

- Several unbudgeted meetings were added to support the integration of new entities to SERC. In addition, larger venues were required for SERC's Board of Directors meetings to accommodate higher attendance.
- Additional travel was incurred as a result of FRCC integration activities.

Consultants and Contracts Expense (Actual \$187k under budget)

- Consultant expenses associated with Corporate Strategic Initiatives (CSIs) were budgeted in Corporate Services, but the actual expenses were recorded to departments responsible for implementing the CSIs.
- IT software was budgeted in Contracting/Consulting but expensed to Office Cost.
- Planned contractor support to supplemented staff was not utilized.
- Planned compensation studies and management development expenses were higher than budgeted.

Office Costs (Actual \$330k over budget)

- Office Costs exceeded budget due to computer hardware and software purchase budgeted as consultants and contracts and fixed assets but more appropriately expensed in Office Costs.
- Unplanned software purchases also drove the variance.

Professional Services (Actual \$40k over budget)

- Legal services were higher than budget to support work on review of corporate by-laws and employment matters.

Fixed Assets (Actual \$1.008M over budget)

- Unbudgeted FRCC transition related expenses, including buildout of office space to accommodate additional staff, and upgrades to current document retention systems.
- Actual costs for computer hardware and software purchases budgeted in fixed assets were charged to Office Costs.



Evaluation | Analysis | Assistance | Operating Experience

Financial Statements for the
Years Ended December 31, 2019 and 2018
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 statements of financial position as of December 31, 2019 and 2018, 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 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 audits. We conducted our audits in accordance with generally accepted auditing standards 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 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

GreerWalker LLP

Certified Public Accountants
April 21, 2020
Charlotte, NC

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SERC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,654,100	\$ 7,392,961
Prepaid expenses and other assets	247,867	127,645
Total current assets	<u>4,901,967</u>	<u>7,520,606</u>
PROPERTY AND EQUIPMENT, NET	2,091,183	817,741
INVESTMENTS	7,063,776	-
INVESTMENTS - DEFERRED COMPENSATION	<u>410,352</u>	<u>316,185</u>
TOTAL	<u>\$ 14,467,278</u>	<u>\$ 8,654,532</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,669	\$ 38,624
Accrued expenses	976,934	663,768
Accrued salaries and related benefits	3,039,646	2,419,132
Deferred revenue	27,830	182,016
Total current liabilities	<u>4,047,079</u>	<u>3,303,540</u>
NON-CURRENT LIABILITIES:		
Deferred compensation	410,352	316,185
Deferred revenue	-	815,000
Deferred rent	418,136	456,071
Total non-current liabilities	<u>828,488</u>	<u>1,587,256</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Undesignated	2,091,183	817,741
Designated for assessment stabilization reserve	5,645,000	-
Designated for operating reserves	1,855,528	2,945,995
Total net assets	<u>9,591,711</u>	<u>3,763,736</u>
TOTAL	<u>\$ 14,467,278</u>	<u>\$ 8,654,532</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
FUNDING:		
Member assessments	\$ 17,372,216	\$ 17,205,136
Penalty sanctions	5,659,718	727,978
Workshops	173,335	149,335
Investment income	72,178	4,693
Miscellaneous	2,933,352	803,616
Total	<u>26,210,799</u>	<u>18,890,758</u>
EXPENSES:		
Personnel expenses:		
Salaries	12,460,249	9,782,399
Payroll taxes	832,342	590,582
Employee benefits	1,426,427	1,096,540
Savings and retirement	1,438,105	1,026,482
Total personnel expenses	<u>16,157,123</u>	<u>12,496,003</u>
Meeting expenses:		
Meetings	489,744	216,662
Travel	880,256	478,331
Conference calls	25,150	27,130
Total meeting expenses	<u>1,395,150</u>	<u>722,123</u>
Operating expenses:		
Consultants and contracts	1,623,982	2,202,649
Rent and improvements	740,385	787,605
Office costs	892,906	589,048
Professional services	150,038	185,232
Depreciation	284,605	306,880
Miscellaneous	98,836	-
Total operating expenses	<u>3,790,752</u>	<u>4,071,414</u>
Total expenses	<u>21,343,025</u>	<u>17,289,540</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	4,867,774	1,601,218
CUMALATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	960,201	-
NET ASSETS, BEGINNING OF YEAR	<u>3,763,736</u>	<u>2,162,518</u>
NET ASSETS, END OF YEAR	<u>\$ 9,591,711</u>	<u>\$ 3,763,736</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,867,774	\$ 1,601,218
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	284,605	306,880
Unrealized gains on investments	(3,125)	-
Loss on disposal of property and equipment	118,951	-
Changes in operating assets and liabilities:		
Accounts receivable	-	22,179
Prepaid expenses and other assets	(120,222)	(42,585)
Accounts payable	(35,955)	(164,277)
Accrued expenses	313,166	179,839
Accrued salaries and related benefits	620,514	240,878
Deferred revenue	(8,985)	185,232
Deferred rent	(37,935)	(22,165)
Net cash provided by operating activities	<u>5,998,788</u>	<u>2,307,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvestment of earnings	(7,060,651)	-
Purchase of property and equipment	<u>(1,676,998)</u>	<u>(321,825)</u>
Net cash applied to investing activities	<u>(8,737,649)</u>	<u>(321,825)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,738,861)	1,985,374
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,392,961</u>	<u>5,407,587</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,654,100</u>	<u>\$ 7,392,961</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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 generally accepted accounting principles in the United States of America ("GAAP"). The Corporation is required to report information regarding its financial position and activities according to two classes of net assets - net assets with donor restrictions and net assets without donor restrictions. The Corporation had only net assets without donor restrictions as of December 31, 2019 and 2018, including 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 GAAP 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.

Adoption of New Accounting Standard - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. The ASU and all subsequently issued clarifying ASUs (collectively, "ASC 606") replaced most existing revenue recognition guidance in GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation adopted the new standard effective January 1, 2019 using the modified retrospective method. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with previous guidance.

The adoption of ASC 606 resulted in the Corporation recognizing revenue from penalty sanctions in the period the penalties are assessed versus deferral of penalty sanctions that would offset future member assessments. This cumulative effect of change in accounting principle resulted in an increase to net assets of \$960,201 effective January 1, 2019.

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.

Investments - Investments are recorded at fair value with realized and unrealized gains and losses included in the statements of activities as increases or decreases in net assets without donor restrictions. The fair value of investments is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities.

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.

Fair Value Measurement - GAAP 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 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.

Deferred Revenue - Deferred revenue represented amounts collected from members in advance of the periods in which such amounts are earned. For the year ended December 31, 2018, the Corporation followed a revenue recognition policy that was used in its industry whereby certain penalty assessments that had been invoiced and, in certain cases, collected, remained as deferred revenue until the accounting period in which such penalties become part of the budget process to determine regular member assessments. Upon adoption of ASC 606, the Corporation no longer recognizes these amounts as deferred revenue. Instead, they are recognized in the period that the penalty is assessed.

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.

Revenue Recognition - 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"). Although the funding is received from NERC, the members of the Corporation are its customers as the members of the Corporation are entities that the Corporation directly services. NERC assesses each member a share of its annual operating budget and funds SERC based on the approved budget noted above. The assessments are received from the members, via NERC, in four equal quarterly installments received at the beginning of each quarter. The Corporation also receives penalty sanctions directly from its members for penalties assessed by the Corporation as well as fees and miscellaneous revenue for workshops and other services performed.

A performance obligation is a promise to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Contracts may have a single performance obligation as the promise to transfer is not separately identifiable from other promises, and therefore, not distinct, while other contracts may have multiple performance obligations, most commonly due to the contract covering multiple deliverable arrangements.

For member assessments, there is one performance obligation to its members as each of its promises to transfer services is not separable or distinct from other promises under its agreement with NERC. These member assessments are recognized over time by the Corporation, over the course of the year's budget period with NERC. There is no variable consideration in the member assessments as these are determined and approved by NERC and FERC.

For penalty sanctions, the Corporation recognizes the revenue in the period the penalty is assessed. Workshops and miscellaneous revenue are each treated as individual performance obligations and the related revenue is recognized as the service is provided or at a point in time, based on the nature of the service. Payments for these revenue sources are due 30 days after they are invoiced. The timing of revenue recognition, billings and cash collections results in billed accounts receivable. The Corporation did not have any accounts receivable as of December 31, 2019, 2018, and 2017.

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, 2019 and 2018.

Subsequent Events - In preparing its financial statements, the Corporation has evaluated subsequent events through April 21, 2020, which is the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The table below represents financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,654,100	\$ 7,392,961
Other assets	224,395	127,645
Investments	<u>7,474,128</u>	<u>316,185</u>
Total financial assets	<u>12,352,623</u>	<u>7,836,791</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,352,623</u>	<u>\$ 7,836,791</u>

As part of the Corporation's liquidity management, it invests cash in excess of daily requirements in short-term investments, such as money market funds and fixed income securities. In addition to the above amounts, the Corporation has a line of credit for \$1,500,000 as mentioned in Note 6.

3. INVESTMENTS

Investment balances held by the Corporation are all Level 1 investments as of December 31, 2019. Investments consisted of the following as of December 31, 2019:

At fair value and fixed income securities:	
Money market	\$ 356,808
Fixed income securities	<u>6,706,968</u>
Total	<u>\$ 7,063,776</u>

Investment income consisted of the following for the year ended December 31, 2019:

Interest	\$ 56,358
Realized and unrealized gain	3,125
Other	<u>4,294</u>
Total	<u>\$ 63,777</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Software	\$ 1,362,988	\$ 1,427,857
Leasehold improvements	435,392	455,178
Computer equipment	262,749	436,415
Equipment	344,931	300,977
Furniture and fixtures	29,182	29,182
Construction in progress	<u>1,494,740</u>	<u>52,128</u>
Subtotal	3,929,982	2,701,737
Less accumulated depreciation	<u>1,838,799</u>	<u>1,883,996</u>
Total, net	<u>\$ 2,091,183</u>	<u>\$ 817,741</u>

5. 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 was scheduled to continue through March 31, 2020. This sublease was terminated in 2018 and replaced with a lease between the owner of the building and the Corporation which continues through January 31, 2025 and has annual rent payments ranging from approximately \$169,000 to approximately \$178,000.

The Corporation also has leases for various office equipment. Total rent expense for the years ended December 31, 2019 and 2018 was approximately \$807,000 and \$787,000, respectively.

The following is a schedule of the approximate future minimum lease payments under all long-term leases as of December 31, 2019:

During the year ending December 31:

2020	\$ 811,000
2021	821,000
2022	840,000
2023	859,000
2024	878,000
Thereafter	<u>73,000</u>
Total	<u>\$ 4,282,000</u>

6. 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 5% with all accrued interest and principal due in a single payment upon expiration of the note in May 2020. The line of credit is secured by the assets of the Corporation. There were no outstanding borrowings under the line of credit as of December 31, 2019 and 2018.

7. RETIREMENT PLANS

401(k) plan - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation makes 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, 2019 and 2018, contribution expense related to the plan totaled approximately \$1,384,000 and \$1,005,000, 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, 2019 and 2018, contribution expense related to the plan totaled \$45,109 and \$15,271, 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 \$410,352 and \$316,185 at December 31, 2019 and 2018, respectively.

8. FUNCTIONAL EXPENSES

The following is an allocation of expenses by functional category for the years ended December 31, 2019 and 2018:

	December 31, 2019		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$ 9,699,904	\$ 6,457,219	\$ 16,157,123
Meeting and travel	768,701	626,449	1,395,150
Consultants and contracts	331,212	1,292,770	1,623,982
Rent and improvements	-	740,385	740,385
Office costs	51,212	841,694	892,906
Professional services	-	150,038	150,038
Depreciation	-	284,605	284,605
Miscellaneous	-	98,836	98,836
	<u>\$ 10,851,029</u>	<u>\$ 10,491,996</u>	<u>\$ 21,343,025</u>
	December 31, 2018		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$ 6,374,891	\$ 6,121,112	\$ 12,496,003
Meeting and travel	393,367	328,756	722,123
Consultants and contracts	871,894	1,330,755	2,202,649
Rent and improvements	-	787,605	787,605
Office costs	18,208	570,840	589,048
Professional services	-	185,232	185,232
Depreciation	-	306,880	306,880
	<u>\$ 7,658,360</u>	<u>\$ 9,631,180</u>	<u>\$ 17,289,540</u>

9. DISAGGREGATION OF REVENUE

The following table disaggregates the Corporation's revenue for the years ended December 31, 2019 and 2018 based on the type of revenue:

	<u>2019</u>	<u>2018</u>
<u>Revenue recognized over time:</u>		
Member assessments	\$ 17,372,216	\$ 17,205,136
Investment income	72,178	4,693
Miscellaneous	<u>2,913,962</u>	<u>-</u>
Subtotal	<u>20,358,356</u>	<u>17,209,829</u>
 <u>Revenue recognized at a point in time:</u>		
Penalty sanctions	5,659,718	727,978
Workshops and miscellaneous	<u>192,725</u>	<u>952,951</u>
Subtotal	<u>5,852,443</u>	<u>1,680,929</u>
 Total	 <u>\$ 26,210,799</u>	 <u>\$ 18,890,758</u>

Miscellaneous revenue recognized over time for the year ended December 31, 2019 reflects member assessments allocated to the Corporation from Florida Reliability Coordinating Council.

10. SUBSEQUENT EVENT

On March 10, 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") to be a pandemic. The outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on its customers, employees and vendors, all of which are uncertain and cannot be predicted. Therefore, the extent to which COVID-19 may impact the Corporation's financial condition or results of operations is uncertain.

ATTACHMENT 6

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

DRAFT 2019 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.

April 30, 2020

Andy Sharp
North American Electric Reliability Corporation
3343 Peachtree Road, NE Floor East Tower – Suite 400
Atlanta, GA 30326

Subject: Texas Reliability Entity (Texas RE) 2019 Actual Cost-to-Budget Comparison

Dear Mr. Sharp,

Texas Reliability Entity (Texas RE) has completed the 2019 True-Up Analysis. The budget comparisons are for the 2019 Texas RE budget, formally approved by FERC.

Texas RE did not use Statutory funds for Non-statutory purposes.

Administrative Services costs are allocated as indirect costs to the programs based on actual FTE count.

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 2019 for assessments and penalty sanctions. Interest income is greater than budget by \$72,605. Texas RE's banking account is a Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. This type of account type allows for higher interest and dividend collections. The Interest Income variance is reflected in the variances for each statutory program.

EXPENSES

The 2019 total statutory expenses and fixed asset activity are 7.1% less than total budget.

Personnel Expenses are \$585,717 or 5.7% below budget due primarily to medical insurance (included in Employee Benefits) not increasing as projected. The CMEP department had vacancies throughout the year. Unused education reimbursement and training money (also included in Employee Benefits) added to the variance.

Travel and Meeting Expenses are \$2,850 or 0.7% greater than budget. The first annual meeting that included lunch, a speaker, the stakeholders, registered entities and the Board of Directors caused Meetings expense to be over budget.

Other Operating Expenses are \$313,791 or 13.4% less than budget. Consultants and Contracts are less than budget 14.4% due to cost savings in contract renewals and for IT managed services. The true up

for Utilities and Common Area Maintenance was less than anticipated leaving a 17.3% under-budget variance in Rent and Improvements. Due to negotiations with vendors for internet expense and software maintenance office cost is 6.7% less than budget. Unused legal fees and lower costs for penetration testing cause Professional Services to be 15.9% less than budget.

FIXED ASSETS

Texas RE did not purchase any Fixed Assets in 2019 resulting in the under-budget variance.

Although Texas RE ended the year \$926,658 or 7.1% under budget, Texas RE completed its intended activities for 2019.

In 2019 Texas RE completed 17 audits of which 12 were both O&P and CIP combined (2 were MRRE audits consisting of 2 entities across 2 regions), 3 audits were O&P only and 2 audits were CIP only. Texas RE also participated in and supported 1 FERC led CIP audit. The 14 audits that included CIP are as follows: 2 audits were MRRE CIP audits consisting of 2 entities across 2 regions that were low impact; 8 CIP audits were high impact and 4 CIP audits were low impact.

In 2019, Texas RE processed 46 technical feasibility exceptions (TFEs); 6 were terminated, 0 were disapproved, 0 required resubmission, 30 were processed as a material change and 10 were approved.

In 2019, Texas RE discovered 193 non-compliance matters and completely resolved 188 violations. The Texas RE caseload remained approximately the same, increasing from 411 to 416.

In 2019, Texas RE verified the completion of mitigation plans or mitigation activities for 113 possible violations (101 related to mitigation activities and 12 related to mitigation plans).

In 2019, a total of 84 events were examined, as follows: 73 – non-qualified events (below threshold for Categories 1-5), and 11 -Category 1 events. There were no Category 2, 3, 4, or 5 level events. In 2019, the data collected for use in performance analysis and reporting included:

- 4803 monthly reports by 402 conventional generators. 2122 immediate forced outages;
- 1986 monthly reports by 122 wind plants (208 groups and sub-groups with 14,132 turbines);
- 487 momentary and sustained forced outages reported on 16,382 circuit miles of 345kV, and 374 sustained forced outages reported on 23,224 circuit miles of 138kV; and
- 167 misoperations reported for 2630 protection system operations.

In 2019, Texas RE processed registration/function activation requests for 24 entities, deregistration/function deactivation requests for 7 entities, and registered entity name change requests for 9 entities.

In 2019, Texas RE conducted 1 TOP certifications and completed 1 certification review.

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 Reliability Entity, Inc.
2019 Statutory & Non-Statutory Statement of Activities and Fixed Assets
Audited

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 13,248,000	\$ 13,248,000	\$ -	0.0%
Penalty Sanctions	114,449	114,449	-	0.0%
State (Non-Statutory) Funding	1,124,495	1,124,495	-	0.0%
Interest & Membership Dues	87,818	15,000	72,818	485.5%
Total Revenue	\$ 14,574,762	\$ 14,501,944	\$ 72,818	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 7,884,959	\$ 8,081,786	\$ (196,827)	-2.4%
Payroll Taxes	539,407	552,536	(13,129)	-2.4%
Employee Benefits	1,205,338	1,495,786	(290,448)	-19.4%
Savings & Retirement	1,065,417	1,115,826	(50,409)	-4.5%
Total Personnel Expenses	\$ 10,695,120	\$ 11,245,934	\$ (550,814)	-4.9%
Meeting & Travel Expenses				
Meetings	\$ 24,842	\$ 19,800	\$ 5,042	25.5%
Travel	351,537	354,150	(2,613)	-0.7%
Conference Expenses	18,259	20,000	(1,741)	-8.7%
Total Meeting & Travel Expenses	\$ 394,639	\$ 393,950	\$ 689	0.2%
Operating Expenses				
Consultants & Contracts	\$ 345,960	\$ 444,383	\$ (98,423)	-22.1%
Rent & Improvements	841,275	763,104	78,171	10.2%
Office Costs	700,492	730,880	(30,388)	-4.2%
Professional Services	497,082	577,992	(80,910)	-14.0%
Total Direct Expenses	2,384,809	2,516,359	(131,550)	-5.2%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 13,474,568	\$ 14,156,243	\$ (681,675)	-4.8%
Change in Assets	\$ 1,100,194	\$ 345,701	\$ 754,493	218.3%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 30,000	\$ (30,000)	-100.0%
TOTAL BUDGET	\$ 13,474,568	\$ 14,186,243	\$ (711,675)	-5.0%
Change in Working Capital (Total Revenue less Total Budget)	\$ 1,100,194	\$ 315,701	\$ 784,493	248.5%
FTE's	60.80	65.00		

Texas Reliability Entity, Inc.
2019 Statutory Statement of Activities & Fixed Assets
Audited

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 13,248,000	\$ 13,248,000	\$ -	0.0%
Penalty Sanctions	114,449	114,449	-	0.0%
Interest & Membership Dues	87,605	15,000	72,605	484.0%
Total Revenue	\$ 13,450,054	\$ 13,377,449	\$ 72,605	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 7,149,347	\$ 7,394,175	\$ (244,828)	-3.3%
Payroll Taxes	489,336	506,088	(16,752)	-3.3%
Employee Benefits	1,109,848	1,383,053	(273,205)	-19.8%
Savings & Retirement	968,544	1,019,478	(50,934)	-5.0%
Total Personnel Expenses	\$ 9,717,077	\$ 10,302,794	\$ (585,717)	-5.7%
Meeting & Travel Expenses				
Meetings	\$ 24,842	\$ 19,800	\$ 5,042	25.5%
Travel	349,428	349,770	(342)	-0.1%
Conference Expenses	18,150	20,000	(1,850)	-9.3%
Total Meeting & Travel Expenses	\$ 392,420	\$ 389,570	\$ 2,850	0.7%
Operating Expenses				
Consultants & Contracts	\$ 342,813	\$ 400,250	\$ (57,437)	-14.4%
Rent & Improvements	585,095	707,214	(122,119)	-17.3%
Office Costs	639,853	686,070	(46,217)	-6.7%
Professional Services	465,682	553,700	(88,018)	-15.9%
Total Operating Expenses	2,033,443	2,347,234	(313,791)	-13.4%
Total Direct Expenses	\$ 12,142,940	\$ 13,039,598	\$ (896,658)	-6.9%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 12,142,940	\$ 13,039,598	\$ (896,658)	-6.9%
Change in Assets	\$ 1,307,114	\$ 337,851	\$ 969,263	286.9%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 30,000	\$ (30,000)	-100.0%
TOTAL BUDGET	\$ 12,142,940	\$ 13,069,598	\$ (926,658)	-7.1%
Change in Working Capital (Total Revenue less Total Budget)	\$ 1,307,114	\$ 307,851	\$ 999,263	324.6%
FTE's	56.90	60.00		

Texas Reliability Entity, Inc.
2019 Statement of Activities and Fixed Assets
Audited

Reliability Standards

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 365,967	\$ 365,967	\$ -	0.0%
Penalty Sanctions	3,162	3,162	-	0.0%
Interest & Membership Dues	2,598	414	2,184	527.5%
Total Revenue	\$ 371,727	\$ 369,543	\$ 2,184	0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 159,394	\$ 156,651	\$ 2,743	1.8%
Payroll Taxes	10,667	11,343	(676)	-6.0%
Employee Benefits	32,413	37,794	(5,381)	-14.2%
Savings & Retirement	20,748	20,583	165	0.8%
Total Personnel Expenses	\$ 223,221	\$ 226,371	\$ (3,150)	-1.4%
Meeting & Travel Expenses				
Meetings	\$ -	\$ -	\$ -	0.0%
Travel	2,925	12,200	(9,275)	-76.0%
Conference Expenses	3,312	7,000	(3,688)	-52.7%
Total Meeting & Travel Expenses	\$ 6,237	\$ 19,200	\$ (12,963)	-67.5%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	-	100	(100)	-100.0%
Professional Services	-	-	-	0.0%
Total Operating Expenses	-	100	(100)	-100.0%
Total Direct Expenses	\$ 229,458	\$ 245,671	\$ (16,213)	-6.6%
Indirect Expenses	\$ 144,297	\$ 142,791	\$ 1,506	1.1%
Total Expenses	\$ 373,755	\$ 388,462	\$ 16,891	4.3%
Change in Assets	\$ (2,028)	\$ (18,919)	\$ 16,891	-89.3%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ (2,052)	\$ 2,052	-100.0%
TOTAL BUDGET	\$ 373,755	\$ 386,410	\$ (12,655)	-3.3%
Change in Working Capital (Total Revenue less Total Budget)	\$ (2,028)	\$ (16,868)	\$ 14,840	-88.0%
FTE's	1.25	1.25		

Reliability Standards

Variations > +/- \$10,000 and 10%

Total Personnel Expenses are under budget 1.4%. Health Insurance, which is included in Employee Benefits, did not increase as projected.

Meeting and Travel expense is 67.5% or \$12,963 less than budget. The Manager of this department did not travel to meetings, but attended by conference calls.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

Reliability Standards is 3.3% less than budget in total.

Texas Reliability Entity, Inc.
2019 Statement of Activities and Fixed Assets
Audited

CMEP

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 10,466,652	\$ 10,466,652	\$ -	0.0%
Penalty Sanctions	90,421	90,421	-	0.0%
Interest & Membership Dues	67,860	11,851	56,009	472.6%
Total Revenue	\$ 10,624,933	\$ 10,568,924	\$ 56,009	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 3,676,216	\$ 4,062,640	\$ (386,424)	-9.5%
Payroll Taxes	279,625	305,272	(25,647)	-8.4%
Employee Benefits	645,134	777,434	(132,300)	-17.0%
Savings & Retirement	515,277	568,677	(53,400)	-9.4%
Total Personnel Expenses	\$ 5,116,252	\$ 5,714,022	\$ (597,770)	-10.5%
Meeting & Travel Expenses				
Meetings	\$ 142	\$ 300	\$ (158)	-52.7%
Travel	138,253	141,450	(3,197)	-2.3%
Conference Expenses	6,624	7,000	(376)	-5.4%
Total Meeting & Travel Expenses	\$ 145,019	\$ 148,750	\$ (3,731)	-2.5%
Operating Expenses				
Consultants & Contracts	\$ 154,747	\$ 162,000	\$ (7,253)	-4.5%
Rent & Improvements	-	-	-	0.0%
Office Costs	19,626	19,030	596	3.1%
Professional Services	-	-	-	0.0%
Total Operating Expenses	174,373	181,030	(6,657)	-3.7%
Total Direct Expenses	\$ 5,435,644	\$ 6,043,802	\$ (608,158)	-10.1%
Indirect Expenses	\$ 3,769,033	\$ 4,083,823	\$ (314,790)	-7.7%
Total Expenses	\$ 12,973,710	\$ 10,127,625	\$ -	0.0%
Change in Assets	\$ (2,348,777)	\$ 441,298	\$ (2,790,075)	-632.2%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ (58,680)	\$ -	0.0%
TOTAL BUDGET	\$ 12,973,710	\$ 10,068,946	\$ 2,904,764	28.8%
Change in Working Capital (Total Revenue less Total Budget)	\$ (2,348,777)	\$ 499,978	\$ (2,848,755)	-569.8%
FTE's	32.65	35.75		

CMEP

Variations > +/- \$10,000 and 10%

CMEP is 28.8% under budget for the year.

Personnel expenses for CMEP are 10.5% less than budget due to vacancies and timing of replacements in the department during the year. Budgeted FTEs were 35.75 and the actual FTE count for 2019 was 32.65. 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. Health Insurance, which is included in Employee Benefits, did not increase as projected.

Meeting and Travel expense is 2.5% less than budget.

Total Operating Expenses are 3.7 % less than budget.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

Texas Reliability Entity, Inc.
2019 Statement of Activities and Fixed Assets
Audited

RAPA

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 1,756,641	\$ 1,756,641	\$ -	
Penalty Sanctions	15,176	15,176	-	
Interest & Membership Dues	12,471	1,989	10,482	
Total Revenue	\$ 1,784,288	\$ 1,773,805	\$ 10,482	0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 891,252	\$ 880,124	\$ 11,128	1.3%
Payroll Taxes	62,630	60,689	1,941	3.2%
Employee Benefits	127,964	163,033	(35,069)	-21.5%
Savings & Retirement	124,905	126,663	(1,758)	-1.4%
Total Personnel Expenses	\$ 1,206,751	\$ 1,230,509	\$ (23,758)	-1.9%
Meeting & Travel Expenses				
Meetings	\$ -	\$ 1,000	\$ (1,000)	-100.0%
Travel	77,668	82,000	(4,332)	-5.3%
Conference Expenses	-	-	-	0.0%
Total Meeting & Travel Expenses	\$ 77,668	\$ 83,000	\$ (5,332)	-6.4%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	31,615	62,440	(30,825)	-49.4%
Professional Services	-	-	-	0.0%
Total Operating Expenses	31,615	62,440	(30,825)	-49.4%
Total Direct Expenses	\$ 1,316,033	\$ 1,375,949	\$ (59,916)	-4.4%
Indirect Expenses	\$ 692,625	\$ 685,397	\$ 7,228	1.1%
Total Expenses	\$ 2,008,658	\$ 2,061,346	\$ -	0.0%
Change in Assets	\$ (224,370)	\$ (287,541)	\$ 63,171	-22.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ (9,848)	\$ -	0.0%
TOTAL BUDGET	\$ 2,008,658	\$ 2,051,498	\$ (42,840)	-2.1%
Change in Working Capital (Total Revenue less Total Budget)	\$ (224,370)	\$ (277,692)	\$ 53,322	-19.2%

FTE's

6

6

RAPA

Variations > +/- \$10,000 and 10%

This department ended the year 2.1% less than budget.

Personnel expenses are 1.9% less than budget. Health Insurance, which is included in Employee Benefits, did not increase as projected. 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 6.4% less than budget due to holding meetings locally rather than traveling.

Operating Expenses are 49.4% less than budget due to maintenance cost for the PI Software (budgeted in Office Costs) not increasing as expected.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

Texas Reliability Entity, Inc.
2019 Statement of Activities and Fixed Assets
Audited

Training and Education

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
ERO Funding				
Assessments	658,740	\$ 658,740	\$ -	0.0%
Penalty Sanctions	\$ 5,691	5,691	-	0.0%
State (Non-Statutory) Funding	-	-	-	0.0%
Interest & Membership Dues	4,676	746	3,930	526.8%
Total Revenue	\$ 669,107	\$ 665,177	\$ 3,930	0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 204,356	\$ 197,995	\$ 6,361	3.2%
Payroll Taxes	14,109	14,114	(5)	0.0%
Employee Benefits	25,722	48,701	(22,979)	-47.2%
Savings & Retirement	26,384	26,424	(40)	-0.2%
Total Personnel Expenses	\$ 270,571	\$ 287,234	\$ (16,663)	-5.8%
Meeting & Travel Expenses				
Meetings	\$ 8,913	\$ 4,500	\$ 4,413	98.1%
Travel	5,163	2,480	2,683	108.2%
Conference Expenses	3,312	6,000	(2,688)	-44.8%
Total Meeting & Travel Expenses	\$ 17,389	\$ 12,980	\$ 4,409	34.0%
Operating Expenses				
Consultants & Contracts	\$ 385	\$ 3,000	\$ (2,615)	-87.2%
Rent & Improvements	-	-	-	0.0%
Office Costs	7,523	6,200	1,323	21.3%
Professional Services	250	-	250	0.0%
Total Operating Expenses	8,158	9,200	(1,042)	-11.3%
Total Direct Expenses	\$ 296,117	\$ 309,414	\$ (13,297)	-4.3%
Indirect Allocaton	\$ 259,734	\$ 257,024	\$ 14,517	5.6%
Total Expenses	555,851	566,438	-	0.0%
Change in Assets	\$ 113,256	\$ 98,739	\$ 14,517	14.7%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ (3,693)	\$ -	0.0%
TOTAL BUDGET	\$ 555,851	\$ 562,745	\$ (6,894)	-1.2%
Change in Working Capital (Total Revenue less Total Budget)	\$ 113,256	\$ 102,432	\$ 10,824	10.6%
FTE's	2.25	2.25		

Training and Education

Variations > +/- \$10,000 and 10%

The Training and Education department is 1.2% less than total budget.

Personnel expenses are 5.8% under budget. Health Insurance, which is included in Employee Benefits, did not increase as projected.

Total Meeting and Travel Expenses are 34.0% greater than budget. The first annual meeting with the Board of Directors, Stakeholders and Registered Entities was held in 2019. This was not included in the 2019 Meetings budget. The new manager for this department attended NERC workshops, RE meetings and training classes that have not been attended in the past, therefore causing the budget over-run. The unified communication system contract being less than budgeted caused the variance in conference expenses.

Operating Expenses are 11.3% less than budget. The contract for the legal hot line was less than budget due to negotiations for better pricing.

All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.

Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

Texas Reliability Entity, Inc.
2019 Statement of Activities and Fixed Assets
Audited

Administrative Services

Revenue	2019 Actual	2019 Budget	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	\$ 2,218,130	\$ 2,096,765	\$ 121,365	5.8%
Payroll Taxes	122,306	114,670	7,636	6.7%
Employee Benefits	278,616	356,091	(77,475)	-21.8%
Savings & Retirement	281,230	277,131	4,099	1.5%
Total Personnel Expenses	\$ 2,900,282	\$ 2,844,657	\$ 55,625	2.0%
Meeting & Travel Expenses				
Meetings	\$ 15,787	\$ 14,000	\$ 1,787	12.8%
Travel	125,420	111,640	13,780	12.3%
Conference Expenses	4,902	-	4,902	100.0%
Total Meeting & Travel Expenses	\$ 146,108	\$ 125,640	\$ 20,468	16.3%
Operating Expenses				
Consultants & Contracts	\$ 187,681	\$ 235,250	\$ (47,569)	-20.2%
Rent & Improvements	585,095	692,214	(107,119)	-15.5%
Office Costs	581,090	613,300	(32,210)	-5.3%
Professional Services	465,432	553,700	(88,268)	-15.9%
Total Operating Expenses	1,819,298	2,094,465	(275,167)	-13.1%
Total Direct Expenses	\$ 4,865,688	\$ 5,064,761	\$ (199,073)	-3.9%
Indirect Allocaton	\$ (4,865,688)	\$ (5,064,761)	\$ -	0.0%
Total Expenses	-	-	-	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 104,273	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ 104,273	\$ (104,273)	-100.0%
Change in Working Captial (Total Revenue less Total Budget)	\$ -	\$ (104,273)	\$ 104,273	-100.0%
FTE's	14.75	14.75		

Administrative Services

Variations > +/- \$10,000 and 10%

Overall Administrative Services expenses are 3.9% under budget.

Total Personnel expenses are over budget 2.0%. Salaries are greater than budget due to market compensation adjustments not included in the budget. Payroll Tax expense and Savings and Retirement expense are both directly impacted by Salaries expense. Employee Benefits budget includes education reimbursement and training money that was not utilized. Health insurance, which is included in Employee Benefits, did not increase as projected.

Total Meeting and Travel expense is 16.3% greater than budget. Travel is greater than budget due to more employees traveling for NERC leadership workshops

Operating expenses are 13.1% less than budget.

- Consultants and Contracts is less than budget due to using the same vendor for all compensation studies along with cost savings for IT managed services.
- 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, and computer supplies, 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 an IT external audit planned for 2019 was deemed unnecessary. Penetration testing was done remotely resulting in lower costs. Legal fees and consultants budgeted but not used contributed to the variance.
- All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.
- Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

General and Administrative

Variations > +/- \$10,000 and 10%

Personnel Expenses are 5.5% greater than budget. Market compensation adjustments were not included in the budget. Employee Benefits include health insurance and rates did not increase as projected. Forfeitures were used as available to fund the employer portion of the retirement plans resulting in savings.

Meeting and Travel Expenses are 48.1% greater than budget. Executives attended more NERC leadership workshops and FERC meetings in Washington, DC. that were not included in the 2019 budget.

Operating Expenses are 7.9% less than budget. Utilities, included in Rent and Improvements, are not as high as anticipated in 2019 due to the adjustment to Common Area Maintenance charges being less than budget.

Legal and Regulatory

Variations > +/- \$10,000 and 10%

Personnel Expenses are 0.2% greater than budget. Employee Benefits include health insurance and rates which did not increase as projected.

Meeting and Travel Expenses are 16.8% less than budget due to airfare cost savings. The Assistant General Counsel did not attend one meeting that was scheduled.

Operating Expenses are 31.9% less than budget due to unused Legal fees for outside counsel.

Information Technology

Variations > +/- \$10,000 and 10%

Personnel expenses are less than budget by 2.4%. Employee benefits is the driver for this variance. Health insurance premiums did not increase as expected and some scheduled training did not occur.

Meeting and Travel expense is 46.3% less than budget. Security training for an employee requiring travel was not utilized.

Operating Expenses are 21.8% less than budget. An IT external audit planned for 2019 was deemed unnecessary causing the variance in consultants and contracts. Two penetration testings were budgeted for 2019. Only one penetration test was done and it was done remotely resulting in less cost for Professional Services.

Human Resources

Variations > +/- \$10,000 and 10%

All Personnel expenses are included in G & A.

Total Meeting and Travel Expense is 11.0% less than budget. Meetings cost are slightly over budget due to more staff meetings occurring than scheduled. Travel is under budget because HR manager did not travel for a Society of Human Resource Management conference that was included in the budget.

Operating Expenses are 20.3% less than budget driven by Consultants and contracts. This category is less than budget because one firm was contracted to conduct all benefits and compensation surveys. Using one firm allowed for a better price.

Accounting and Finance

Variations > +/- \$10,000 and 10%

Personnel expenses are 0.5% greater than budget. Salaries are greater than budget due to salaries being adjusted based on compensation studies. Employee Benefits include health insurance and rates which did not increase as projected.

Travel is 8.7% less than budget.

Operating Costs are 4.1% less than budget.

Texas Reliability Entity, Inc.
2018 Statement of Activities and Fixed Assets
Audited

Texas Reliability Monitor (Non-Statutory)

Revenue	2019 Actual	2019 Budget	Variance from Budget	%
State (Non-Statutory) Funding	1,091,743	1,091,743	-	0%
Interest & Membership Dues	288	-	288	0%
Total Revenue	\$ 1,092,031	\$ 1,091,743	\$ 288	0%
Expenses				
Personnel Expenses				
Salaries	\$ 562,630	\$ 673,288	\$ (110,658)	-16%
Payroll Taxes	38,572	37,920	652	2%
Employee Benefits	74,370	139,336	(64,966)	-47%
Savings & Retirement	81,208	97,624	(16,416)	-17%
Total Personnel Expenses	\$ 756,780	\$ 948,168	\$ (191,388)	-20%
Meeting & Travel Expenses				
Meetings	\$ -	\$ -	\$ -	0%
Travel	2,176	1,800	376	21%
Conference Expenses	112	1,000	(888)	-89%
Total Meeting & Travel Expenses	\$ 2,288	\$ 2,800	\$ (512)	-18%
Operating Expenses				
Consultants & Contracts	\$ 1,724	\$ 24,927	\$ (23,203)	-93%
Rent & Improvements	258,176	58,752	199,424	339%
Office Costs	104,906	19,960	84,946	426%
Professional Services	27,945	20,900	7,045	34%
Depreciation	15,109	16,236	(1,128)	-7%
Total Operating Expenses	407,861	140,775	267,086	190%
Total Direct Expenses	\$ 1,166,929	\$ 1,091,743	\$ 75,186	7%
Indirect Allocation				
Total Expenses	1,166,929	1,091,743	267,086	24%
Change in Assets	\$ (74,898)	\$ -	\$ (74,898)	0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0%
TOTAL BUDGET	\$ 1,166,929	\$ 1,091,743	\$ 75,186	7%
Change in Working Capital	\$ (74,898)	\$ -	\$ (74,898)	0%
FTE's	3.0	4.0		

Texas Reliability Entity, Inc.
Penalty Sanctions
For year ended December 31, 2019

Date Invoiced	Date Rec'd	Amount	Year to Recognize for BP&B				
			2018	2019	2020	2021	
		Subtotal 2011		\$ 1,225,830			
		Subtotal 2012		\$ 447,833			
		Subtotal 2013		\$ 635,000			
		Subtotal 2014		\$ 315,250			
		Subtotal 2015		\$ 102,000			
		NO Fines & Penalty Monies received in 2016	\$	-			
		Subtotal 2017		\$ 389,449			
6/1/2018	7/1/2018		\$ 140,000		\$ 140,000		
6/1/2018	7/3/2018		\$ 45,000		\$ 45,000		
7/5/2018	7/11/2018		\$ 300,000		\$ 300,000		
10/2/2018	11/1/2018		\$ 225,000		\$ 225,000		
		Subtotal 2018	\$ 710,000				
11/20/2019	12/15/2019		\$ 169,195			\$ 169,195	
		Subtotal 2019	\$ 169,195				
			\$ 3,284,557	\$ 275,000	\$ 114,449	\$ 710,000	\$ 169,195

Texas RE 2019 Penalties Reconciliation	12/31/2019	12/31/2018	Change in 2019
Total Cumulative Penalties - GAAP/BKD Audit	\$ 3,284,557	\$ 2,895,108	\$ 389,449
Total Cumulative Penalties - True Up Report	\$ 4,269,557	\$ 3,994,557	\$ 275,000
	\$ (985,000)	\$ (1,099,449)	\$ 114,449

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Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Texas Reliability Entity, Inc. December 31, 2019 and 2018

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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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Dallas, Texas
June ____, 2020

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 4,439,254	\$ 3,474,259
Assets limited to use – cash	879,996	830,002
	<u>5,319,250</u>	<u>4,304,261</u>
Accounts receivable	14,722	-
Other current assets	405,099	406,188
	<u>5,739,071</u>	<u>4,710,449</u>
Property and Equipment, Net	<u>72,835</u>	<u>210,858</u>
Total assets	<u>\$ 5,811,906</u>	<u>\$ 4,921,307</u>

Liabilities and Net Assets**Current Liabilities**

Accounts payable	\$ 17,274	\$ 34,792
Accrued liabilities	888,941	857,252
Deferred rent	109,713	140,527
	<u>1,015,928</u>	<u>1,032,571</u>

Noncurrent Liabilities

Deferred rent	-	109,713
	<u>-</u>	<u>109,713</u>
Total noncurrent liabilities	<u>-</u>	<u>109,713</u>
Total liabilities	<u>1,015,928</u>	<u>1,142,284</u>

Net Assets Without Donor Restrictions

Undesignated	3,915,982	2,949,021
Regulator designated	879,996	830,002
	<u>4,795,978</u>	<u>3,779,023</u>
Total net assets without donor restrictions	<u>4,795,978</u>	<u>3,779,023</u>
Total liabilities and net assets	<u>\$ 5,811,906</u>	<u>\$ 4,921,307</u>

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Other Support		
Statutory revenue		
Assessments	\$ 13,248,000	\$ 11,271,986
Penalty sanctions	169,195	710,000
Protocol revenue	1,124,495	1,091,743
Interest income	<u>87,818</u>	<u>60,509</u>
	<u>14,629,508</u>	<u>13,134,238</u>
Expenses		
Salaries and related benefits	10,695,121	9,874,885
Facility and equipment costs	1,056,201	1,036,762
Outside services	843,042	687,313
Travel and meetings	394,638	313,130
Administrative and other	485,568	537,426
Depreciation and amortization	<u>137,983</u>	<u>193,694</u>
	<u>13,612,553</u>	<u>12,643,210</u>
Change in Net Assets Without Donor Restrictions	1,016,955	491,028
Net Assets Without Donor Restrictions, Beginning of Year	<u>3,779,023</u>	<u>3,287,995</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 4,795,978</u>	<u>\$ 3,779,023</u>

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

	Statutory Program				Nonsatutory Program	Supporting Services							Total Supporting Services	Total Expenses
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance			
Expenses														
Salaries and related benefits														
Salaries	\$ 159,394	\$ 3,676,218	\$ 891,252	\$ 204,356	\$ 735,611	\$ 5,666,831	\$ 961,283	\$ 373,016	\$ 459,769	\$ 107,479	\$ 316,583	\$ 2,218,130	\$ 7,884,961	
Payroll taxes	10,667	279,625	62,630	14,109	50,070	417,101	32,331	23,595	35,776	8,333	22,270	122,305	539,406	
Employee benefits	32,413	645,134	127,964	25,722	95,489	926,722	52,024	42,343	105,045	33,687	45,516	278,615	1,205,337	
Savings and retirement	20,748	515,277	124,905	26,384	96,872	784,186	72,859	53,314	63,443	46,140	45,475	281,231	1,065,417	
Total personnel expenses	223,222	5,116,254	1,206,751	270,571	978,042	7,794,840	1,118,497	492,268	664,033	195,639	429,844	2,900,281	10,695,121	
Meeting and travel expenses														
Meetings	-	142	-	8,913	-	9,055	31	-	59	15,697	-	15,787	24,842	
Travel	2,925	138,251	77,668	5,163	2,110	226,117	99,693	11,914	7,604	2,276	3,933	125,420	351,537	
Conference expenses	3,312	6,624	-	3,312	109	13,357	3,312	-	1,590	-	-	4,902	18,259	
Total meeting and travel expenses	6,237	145,017	77,668	17,388	2,219	248,529	103,036	11,914	9,253	17,973	3,933	146,109	394,638	
Operating expenses														
Consultants and contracts	-	154,747	-	385	3,147	158,279	78,049	1,826	47,132	60,674	-	187,681	345,960	
Rent and improvements	-	-	-	-	256,180	256,180	585,095	-	-	-	-	585,095	841,275	
Office costs	-	19,626	31,615	7,523	60,638	119,402	109,605	4,002	447,575	10,158	9,750	581,090	700,492	
Professional services	-	-	-	250	31,400	31,650	378,574	26,253	11,439	250	48,917	465,433	497,083	
Depreciation	-	-	-	-	9,786	9,786	128,198	-	-	-	-	128,198	137,984	
Total operating expenses	-	174,373	31,615	8,158	361,151	575,297	1,279,521	32,081	506,146	71,082	58,667	1,947,497	2,522,794	
Total expenses	\$ 229,459	\$ 5,435,644	\$ 1,316,034	\$ 296,117	\$ 1,341,412	\$ 8,618,666	\$ 2,501,054	\$ 536,263	\$ 1,179,432	\$ 284,694	\$ 492,444	\$ 4,993,887	\$ 13,612,553	

Texas Reliability Entity, Inc.
Statement of Functional Expenses (Continued)
Year Ended December 31, 2018

	Statutory Program				Nonstatutory Program	Supporting Services							
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	Total Expenses
Expenses													
Salaries and related benefits													
Salaries	\$ 155,186	\$ 3,522,373	\$ 846,959	\$ 156,950	\$ 562,630	\$ 5,244,098	\$ 877,979	\$ 356,071	\$ 425,419	\$ 101,098	\$ 300,154	\$ 2,060,721	\$ 7,304,819
Payroll taxes	10,543	266,395	58,999	10,615	38,572	385,124	25,347	20,096	32,841	7,951	19,564	105,799	490,923
Employee benefits	31,915	589,471	131,958	35,297	74,370	863,011	35,976	43,810	114,363	36,815	39,985	270,949	1,133,960
Savings and retirement	19,177	465,505	112,455	21,817	81,208	700,162	61,684	51,298	60,044	30,888	41,107	245,021	945,183
Total personnel expenses	216,821	4,843,744	1,150,371	224,679	756,780	7,192,395	1,000,986	471,275	632,667	176,752	400,810	2,682,490	9,874,885
Meeting and travel expenses													
Meetings	-	306	20	1,774	-	2,100	246	-	321	11,205	-	11,772	13,872
Travel	1,272	108,446	64,626	752	2,176	177,272	75,006	8,137	7,212	4,567	3,541	98,463	275,735
Conference expenses	7,494	9,770	-	3,358	112	20,734	2,276	-	513	-	-	2,789	23,523
Total meeting and travel expenses	8,766	118,522	64,646	5,884	2,288	200,106	77,528	8,137	8,046	15,772	3,541	113,024	313,130
Operating expenses													
Consultants and contracts	-	150,240	-	2,317	1,724	154,281	16,387	1,814	57,835	31,168	-	107,204	261,485
Rent and improvements	-	-	-	-	258,176	258,176	570,131	-	-	-	-	570,131	828,307
Office costs	-	22,440	68,523	3,614	104,906	199,483	89,725	4,683	427,904	12,285	11,802	546,399	745,882
Professional services	-	-	-	-	27,945	27,945	326,175	13,745	9,765	750	47,447	397,882	425,827
Depreciation	-	-	-	-	15,109	15,109	178,585	-	-	-	-	178,585	193,694
Total operating expenses	-	172,680	68,523	5,931	407,860	654,994	1,181,003	20,242	495,504	44,203	59,249	1,800,201	2,455,195
Total expenses	\$ 225,587	\$ 5,134,946	\$ 1,283,540	\$ 236,494	\$ 1,166,928	\$ 8,047,495	\$ 2,259,517	\$ 499,654	\$ 1,136,217	\$ 236,727	\$ 463,600	\$ 4,595,715	\$ 12,643,210

Texas Reliability Entity, Inc.
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 1,016,955	\$ 491,028
Item not requiring cash		
Depreciation	137,983	193,694
Changes in		
Accounts receivable	(14,722)	-
Other current assets	1,129	(55,226)
Accounts payable	(17,518)	(25,443)
Accrued liabilities	31,689	14,569
Deferred rent	(140,527)	(85,381)
	<u>1,014,989</u>	<u>533,241</u>
Investing Activities		
Capital expenditures for property and equipment and systems under development	<u>-</u>	<u>(45,592)</u>
	<u>-</u>	<u>(45,592)</u>
Net Increase in Cash and Cash Equivalents	1,014,989	487,649
Cash and Cash Equivalents, Beginning of Year	<u>4,304,261</u>	<u>3,816,612</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,319,250</u>	<u>\$ 4,304,261</u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

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.

Texas Reliability Entity, Inc. Notes to Financial Statements December 31, 2019 and 2018

- **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 that 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, Governance, and Finance Committee, which is comprised of the Independent Directors.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Texas RE has one stakeholder committee, the Member Representatives Committee (MRC). 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 through its elected Chair and Vice-Chair, who serve as directors.

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, 2019 and 2018, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2019, Texas RE's cash accounts, excluding its sweep account that had a balance of \$5,603,518, exceeded federally insured limits by approximately \$785,000. 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 \$879,996 and \$830,002 at December 31, 2019 and 2018, 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).

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

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 \$324,000 during 2019 and \$283,000 during 2018) 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 its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Deferred Rent

In 2010, Texas RE entered into an operating lease agreement that was modified in 2019 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.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program and management and general categories based on actual use and management estimates.

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 2016.

Note 3: Property and Equipment

Property and equipment at December 31 consists of:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 761,631	\$ 761,631
Computer hardware	754,361	754,361
Computer software	1,493,734	1,493,734
Furniture	402,859	402,859
Leasehold improvement	<u>546,346</u>	<u>546,346</u>
Total property and equipment	3,958,931	3,958,931
Less accumulated depreciation and amortization	<u>3,886,096</u>	<u>3,748,073</u>
Total property and equipment, net	<u>\$ 72,835</u>	<u>\$ 210,858</u>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: 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, 2019. 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 \$28,572 and \$66,667 at December 31, 2019 and 2018, respectively.

On March 27, 2019, Texas RE executed an extension of the lease agreement for the period October 1, 2020 through March 31, 2022.

Future minimum lease payments at December 31, 2019, were:

2020	\$ 790,087
2021	788,743
2022	<u>201,504</u>
	<u>\$ 1,780,334</u>

Note 5: 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 \$1,032,013 and \$927,726, respectively, in 2019 and 2018.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,439,254	\$ 3,474,259
Accounts receivable	14,722	-
Other current assets	<u>405,099</u>	<u>406,188</u>
 Total financial assets	 4,859,075	 3,880,447
 Less regulator designated net assets	 <u>879,996</u>	 <u>830,002</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 3,979,079</u>	 <u>\$ 3,050,445</u>

Texas RE manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Texas RE has a Working Capital and Operating Reserve Policy to retain a \$2,000,000 cash reserve, or an amount as adjusted by the Board of Directors, or as required by regulators.

This operating reserve is a contingency reserve to ensure the stability of the ongoing operations of Texas RE. As part of Texas RE's liquidity management, its financial assets are structured to be available as its general expenditures, liabilities and other obligations come due. In addition, Texas RE invests cash in excess of daily requirements in short-term investments. To achieve these targets, Texas RE monitors its liquidity quarterly, and monitors its reserves annually.

During the years ended December 31, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities.

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020.

Texas RE is evaluating the impact the standards will have on the financial statements.

Note 8: Subsequent Events

Subsequent events have been evaluated through the date of June ____, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of Texas RE. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

DRAFT

Other Information

Texas Reliability Entity, Inc.
Schedule of Statutory and Nonstatutory Operating Activities
Year Ended December 31, 2019

	<u>Statutory</u>	<u>Nonstatutory</u>	<u>Total</u>
Revenues, Gains and Other Support			
Statutory revenue	\$ 13,417,195	\$ -	\$ 13,417,195
Protocol revenue	-	1,124,495	1,124,495
Interest income	87,605	213	87,818
	<u>13,504,800</u>	<u>1,124,708</u>	<u>14,629,508</u>
Expenses			
Salaries and related benefits	9,717,078	978,043	10,695,121
Facility and equipment costs	784,138	272,063	1,056,201
Outside services	808,495	34,547	843,042
Travel and meetings	392,419	2,219	394,638
Administrative and other	440,813	44,755	485,568
Depreciation and amortization	128,197	9,786	137,983
	<u>12,271,140</u>	<u>1,341,413</u>	<u>13,612,553</u>
Change in Unrestricted Net Assets	1,233,660	(216,705)	1,016,955
Unrestricted Net Assets, Beginning of Year	<u>2,969,496</u>	<u>809,527</u>	<u>3,779,023</u>
Unrestricted Net Assets, End of Year	<u>\$ 4,203,156</u>	<u>\$ 592,822</u>	<u>\$ 4,795,978</u>

Texas Reliability Entity, Inc.
Statutory and Nonstatutory Statement of Activity by Program
Year Ended December 31, 2019

	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	\$ 365,967	\$ 10,466,652	\$ 1,756,641	\$ 658,740	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,248,000	\$ -	\$ 13,248,000
Penalty sanctions	4,674	133,673	22,435	8,413	-	-	-	-	-	169,195	-	169,195
State (non-statutory) funding	-	-	-	-	-	-	-	-	-	-	1,124,495	1,124,495
Interest income	2,598	67,860	12,471	4,676	-	-	-	-	-	87,605	213	87,818
Total funding	373,239	10,668,185	1,791,547	671,829	-	-	-	-	-	13,504,800	1,124,708	14,629,508
Expenses												
Salaries and related benefits												
Salaries	159,394	3,676,218	891,252	204,356	961,283	373,016	459,769	107,479	316,583	7,149,350	735,611	7,884,961
Payroll taxes	10,667	279,625	62,630	14,109	32,331	23,595	35,776	8,333	22,270	489,336	50,070	539,406
Employee benefits	32,413	645,134	127,964	25,722	52,024	42,343	105,045	33,687	45,516	1,109,848	95,489	1,205,337
Savings and retirement	20,748	515,277	124,905	26,384	72,859	53,314	63,443	46,140	45,475	968,545	96,872	1,065,417
Total personnel expenses	223,222	5,116,254	1,206,751	270,571	1,118,497	492,268	664,033	195,639	429,844	9,717,079	978,042	10,695,121
Meeting and travel expenses												
Meetings	-	142	-	8,913	31	-	59	15,697	-	24,842	-	24,842
Travel	2,925	138,251	77,668	5,163	99,693	11,914	7,604	2,276	3,933	349,427	2,110	351,537
Conference expenses	3,312	6,624	-	3,312	3,312	-	1,590	-	-	18,150	109	18,259
Total meeting and travel expenses	6,237	145,017	77,668	17,388	103,036	11,914	9,253	17,973	3,933	392,419	2,219	394,638
Operating expenses												
Consultants and contracts	-	154,747	-	385	78,049	1,826	47,132	60,674	-	342,813	3,147	345,960
Rent and improvements	-	-	-	-	585,095	-	-	-	-	585,095	256,180	841,275
Office costs	-	19,626	31,615	7,523	109,604	4,002	447,575	10,158	9,750	639,853	60,639	700,492
Professional services	-	-	-	250	378,574	26,253	11,439	250	48,917	465,683	31,400	497,083
Depreciation and amortization	-	-	-	-	128,198	-	-	-	-	128,198	9,786	137,984
Total operating expenses	-	174,373	31,615	8,158	1,279,520	32,081	506,146	71,082	58,667	2,161,642	361,152	2,522,794
Total expenses	229,459	5,435,644	1,316,034	296,117	2,501,053	536,263	1,179,432	284,694	492,444	12,271,140	1,341,413	13,612,553
Change in Unrestricted Net Assets	\$ 143,780	\$ 5,232,541	\$ 475,513	\$ 375,712	\$ (2,501,053)	\$ (536,263)	\$ (1,179,432)	\$ (284,694)	\$ (492,444)	\$ 1,233,660	\$ (216,705)	\$ 1,016,955

ATTACHMENT 7

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL



WECC

**2019 Audited Statement of Activities (SOA)
and Variance Explanations**

Jillian Lessner

May 1, 2020

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Overview

The audited change in statutory working capital for the year ended December 31, 2019, is under budget by \$5,242,000. The major drivers of the 2019 statutory underrun are:

- Penalty Sanctions are over budget by \$4,572,000 due to a change in Generally Accepted Accounting Principles (GAAP) for revenue recognition timing. For purposes of financial reporting, WECC now recognizes penalties when approved by the Federal Energy Regulatory Commission (FERC), rather than in the year in which the penalties offset assessments. Details of the overrun can be found in the [Statutory Activities](#) section, and a reconciliation of penalties can be found in [Appendix A](#).
- Personnel Expenses are under budget by a net of \$749,000 primarily due to a tight labor market for unique skill sets, which contributed to a higher-than-anticipated labor float rate throughout the organization.
- Operating Expenses are over budget by a net of \$478,000 primarily due to consulting deliverables budgeted in a prior year but completed in January 2019, unbudgeted information technology consulting, unbudgeted upgrades to the Salt Lake City office and meeting space, less-than-anticipated contract labor in the Compliance Monitoring and Enforcement Program Area due to broadened staff skill sets, and a budgeted but uninitiated Board Director search.

This document provides a summary of significant overall variances (greater than \$10,000 and 10%) 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 2019 Business Plan and Budget, with the following exception:

- Complete initial Inherent Risk Assessments (IRA) by the end of 2019 for all entities registered after June 2016.
 - Approximately 22% of the initial IRAs were not completed in 2019 and are still in progress.

Allocation of Indirect Costs

Corporate Services costs are allocated to program activities based on a full-time equivalent (FTE) ratio consistent with NERC's accounting method for allocation of overhead.

Non-Statutory Program

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 2019, indirect costs were allocated to the non-statutory activity based on FTEs. Indirect costs include General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting 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.



2019 Audited SOA—Statutory and Non-Statutory Activities

Western Electricity Coordinating Council				
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Statutory and Non-Statutory				
	2019 Actual	2019 Budget	2019 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 25,282,000	\$ 25,282,000	\$ -	
Penalty Sanctions	5,160,000	587,686	4,572,314	
Total ERO Funding	\$ 30,442,000	\$ 25,869,686	\$ 4,572,314	
Membership Fees	\$ 2,361,424	\$ 2,058,996	\$ 302,428	
Services & Software	-	-	-	
Workshops	518,952	426,375	92,577	
Interest	474,967	186,900	288,067	
Miscellaneous	-	-	-	
Total Funding	\$ 33,797,343	\$ 28,541,957	\$ 5,255,386	
Expenses				
Personnel Expenses				
Salaries	\$ 15,818,843	\$ 16,342,100	\$ (523,257)	
Payroll Taxes	1,070,294	1,070,272	22	
Employee Benefits	2,169,768	2,386,684	(216,916)	
Savings & Retirement	1,330,137	1,350,530	(20,394)	
Total Personnel Expenses	\$ 20,389,041	\$ 21,149,586	\$ (760,545)	
Meeting Expenses				
Meetings	\$ 582,369	\$ 644,766	\$ (62,397)	
Travel	1,224,895	1,426,133	(201,238)	
Conference Calls	60,462	57,600	2,862	
Total Meeting Expenses	\$ 1,867,726	\$ 2,128,499	\$ (260,773)	
Operating Expenses				
Consultants & Contracts	\$ 1,397,114	\$ 1,292,890	\$ 104,224	
Office Rent	998,091	972,909	25,182	
Office Costs	2,301,458	2,151,847	149,611	
Professional Services	999,332	908,280	91,052	
Miscellaneous	407	-	407	
Depreciation	246,916	238,545	8,371	
Total Operating Expenses	\$ 5,943,318	\$ 5,564,471	\$ 378,847	
Total Direct Expenses	\$ 28,200,085	\$ 28,842,556	\$ (642,471)	
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 28,200,085	\$ 28,842,556	\$ (642,471)	
Change in Assets	\$ 5,597,258	\$ (300,599)	\$ 5,897,857	
Fixed Assets				
Depreciation	\$ (246,916)	\$ (238,545)	\$ (8,371)	
Computer & Software CapEx	-	5,000	(5,000)	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	264,839	105,000	159,839	
Leasehold Improvements	40,126	12,000	28,126	
Allocation of Fixed Assets	-	-	-	
Incr(Dec) in Fixed Assets	\$ 58,048	\$ (116,545)	\$ 174,593	
Total Budget	\$ 28,258,134	\$ 28,726,011	\$ (467,878)	
Change in Working Capital	\$ 5,539,210	\$ (184,054)	\$ 5,723,264	
FTEs	133.1	149.0	(15.9)	
Headcount	134.0	149.0	(15.0)	



2019 Audited SOA—Statutory Activities

Western Electricity Coordinating Council 2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Statutory Summary					
	2019 Actual	2019 Budget	2019 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 25,282,000	\$ 25,282,000	\$ -		
Penalty Sanctions	5,160,000	587,686	4,572,314		778.0%
Total ERO Funding	\$ 30,442,000	\$ 25,869,686	\$ 4,572,314		17.7%
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops	517,562	424,500	93,062		21.9%
Interest	314,902	120,000	194,902		162.4%
Miscellaneous	-	-	-		
Total Funding	\$ 31,274,464	\$ 26,414,186	\$ 4,860,278		18.4%
Expenses					
Personnel Expenses					
Salaries	\$ 15,338,679	\$ 15,865,018	\$ (526,339)		(3.3%)
Payroll Taxes	1,035,736	1,037,393	(1,657)		(0.2%)
Employee Benefits	2,104,299	2,302,710	(198,411)		(8.6%)
Savings & Retirement	1,288,109	1,311,110	(23,001)		(1.8%)
Total Personnel Expenses	\$ 19,766,822	\$ 20,516,231	\$ (749,409)		(3.7%)
Meeting Expenses					
Meetings	\$ 578,284	\$ 640,953	\$ (62,669)		(9.8%)
Travel	1,209,214	1,408,868	(199,654)		(14.2%)
Conference Calls	60,462	57,600	2,862		5.0%
Total Meeting Expenses	\$ 1,847,961	\$ 2,107,421	\$ (259,460)		(12.3%)
Operating Expenses					
Consultants & Contracts	\$ 1,397,114	\$ 1,292,890	\$ 104,224		8.1%
Office Rent	998,091	972,909	25,182		2.6%
Office Costs	1,806,813	1,557,679	249,134		16.0%
Professional Services	999,332	908,280	91,052		10.0%
Miscellaneous	407	-	407		100.0%
Depreciation	246,916	238,545	8,371		3.5%
Total Operating Expenses	\$ 5,448,673	\$ 4,970,303	\$ 478,370		9.6%
Total Direct Expenses	\$ 27,063,456	\$ 27,593,955	\$ (530,499)		(1.9%)
Indirect Expenses	\$ (549,451)	\$ (532,909)	\$ (16,542)		3.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 26,514,005	\$ 27,061,046	\$ (547,041)		(2.0%)
Change in Assets	\$ 4,760,460	\$ (646,860)	\$ 5,407,320		(835.9%)
Fixed Assets					
Depreciation	\$ (246,916)	\$ (238,545)	\$ (8,371)		3.5%
Computer & Software CapEx	-	5,000	(5,000)		(100.0%)
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	264,839	105,000	159,839		152.2%
Leasehold Improvements	40,126	12,000	28,126		234.4%
Allocation of Fixed Assets	(3,547)	6,065	(9,612)		(158.5%)
Incr(Dec) in Fixed Assets	\$ 54,501	\$ (110,480)	\$ 164,981		(149.3%)
Total Budget	\$ 26,568,506	\$ 26,950,566	\$ (382,060)		(1.4%)
Change in Working Capital	\$ 4,705,958	\$ (536,380)	\$ 5,242,338		(977.4%)
FTEs	127.5	143.0	(15.5)		
Headcount	128.0	143.0	(15.0)		



Significant Variance Explanations—Statutory Activities

Funding

- Penalty Sanctions: \$4,572,000 over budget due to a change in the revenue recognition of penalty funding per GAAP. For financial reporting, penalties are now recognized as revenue when approved by FERC, rather than in the year in which the penalties are budgeted to offset assessments. See [Appendix A](#). The overrun represents the net of:
 - \$588,000 in penalties budgeted as revenue and used to offset assessments in the 2019 Business Plan and Budget, but recognized as penalty revenue for financial reporting purposes as a 2018 prior-period adjustment;
 - \$2,980,000 in penalties collected and recognized as revenue in 2019 for financial reporting purposes, but to be budgeted and used to offset assessments in the 2021 Business Plan and Budget; and
 - \$2,180,000 in penalties approved by FERC, not yet collected, and recognized as penalty revenue for financial reporting purposes in 2019, but to be budgeted and used to offset assessments in a future year's Business Plan and Budget.
- Workshops: \$93,000 over budget due to higher-than-anticipated attendance at outreach events. Total revenue from registration fees offsets the meeting expenses for those events.
- Interest: \$195,000 over budget due to higher-than-anticipated rates of return on investments.

Personnel Expenses

- Personnel Expenses: \$749,000 under budget primarily due to a tight labor market for unique skill sets and budgeted labor float rate assumptions compared to actual vacancy rates.

Meeting Expenses

- Travel: \$200,000 under budget primarily due to a reduction in the number of people traveling for on-site audits and less-than-anticipated travel of Board Directors and administrative support.

Operating Expenses

- Office Costs: \$249,000 over budget primarily due to:
 - Unbudgeted audio-visual system upgrades and furniture replacement for the Salt Lake City office and meeting space;
 - Higher-than-anticipated cost of computer licenses and maintenance; and
 - The purchase of an unbudgeted Genscape license.
- Professional Services: \$91,000 over budget primarily due to legal fees related to unanticipated regulatory activities and a bankruptcy proceeding.



Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Equipment CapEx: \$160,000 over budget due to unbudgeted audio-visual system upgrades to the Salt Lake City office and meeting space.
- Leasehold Improvements: \$28,000 over budget due to unbudgeted upgrades to the Salt Lake City office and meeting space.





Section A

Statutory Programs

2019 Audited SOAs and Variance Explanations

Reliability Standards

Western Electricity Coordinating Council					
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Reliability Standards					
	2019 Actual	2019 Budget	2019 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 771,224	\$ 771,224	\$ -		
Penalty Sanctions	166,631	16,791	149,840		892.4%
Total ERO Funding	\$ 937,855	\$ 788,015	\$ 149,840		19.0%
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	10,169	3,429	6,740		196.6%
Miscellaneous	-	-	-		
Total Funding	\$ 948,024	\$ 791,444	\$ 156,580		19.8%
Expenses					
Personnel Expenses					
Salaries	\$ 409,188	\$ 423,024	\$ (13,836)		(3.3%)
Payroll Taxes	27,481	26,828	653		2.4%
Employee Benefits	53,984	37,174	16,810		45.2%
Savings & Retirement	37,996	34,984	3,012		8.6%
Total Personnel Expenses	\$ 528,649	\$ 522,010	\$ 6,639		1.3%
Meeting Expenses					
Meetings	\$ -	\$ 260	\$ (260)		(100.0%)
Travel	17,574	18,290	(716)		(3.9%)
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 17,574	\$ 18,550	\$ (976)		(5.3%)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	3,624	3,535	89		2.5%
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 3,624	\$ 3,535	\$ 89		2.5%
Total Direct Expenses	\$ 549,847	\$ 544,095	\$ 5,752		1.1%
Indirect Expenses	\$ 299,625	\$ 266,454	\$ 33,171		12.4%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 849,472	\$ 810,549	\$ 38,923		4.8%
Change in Assets	\$ 98,552	\$ (19,105)	\$ 117,657		(615.8%)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	1,900	(3,033)	4,933		(162.6%)
Incr(Dec) in Fixed Assets	\$ 1,900	\$ (3,033)	\$ 4,933		(162.6%)
Total Budget	\$ 851,372	\$ 807,516	\$ 43,856		5.4%
Change in Working Capital	\$ 96,652	\$ (16,072)	\$ 112,724		(701.4%)
FTEs	3.0	3.0	-		
Headcount	3.0	3.0	-		



Significant Variance Explanations—Reliability Standards

Funding

- Penalty Sanctions: \$150,000 over budget due to a change in GAAP for revenue recognition timing.

Personnel Expenses

- Employee Benefits: \$17,000 over budget primarily due to changes in employee benefits enrollment levels.

Meeting Expenses

- No significant variances.

Operating Expenses

- No significant variances.

Indirect Expenses

- Indirect Expenses: \$33,000 over budget due to budget overruns in Corporate Services and fewer-than-anticipated FTEs in the other operating programs. The indirect allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Compliance Monitoring and Enforcement and Organization Registration and Certification

Western Electricity Coordinating Council					
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Compliance Monitoring and Enforcement and Organization Registration and Certification					
	2019 Actual	2019 Budget	2019 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 14,264,214	\$ 14,264,214	\$ -		
Penalty Sanctions	3,054,898	335,821	2,719,077		809.7%
Total ERO Funding	\$ 17,319,112	\$ 14,600,035	\$ 2,719,077		18.6%
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	186,433	68,571	117,862		171.9%
Miscellaneous	-	-	-		
Total Funding	\$ 17,505,545	\$ 14,668,606	\$ 2,836,939		19.3%
Expenses					
Personnel Expenses					
Salaries	\$ 6,908,188	\$ 6,521,216	\$ 386,972		5.9%
Payroll Taxes	471,188	449,911	21,277		4.7%
Employee Benefits	734,153	789,012	(54,859)		(7.0%)
Savings & Retirement	565,521	538,748	26,773		5.0%
Total Personnel Expenses	\$ 8,679,050	\$ 8,298,887	\$ 380,163		4.6%
Meeting Expenses					
Meetings	\$ 4,112	\$ 4,910	\$ (798)		(16.3%)
Travel	672,596	835,205	(162,609)		(19.5%)
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 676,708	\$ 840,115	\$ (163,407)		(19.5%)
Operating Expenses					
Consultants & Contracts	\$ 180,541	\$ 261,890	\$ (81,349)		(31.1%)
Office Rent	-	-	-		
Office Costs	291,836	297,150	(5,314)		(1.8%)
Professional Services	26,969	-	26,969		100.0%
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 499,346	\$ 559,040	\$ (59,694)		(10.7%)
Total Direct Expenses	\$ 9,855,104	\$ 9,698,042	\$ 157,062		1.6%
Indirect Expenses	\$ 5,493,101	\$ 5,329,085	\$ 164,016		3.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 15,348,206	\$ 15,027,127	\$ 321,079		2.1%
Change in Assets	\$ 2,157,339	\$ (358,521)	\$ 2,515,860		(701.7%)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	34,833	(60,653)	95,486		(157.4%)
Incr(Dec) in Fixed Assets	\$ 34,833	\$ (60,653)	\$ 95,486		(157.4%)
Total Budget	\$ 15,383,039	\$ 14,966,474	\$ 416,565		2.8%
Change in Working Capital	\$ 2,122,506	\$ (297,868)	\$ 2,420,374		(812.6%)
FTEs	55.0	60.0	(5.0)		
Headcount	56.0	60.0	(4.0)		



Significant Variance Explanations—Compliance Monitoring and Enforcement

Funding

- Penalty Sanctions: \$2,719,000 over budget due to a change in GAAP for revenue recognition timing.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Travel: \$163,000 under budget primarily due to increases in the use of technology allowing for more effective remote work and the resulting planned reduction in the number of individuals traveling for on-site audits.

Operating Expenses

- Consultants & Contracts: \$81,000 under budget primarily due to reduced reliance on contract labor as a result of broadened staff skill sets.
- Professional Services: \$27,000 over budget primarily due to legal fees related to unanticipated regulatory activities.

Indirect Expenses

- Indirect Expenses: \$164,000 over budget due to fewer-than-anticipated FTEs in the other operating programs. The indirect allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Allocation of Fixed Assets: \$96,000 over budget due to unbudgeted fixed asset additions in Corporate Services and lower-than-anticipated FTEs in the other operating programs. The fixed asset allocation is based on actual FTEs in each program.



Reliability Assessment and Performance Analysis

Western Electricity Coordinating Council					
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Reliability Assessment and Performance Analysis					
	2019 Actual	2019 Budget	2019 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 9,560,414	\$ 9,560,414	\$ -		
Penalty Sanctions	1,799,612	218,283	1,581,329		724.4%
Total ERO Funding	\$ 11,360,026	\$ 9,778,697	\$ 1,581,329		16.2%
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	109,826	44,571	65,255		146.4%
Miscellaneous	-	-	-		
Total Funding	\$ 11,469,853	\$ 9,823,268	\$ 1,646,585		16.8%
Expenses					
Personnel Expenses					
Salaries	\$ 3,762,194	\$ 4,278,285	\$ (516,091)		(12.1%)
Payroll Taxes	266,112	294,608	(28,496)		(9.7%)
Employee Benefits	455,383	494,397	(39,014)		(7.9%)
Savings & Retirement	337,677	353,659	(15,982)		(4.5%)
Total Personnel Expenses	\$ 4,821,366	\$ 5,420,949	\$ (599,583)		(11.1%)
Meeting Expenses					
Meetings	\$ 41,379	\$ 128,110	\$ (86,731)		(67.7%)
Travel	256,202	244,640	11,562		4.7%
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 297,582	\$ 372,750	\$ (75,168)		(20.2%)
Operating Expenses					
Consultants & Contracts	\$ 586,628	\$ 590,000	\$ (3,372)		(0.6%)
Office Rent	-	-	-		
Office Costs	252,374	214,564	37,810		17.6%
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	4,335	4,336	(1)		(0.0%)
Total Operating Expenses	\$ 843,337	\$ 808,900	\$ 34,437		4.3%
Total Direct Expenses	\$ 5,962,284	\$ 6,602,599	\$ (640,315)		(9.7%)
Indirect Expenses	\$ 3,235,936	\$ 3,463,906	\$ (227,970)		(6.6%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 9,198,220	\$ 10,066,505	\$ (868,285)		(8.6%)
Change in Assets	\$ 2,271,633	\$ (243,237)	\$ 2,514,870		(1,033.9%)
Fixed Assets					
Depreciation	\$ (4,335)	\$ (4,336)	\$ 1		(0.0%)
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	20,520	(39,425)	59,945		(152.0%)
Incr(Dec) in Fixed Assets	\$ 16,185	\$ (43,761)	\$ 59,946		(137.0%)
Total Budget	\$ 9,214,405	\$ 10,022,744	\$ (808,339)		(8.1%)
Change in Working Capital	\$ 2,255,448	\$ (199,476)	\$ 2,454,924		(1,230.7%)
FTEs	32.4	39.0	(6.6)		
Headcount	33.0	40.0	(7.0)		



Significant Variance Explanations—Reliability Assessment and Performance Analysis

Funding

- Penalty Sanctions: \$2,719,000 over budget due to a change in GAAP for revenue recognition timing.

Personnel Expenses

- Salaries: \$516,000 under budget primarily due to budgeted labor float rate assumptions compared to actual vacancy rates.

Meeting Expenses

- Meetings: \$87,000 under budget primarily due to lower-than-anticipated attendance at and cost of technical committee meetings.

Operating Expenses

- Office Costs: \$38,000 over budget primarily due to an unbudgeted Genscape license purchase.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Allocation of Fixed Assets: \$60,000 over budget due to unbudgeted fixed asset additions in Corporate Services and fewer-than-anticipated FTEs in the other operating programs. The fixed asset allocation is based on actual FTEs in each program.



Training and Outreach

Western Electricity Coordinating Council				
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Training and Outreach				
	2019 Actual	2019 Budget	2019 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ 481,798	\$ 481,798	\$ -	
Penalty Sanctions	83,315	11,194	72,121	644.3%
Total ERO Funding	\$ 565,113	\$ 492,992	\$ 72,121	14.6%
Membership Fees	-	-	-	
Services & Software	-	-	-	
Workshops	517,562	424,500	93,062	21.9%
Interest	5,085	2,286	2,799	122.4%
Miscellaneous	-	-	-	
Total Funding	\$ 1,087,760	\$ 919,778	\$ 167,982	18.3%
Expenses				
Personnel Expenses				
Salaries	\$ 167,655	\$ 254,696	\$ (87,041)	(34.2%)
Payroll Taxes	11,871	18,305	(6,434)	(35.1%)
Employee Benefits	18,585	29,484	(10,899)	(37.0%)
Savings & Retirement	15,219	21,064	(5,845)	(27.7%)
Total Personnel Expenses	\$ 213,330	\$ 323,549	\$ (110,219)	(34.1%)
Meeting Expenses				
Meetings	\$ 452,376	\$ 409,173	\$ 43,203	10.6%
Travel	13,448	10,603	2,845	26.8%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 465,825	\$ 419,776	\$ 46,049	11.0%
Operating Expenses				
Consultants & Contracts	\$ 1,028	-	\$ 1,028	100.0%
Office Rent	-	-	-	
Office Costs	49,461	19,517	29,944	153.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 50,489	\$ 19,517	\$ 30,972	158.7%
Total Direct Expenses	\$ 729,643	\$ 762,842	\$ (33,199)	(4.4%)
Indirect Expenses	\$ 149,812	\$ 177,636	\$ (27,824)	(15.7%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 879,455	\$ 940,478	\$ (61,023)	(6.5%)
Change in Assets	\$ 208,305	\$ (20,700)	\$ 229,005	(1,106.3%)
Fixed Assets				
Depreciation	\$ -	\$ -	\$ -	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	950	(2,022)	2,972	(147.0%)
Incr(Dec) in Fixed Assets	\$ 950	\$ (2,022)	\$ 2,972	(147.0%)
Total Budget (Expenses plus Inc(Dec) in Fixed Ass	\$ 880,405	\$ 938,456	\$ (58,051)	(6.2%)
Change in Working Capital (Total Funding less				
Total Budget)	\$ 207,355	\$ (18,678)	\$ 226,033	(1,210.2%)
FTEs	1.5	2.0	(0.5)	
Headcount	1.0	2.0	(1.0)	



Significant Variance Explanations—Training and Outreach

Funding

- Penalty Sanctions: \$72,000 over budget due to a change in GAAP for revenue recognition timing.
- Workshops: \$93,000 over budget due to higher-than-anticipated attendance at outreach events.

Personnel Expenses

- Salaries: \$87,000 under budget primarily due to the unbudgeted net transfer of 0.5 FTE to another program area during 2019 due to organizational changes. The FTE changes were addressed and budgeted for in 2020.
- Employee Benefits: \$11,000 under budget primarily due to the unbudgeted net transfer of 0.5 FTE noted above.

Meeting Expenses

- Meetings: \$43,000 over budget due to higher-than-anticipated attendance at and cost of outreach events.

Operating Expenses

- Office Costs: \$30,000 over budget primarily due to unanticipated outreach collateral and printing costs and higher-than-anticipated merchant processing fees due to attendance levels at outreach events.

Indirect Expenses

- Indirect Expenses: \$28,000 under budget due to fewer-than-anticipated FTEs in this program. The indirect allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Situation Awareness and Infrastructure Security

Western Electricity Coordinating Council					
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Situation Awareness and Infrastructure Security					
	2019 Actual	2019 Budget	2019 Variance		
			Over(Under)		%
Funding					
WECC Funding					
WECC Assessments	\$ 204,350	\$ 204,350	\$ -		
Penalty Sanctions	55,544	5,597	49,947		892.4%
Total ERO Funding	\$ 259,894	\$ 209,947	\$ 49,947		23.8%
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	3,390	1,143	2,247		196.6%
Miscellaneous	-	-	-		
Total Funding	\$ 263,283	\$ 211,090	\$ 52,193		24.7%
Expenses					
Personnel Expenses					
Salaries	\$ 106,115	\$ 100,159	\$ 5,956		5.9%
Payroll Taxes	7,082	7,516	(434)		(5.8%)
Employee Benefits	17,736	11,620	6,116		52.6%
Savings & Retirement	7,669	8,274	(605)		(7.3%)
Total Personnel Expenses	\$ 138,601	\$ 127,569	\$ 11,032		8.6%
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		
Travel	178	-	178		100.0%
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 178	\$ -	\$ 178		
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
Total Direct Expenses	\$ 138,780	\$ 127,569	\$ 11,211		8.8%
Indirect Expenses	\$ 99,873	\$ 88,818	\$ 11,055		12.4%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 238,652	\$ 216,387	\$ 22,265		10.3%
Change in Assets	\$ 24,631	\$ (5,297)	\$ 29,928		(565.0%)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	633	(1,011)	1,644		(162.6%)
Incr(Dec) in Fixed Assets	\$ 633	\$ (1,011)	\$ 1,644		(162.6%)
Total Budget	\$ 239,285	\$ 215,376	\$ 23,909		11.1%
Change in Working Capital	\$ 23,998	\$ (4,286)	\$ 28,284		(659.9%)
FTEs	1.0	1.0	-		
Headcount	-	-	-		



Significant Variance Explanations—Situation Awareness and Infrastructure Security

Funding

- Penalty Sanctions: \$50,000 over budget due to a change in GAAP for revenue recognition timing.

Personnel Expenses

- No significant variances.

Meeting Expenses

- No significant variances.

Operating Expenses

- No significant variances.

Indirect Expenses

- Indirect Expenses: \$11,000 over budget due to fewer-than-anticipated FTEs in the other operating programs. The indirect allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Corporate Services

Western Electricity Coordinating Council				
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Corporate Services				
	2019 Actual	2019 Budget	2019 Variance Over(Under)	%
Funding				
WECC Funding				
WECC Assessments	\$ -	\$ -	\$ -	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	-
Membership Fees	\$ -	\$ -	\$ -	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	-
Expenses				
Personnel Expenses				
Salaries	\$ 3,985,340	\$ 4,287,638	\$ (302,298)	(7.1%)
Payroll Taxes	252,002	240,225	11,777	4.9%
Employee Benefits	824,458	941,023	(116,565)	(12.4%)
Savings & Retirement	324,027	354,381	(30,355)	(8.6%)
Total Personnel Expenses	\$ 5,385,826	\$ 5,823,267	\$ (437,441)	(7.5%)
Meeting Expenses				
Meetings	\$ 80,417	\$ 98,500	\$ (18,083)	(18.4%)
Travel	249,214	300,130	(50,916)	(17.0%)
Conference Calls	60,462	57,600	2,862	5.0%
Total Meeting Expenses	\$ 390,094	\$ 456,230	\$ (66,136)	(14.5%)
Operating Expenses				
Consultants & Contracts	\$ 628,917	\$ 441,000	\$ 187,917	42.6%
Office Rent	998,091	972,909	25,182	2.6%
Office Costs	1,209,518	1,022,913	186,605	18.2%
Professional Services	972,363	908,280	64,083	7.1%
Miscellaneous	407	-	407	100.0%
Depreciation	242,581	234,209	8,372	3.6%
Total Operating Expenses	\$ 4,051,877	\$ 3,579,311	\$ 472,566	13.2%
Total Direct Expenses	\$ 9,827,797	\$ 9,858,808	\$ (31,010)	(0.3%)
Indirect Expenses	\$ (9,827,797)	\$ (9,858,808)	\$ 31,011	(0.3%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses	\$ -	\$ -	\$ -	-
Change in Assets	\$ -	\$ -	\$ -	-
Fixed Assets				
Depreciation	\$ (242,581)	\$ (234,209)	\$ (8,372)	3.6%
Computer & Software CapEx	-	5,000	(5,000)	(100.0%)
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	264,839	105,000	159,839	152.2%
Leasehold Improvements	40,126	12,000	28,126	234.4%
Allocation of Fixed Assets	(62,383)	112,209	(174,592)	(155.6%)
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Total Budget	\$ -	\$ -	\$ -	-
Change in Working Capital	\$ -	\$ -	\$ -	-
FTEs	34.6	38.0	(3.4)	
Headcount	35.0	38.0	(3.0)	



Significant Variance Explanations—Corporate Services

Funding

- No significant variances.

Personnel Expenses

- Employee Benefits: \$117,000 under budget primarily due to tax law changes for relocation benefits that were budgeted in Employee Benefits but offered as sign-on bonuses and expensed in Salaries, less-than-anticipated use of WECC's health reimbursement account, less-than-anticipated training, and changes in employee benefits enrollment levels.

Meeting Expenses

- Meetings: \$18,000 under budget primarily due to lower-than-anticipated attendance at and cost of technical committee meetings.
- Travel: \$51,000 under budget primarily due to less-than-anticipated travel of Board Directors and administrative support.

Operating Expenses

- Consultants & Contracts: \$188,000 over budget primarily due to the net of unbudgeted information technology consulting and a budgeted but uninitiated Board Director search.
- Office Costs: \$187,000 over budget primarily due to the net of unbudgeted audio-visual system upgrades to the Salt Lake City office and meeting space, higher-than-anticipated cost of computer licensing and maintenance, and lower-than-anticipated use of Board training,

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Equipment CapEx: \$160,000 over budget due to unbudgeted audio-visual improvements to the Salt Lake City meeting space.
- Leasehold Improvements: \$28,000 over budget due to unbudgeted improvements to the Salt Lake City office and meeting space.





Section B

Non-Statutory Program

2019 Audited SOA and Variance Explanations

WREGIS

Western Electricity Coordinating Council					
2019 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Non-Statutory Summary					
			2019 Variance		
	2019 Actual	2019 Budget	Over(Under)	%	
Funding					
WECC Funding					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees	\$ 2,361,424	\$ 2,058,996	\$ 302,428	14.7%	
Services & Software	-	-	-		
Workshops	1,390	1,875	(485)	(25.9%)	
Interest	160,065	66,900	93,165	139.3%	
Miscellaneous	-	-	-		
Total Funding	\$ 2,522,879	\$ 2,127,771	\$ 395,108	18.6%	
Expenses					
Personnel Expenses					
Salaries	\$ 480,164	\$ 477,082	\$ 3,082	0.6%	
Payroll Taxes	34,558	32,879	1,679	5.1%	
Employee Benefits	65,469	83,974	(18,505)	(22.0%)	
Savings & Retirement	42,028	39,420	2,607	6.6%	
Total Personnel Expenses	\$ 622,219	\$ 633,355	\$ (11,136)	(1.8%)	
Meeting Expenses					
Meetings	\$ 4,085	\$ 3,813	\$ 272	7.1%	
Travel	15,681	17,265	(1,585)	(9.2%)	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 19,765	\$ 21,078	\$ (1,313)	(6.2%)	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	494,645	594,168	(99,523)	(16.7%)	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 494,645	\$ 594,168	\$ (99,523)	(16.7%)	
Total Direct Expenses	\$ 1,136,629	\$ 1,248,601	\$ (111,972)	(9.0%)	
Indirect Expenses	\$ 549,451	\$ 532,909	\$ 16,542	3.1%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 1,686,080	\$ 1,781,510	\$ (95,430)	(5.4%)	
Change in Assets	\$ 836,798	\$ 346,261	\$ 490,538	141.7%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	3,547	(6,065)	9,612	(158.5%)	
Incr(Dec) in Fixed Assets	\$ 3,547	\$ (6,065)	\$ 9,612	(158.5%)	
Total Budget	\$ 1,689,627	\$ 1,775,445	\$ (85,818)	(4.8%)	
Change in Working Capital	\$ 833,251	\$ 352,326	\$ 480,926	136.5%	
FTEs	5.6	6.0	(0.4)		
Headcount	6.0	6.0	-		



Significant Variance Explanations—WREGIS

Funding

- Membership Fees: \$302,000 over budget due to higher-than-anticipated certificate activity and bulk certificate retirements.

Personnel Expenses

- Employee Benefits: \$19,000 under budget due to changes in employee benefits enrollment levels.

Meeting Expenses

- No significant variances.

Operating Expenses

- Office Costs: \$100,000 under budget primarily due to vendor discounts and less-than-anticipated cost of maintenance and software upgrades.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Allocation of Fixed Assets: \$10,000 over budget due to unbudgeted fixed asset additions in Corporate Services and fewer-than-anticipated FTEs in the other operating programs. The fixed asset allocation is based on actual FTEs in each program.



Appendix A—Penalty Sanctions Variance Reconciliation

Penalty Information				Business Plan & Budget** (Year to Offset Assessments)				Financial Statements*** (Year Recognized)		2019 Penalty Revenue Variance
Date Invoiced	Amount Invoiced	Date Payment Received	Amount Received	2019	2020	2021	Future Budget Year	2018 and Prior	2019	
5/8/2017	54,000	7/5/2017	54,000	54,000				54,000		Business Plan & Budget (A) 587,686
7/3/2017	9,000	7/19/2017	9,000	9,000				9,000		Financial Statements (B) 5,160,000
7/3/2017	26,000	7/27/2017	26,000	26,000				26,000		(Over)/Under <u>(4,572,314)</u>
7/3/2017	54,000	8/4/2017	54,000	54,000				54,000		
7/17/2017	95,086	7/24/2017	95,086	95,086				95,086		
8/8/2017	74,000	8/14/2017	74,000	74,000				74,000		
8/8/2017	30,000	9/6/2017	30,000	30,000				30,000		
10/27/2017	55,000	11/13/2017	55,000	55,000				55,000		
12/29/2017	22,000	1/17/2018	22,000	22,000				22,000		
2/20/2018	84,600	3/6/2018	84,600	84,600				84,600		
4/27/2018	84,000	5/30/2018	84,000	84,000				84,000		
6/4/2018	2,700,000	7/11/2018	2,700,000		2,700,000			2,700,000		
10/1/2018	45,000	10/16/2018	45,000		45,000			45,000		
5/30/2019	32,000	7/9/2019	32,000			32,000			32,000	
7/26/2019	87,000	9/4/2019	87,000			87,000			87,000	
8/30/2019	74,000	10/14/2019	74,000			74,000			74,000	
9/27/2019	50,000	11/13/2019	50,000			50,000			50,000	
9/27/2019	59,000	11/13/2019	59,000			59,000			59,000	
11/29/2019	2,678,000	12/23/2019	2,678,000			2,678,000			2,678,000	
10/1/2019	80,000	*	-				80,000		80,000	
10/1/2019	2,100,000	*	-				2,100,000		2,100,000	
Total				587,686	2,745,000	2,980,000	2,180,000	3,332,686	5,160,000	
				(A)					(B)	

* Penalty revenue has been recognized but payment has not been received. The penalty will offset assessments in a future budget year.

** Penalties collected between July 1, 20X1 and June 30, 20X2 will offset assessments in budget year 20X3.

*** Penalties are recognized for financial reporting purposes when they are approved by FERC and invoiced.





Financial Statements
December 31, 2019 and 2018

Western Electricity Coordinating Council

Western Electricity Coordinating Council

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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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 and Note 9 to the financial statements, Western Electricity Coordinating Council has adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606), as of January 1, 2019 with retrospective application to the prior periods presented. Accordingly, the 2018 financial statements have been adjusted to be in accordance with the provisions of Topic 606. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Salt Lake City, Utah
April 30, 2020

Western Electricity Coordinating Council

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>(As Restated) 2018</u>
Assets		
Cash and cash equivalents	\$ 25,456,435	\$ 29,343,247
Contractually restricted cash and cash equivalents	5,818,562	3,380,466
Certificates of deposit	5,416,154	4,508,812
Investments	3,975,625	1,809,495
Accounts receivable, net	5,448,118	360,735
Prepaid expenses and other assets	406,112	480,695
Property and equipment, net	426,181	368,135
	<u>\$ 46,947,187</u>	<u>\$ 40,251,585</u>
Liabilities and Net Assets		
Accounts payable	\$ 5,017,875	\$ 5,133,913
Accrued expenses	3,311,835	2,319,155
Deferred revenue	15,667,577	15,185,890
Other liabilities	145,113	405,099
	<u>24,142,400</u>	<u>23,044,057</u>
Net Assets		
Without donor restrictions	<u>22,804,787</u>	<u>17,207,528</u>
	<u>\$ 46,947,187</u>	<u>\$ 40,251,585</u>

Western Electricity Coordinating Council

Statements of Activities

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>(As Restated) 2018</u>
Revenues		
Electric Reliability Organization funding	\$ 30,442,000	\$ 30,127,000
Western Renewable Energy Generation Information System (WREGIS)	2,361,424	2,117,182
Meetings and workshops	518,952	403,406
Net investment return	474,967	428,656
Total revenues	<u>33,797,343</u>	<u>33,076,244</u>
Expenses		
Program expenses		
Statutory	17,235,658	17,664,273
Non-statutory	<u>1,136,630</u>	<u>1,181,259</u>
Total program expenses	<u>18,372,288</u>	<u>18,845,532</u>
Supporting expenses		
Management and general	<u>9,827,796</u>	<u>10,022,643</u>
Total expenses	<u>28,200,084</u>	<u>28,868,175</u>
Change in Net Assets without Donor Restrictions	5,597,259	4,208,069
Net Assets without Donor Restrictions, Beginning of Year	<u>17,207,528</u>	<u>12,999,459</u>
Net Assets without Donor Restrictions, End of Year	<u><u>\$ 22,804,787</u></u>	<u><u>\$ 17,207,528</u></u>

Western Electricity Coordinating Council

Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services			Management and General	Total
	Statutory	Non-Statutory	Total		
Labor	\$ 14,380,997	\$ 622,219	\$ 15,003,216	\$ 5,385,825	\$ 20,389,041
Office and equipment	597,295	494,645	1,091,940	2,154,626	3,246,566
Depreciation and amortization	4,335	-	4,335	242,581	246,916
Contract labor and consultants	768,197	-	768,197	628,917	1,397,114
Meetings	1,457,865	19,766	1,477,631	390,094	1,867,725
Professional services	26,969	-	26,969	972,363	999,332
Excise taxes	-	-	-	52,983	52,983
Other	-	-	-	407	407
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses included in the statement of activities	<u>\$ 17,235,658</u>	<u>\$ 1,136,630</u>	<u>\$ 18,372,288</u>	<u>\$ 9,827,796</u>	<u>\$ 28,200,084</u>

Western Electricity Coordinating Council

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services			Management and General	Total
	Statutory	Non-Statutory	Total		
Labor	\$ 14,259,525	\$ 615,525	\$ 14,875,050	\$ 5,853,128	\$ 20,728,178
Office and equipment	574,829	540,543	1,115,372	1,870,294	2,985,666
Depreciation and amortization	25,592	-	25,592	238,762	264,354
Contract labor and consultants	1,380,919	1,800	1,382,719	549,201	1,931,920
Meetings	1,421,596	14,599	1,436,195	542,176	1,978,371
Professional services	1,812	-	1,812	875,878	877,690
Excise taxes	-	1,792	1,792	49,101	50,893
Other	-	7,000	7,000	44,103	51,103
Total expenses included in the statement of activities	<u>\$ 17,664,273</u>	<u>\$ 1,181,259</u>	<u>\$ 18,845,532</u>	<u>\$ 10,022,643</u>	<u>\$ 28,868,175</u>

Western Electricity Coordinating Council

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	(As Restated) 2018
Operating Activities		
Change in net assets	\$ 5,597,259	\$ 4,208,069
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	246,918	264,354
Bad debt expense	7,000	(7,000)
Amortization of discounts and premiums on operating investments	(2,578)	19,000
Realized and unrealized loss on operating investments	(28,041)	13,380
Changes in assets and liabilities		
Accounts receivable	(5,094,383)	2,718,733
Prepaid expenses and other assets	74,583	158,263
Accounts payable	(116,038)	(4,786,833)
Accrued expenses	992,680	489,444
Deferred revenue	481,687	(666,842)
Other liabilities	(259,986)	(224,808)
Net Cash from Operating Activities	1,899,101	2,185,760
Investing Activities		
Purchases of property and equipment	(304,964)	(92,137)
Purchases of investments and certificates of deposit	(9,169,617)	(5,971,495)
Proceeds from sale of investments and certificates of deposit	6,126,764	6,137,286
Net Cash from (used for) Investing Activities	(3,347,817)	73,654
Net Change in Cash and Cash Equivalents	(1,448,716)	2,259,414
Cash and Cash Equivalents, Beginning of Year	32,723,713	30,464,299
Cash and Cash Equivalents, End of Year	\$ 31,274,997	\$ 32,723,713

Cash and Cash Equivalents are presented as follows on the statement of financial position:

Cash and cash equivalents	\$ 25,456,435	\$ 29,343,247
Contractually restricted cash and cash equivalents	5,818,562	3,380,466
	\$ 31,274,997	\$ 32,723,713

Note 1 - Summary of Significant Accounting Policies**Organization**

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to effectively and efficiently mitigate risks to the reliability and security of the Western Interconnection's Bulk Power System (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 through annual and other activity-based fees.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less, including contractually restricted cash and cash equivalents.

Pursuant to the Delegation Agreement with NERC, contractually restricted cash and cash equivalents as of December 31, 2019 and 2018, were \$5,818,562 and \$3,380,466, 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.

Investments

WECC records investment purchases at cost. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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, credit risk, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2019 and 2018, the allowance was \$17,972 and \$19,122, 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 statements 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, 2019 and 2018.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of December 31, 2019 and 2018, WECC did not have any net assets with donor restrictions.

Revenue Recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. Statutory funding consists of annual assessments and penalty sanction revenue.

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.

Penalty sanctions are assessed and approved by FERC for violations to the Reliability Standards. Once FERC has approved the penalty sanction, WECC has satisfied all performance obligations related to the penalty. Therefore, WECC recognizes penalty sanction revenue when it is approved by FERC.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

For the years ended December 31, 2019 and 2018, all revenue was recognized at a point in time. There were no contract assets outstanding as of December 31, 2019 and 2018.

Deferred revenue consists of advance payments from customers, in the form of cash, for revenue to be recognized in the following years. The Company's deferred revenue balance as restated at the beginning of 2018 was \$13,836,732.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statements of activities. 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.

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 files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

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. 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. 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 within 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.

Change in Accounting Principle

As of January 1, 2019, WECC adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company has adopted Topic 606 using the full retrospective approach and adjusted all prior periods presented. See Note 9 for the adjustment of the prior year financial statements.

Recent Accounting Guidance

In February 2016, FASB issued ASU No. 2016-02, *Leases*. The standard will require recognition of lease assets and liabilities for most leases, including leases that were previously considered operating leases. The FASB is considering delaying the amendment to be effective for WECC beginning with the year ending December 31, 2021. WECC has not yet determined what effect this standard will have on the results of its operations.

Subsequent Events

WECC has evaluated subsequent events through April 30, 2020, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Cash and cash equivalents	\$ 25,456,435	\$ 29,343,247
Certificates of deposit	5,416,154	4,508,812
Investments	3,975,625	1,809,495
Accounts receivable	5,448,118	360,735
	<u>\$ 40,296,332</u>	<u>\$ 36,022,289</u>

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit, and money market funds.

Note 3 - 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, inputs are developed 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, 2019:

	Total	Fair Value Measurements at Report Date Using		
		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	\$ 3,975,625	\$ -	\$ 3,975,625	\$ -

The following table presents assets measured at fair value on a recurring basis at December 31, 2018:

	Total	Fair Value Measurements at Report Date Using		
		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	\$ 1,809,495	\$ -	\$ 1,809,495	\$ -

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. WECC is closely monitoring its investment portfolio and is actively working to minimize the impact of these declines. WECC's financial statements do not include adjustments to fair value that have resulted from these declines.

Note 4 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Operating investments		
Interest and dividends	\$ 446,926	\$ 442,036
Net realized and unrealized gain (loss)	28,041	(13,380)
	<u>\$ 474,967</u>	<u>\$ 428,656</u>

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 986,552	\$ 721,714
Software	1,219,441	1,219,441
Furniture and fixtures	368,011	368,011
Leasehold improvements	1,339,254	1,299,128
	<u>3,913,258</u>	<u>3,608,294</u>
Less accumulated depreciation	<u>(3,487,077)</u>	<u>(3,240,159)</u>
	<u>\$ 426,181</u>	<u>\$ 368,135</u>

Note 6 - Net Assets

WECC reports information regarding Statutory and Non-statutory 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, 2019 and 2018, the breakdown of such earnings included in net assets without donor restrictions consisted of the following:

	<u>2019</u>	<u>(As Restated) 2018</u>
Non-statutory earnings	\$ 7,813,478	\$ 6,980,227
Statutory earnings	14,991,309	10,227,301
	<u>\$ 22,804,787</u>	<u>\$ 17,207,528</u>

Note 7 - Leases

WECC leases office space and equipment under various operating leases expiring at various dates through 2031. Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 1,206,868
2021	1,250,838
2022	1,288,288
2023	1,311,670
2024	1,427,420
Thereafter	<u>9,796,986</u>
Total minimum lease payments	<u>\$ 16,282,070</u>

Rent expense for the years ended December 31, 2019 and 2018, totaled \$1,006,236 and \$984,807, respectively.

Note 8 - Employee Benefits

WECC sponsors a 401(k) Retirement Savings Plan (the 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. The Plan expense reflected in the accompanying statements of activities was \$1,330,137 and \$1,362,134 for the years ended December 31, 2019 and 2018, respectively. In 2006, WECC adopted an elective 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 2019 and 2018 was \$19,000 and \$18,500, respectively. The Plan is entirely funded by elective employee salary deferrals.

Note 9 - Adjustments Resulting from Change in Accounting Policy

As disclosed in Note 1, WECC adopted the provisions of FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as of January 1, 2019, with retrospective application to the prior periods presented. Following is a summary of the effects of the change in accounting policy in WECC's December 31, 2018, financial statements.

Statement of Financial Position

	As Previously Reported	Change in Accounting Principle	As Adjusted
As of December 31, 2018			
Deferred revenue	\$ 18,518,576	\$ (3,332,686)	\$ 15,185,890
Total liabilities	26,376,743	(3,332,686)	23,044,057
Net assets without donor restrictions	13,874,842	3,332,686	17,207,528
Total liabilities and net assets	40,251,585	-	40,251,585

Statement of Activities

	As Previously Reported	Change in Accounting Principle	As Adjusted
Year ended December 31, 2018			
Electric Reliability Organization Funding	\$ 27,382,000	\$ 2,745,000	\$ 30,127,000
Total revenue	30,331,244	2,745,000	33,076,244
Change in net assets without donor restrictions	1,463,069	2,745,000	4,208,069
Net assets without donor restrictions, beginning of year	12,411,773	587,686	12,999,459

Statement of Cash Flows

	As Previously Reported	Change in Accounting Principle	As Adjusted
Year ended December 31, 2018			
Change in net assets	\$ 1,463,069	\$ 2,745,000	\$ 4,208,069
Deferred revenue	2,078,158	(2,745,000)	(666,842)

ATTACHMENT 8

2019 ACTUAL COST-TO-BUDGET COMPARISON

AND

2019 AUDITED FINANCIAL REPORT

FOR

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**FLORIDA RELIABILITY COORDINATING
COUNCIL, INC.**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

As of and for the Year Ended December 31, 2019

And Report of Independent Auditor

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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Report of Independent Auditor

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

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc. (a nonprofit organization) (the “Company”), which comprise the statement of financial position as of December 31, 2019, 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.

Auditor’s 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 the Company as of December 31, 2019, 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.

Emphasis of Matter*Adoption of New Accounting Pronouncement*

As discussed in note 1 to the financial statements, for the year ended December 31, 2019, the Company adopted Accounting Standards Update number 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary total, statutory, and non-statutory schedules on pages 16 to 18 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.

The image shows a handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Tampa, Florida
February 5, 2020

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 6,908,398
Contract assets	30,724
Related party receivable	3,532
Prepaid expenses and other current assets	262,414
Total Current Assets	<u>7,205,068</u>

Property and equipment, net	<u>206,968</u>
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Other Assets:

Deposits	50,000
457(b) plan	255,884
Total Other Assets	<u>305,884</u>

Total Assets	<u><u>\$ 7,717,920</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 178,155
Related party payable	670,911
Current portion of accrued postretirement benefit obligation	31,010
Current portion of capital lease	19,875
457(b) plan	255,884
Contract liabilities	2,144,914
Accrued expenses	1,671,445
Total Current Liabilities	<u>4,972,194</u>

Long-Term Liabilities:

Accrued postretirement benefit obligation	329,020
Capital lease, net of current portion	37,932
Total Liabilities	<u>5,339,146</u>

Net Assets Without Donor Restriction	<u>2,378,774</u>
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Total Liabilities and Net Assets	<u><u>\$ 7,717,920</u></u>
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FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

Revenue:	
Non-statutory member services	\$ 12,388,798
Statutory assessments	3,776,828
Services and software	344,083
Training and education fees	119,805
Postretirement benefit gain	54,835
Penalty and sanctions realized	383,001
Interest and other revenue	15,006
Total Revenues	<u>17,082,356</u>
Expenses:	
Regional entity	4,025,757
Member services	10,720,300
General and administrative	3,123,662
Total Expenses	<u>17,869,719</u>
Change in net assets before change in accumulated postretirement obligation	(787,363)
Net periodic change in postretirement obligation	<u>(95,847)</u>
Change in net assets	(883,210)
Net assets, beginning of year	<u>3,261,984</u>
Net assets, end of year	<u>\$ 2,378,774</u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

Cash flows from operating activities:

Change in net assets	\$ (883,210)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation and amortization	122,039
Unrealized gain on 457(b) plan investments	(36,606)
(Increase) decrease in:	
Prepaid expenses	(74,030)
Contract assets	4,068,276
Related party receivable	985
Increase (decrease) in:	
Accounts payable	(69,922)
Accrued expenses	(1,886,026)
Compliance penalty assessment	(82,000)
Accrued post retirement benefit obligation	41,012
457(b) plan liability	79,049
Contract liabilities	(2,413,018)
Related party payable	119,999
Net cash flows used in operating activities	<u>(1,013,452)</u>

Cash flows from investing activities:

Purchases of 457(b) plan investments	(42,443)
Purchases of property and equipment	(19,845)
Net cash flows used in investing activities	<u>(62,288)</u>

Cash flows from financing activities:

Payments on capital lease obligations	(17,965)
Net cash flows used in financing activities	<u>(17,965)</u>

Net change in cash and cash equivalents	(1,093,705)
Cash and cash equivalents, beginning of year	<u>8,002,103</u>
Cash and equivalents, end of year	<u><u>\$ 6,908,398</u></u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1—General and summary of significant accounting policies

General – Florida Reliability Coordinating Council, Inc. (the “Company” or “FRCC”) 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 served 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 NERC, an organization certified by the Federal Energy Regulatory Commission (“FERC”) pursuant to Section 215(c) of the Federal Power Act. The Company was required by federal law to assess the reliability of the Bulk Power System. 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 was responsible for establishing the process for development, revision, withdrawals and approval of the Company’s Regional Reliability Standards for the region. The Company monitored and enforced 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. In 2017, NERC notified the Company of its requirements that NERC Regional Entities be separate corporate entities from NERC registered entities. On October 30, 2018, the Company’s Board of Directors approved a timeline and plan to terminate its Delegation Agreement with NERC. The Company wound down its Regional Entity operations effective July 1, 2019 upon receiving FERC approval. As of July 1, 2019, the Company continues to operate its member services reliability functions and coordinating role.

The Company’s source of revenue was generated by two functions. The statutory functions, defined as those functions being performed for Reliability Standards and Compliance expiring on July 1, 2019, were funded by NERC. The non-statutory functions are paid by the Company’s members who are assessed for costs and expenses of developing, operating and maintaining the Company.

Basis of Presentation – 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 (“U.S. GAAP”); consequently, revenues and gains are recognized when earned and expenses and losses are recognized when incurred. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as without donor restrictions or with donor restrictions. The Company records all revenues and gains that are spent in the same fiscal year as revenue without donor restrictions.

When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restriction. As of December 31, 2019, there were no donor restricted net assets.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1—General and summary of significant accounting policies (continued)

New Accounting Pronouncement – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 (“ASU 2014-09”), *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to ASU 2014-09, the FASB issued several related ASUs (collectively “ASC 606”). The Company adopted the provisions of ASU 2014-09 and the related ASUs as of January 1, 2019 using the modified retrospective approach, which resulted in no cumulative effect adjustment to net assets as of January 1, 2019. There was no change in the timing and amount of revenue recognition as a result of the adoption of these ASUs. Non-statutory member services and statutory member assessments are the only revenue streams within the scope of ASC 606.

Cash and Cash Equivalents – The Company 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.

Concentration of Credit Risk – The Company places its cash on demand with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2019, the Company had bank balances of approximately \$6,411,000 in excess of these insured limits.

In 2019, two members made up approximately 56% of the member services assessments and dues. The same two members comprise 67% of the statutory assessment that NERC billed directly in order to fund the Company for its statutory function.

Revenue Recognition – Revenue is recognized over time as the Company provides services to members in an amount that reflects consideration that is expected to be received for those services.

Contract Balances – Timing differences among revenue recognition may result in contract assets or liabilities. Contract assets on the accompanying statement of financial position relate to uncollected portions of services and software and totaled approximately \$30,000 as of December 31, 2019. Management considers all contract assets to be fully collectible; therefore, no allowance for doubtful accounts is considered necessary. Actual bad debts could exceed the established allowances.

Contract liabilities on the accompanying statement of financial position totaled approximately \$2,145,000 as of December 31, 2019, and are primarily amounts paid in advance relating to member assessments. The amounts are deferred and recognized over the billing period which occurs quarterly.

Performance Obligations – A performance obligation is a promise in a contract to transfer a distinct service to a customer and is the unit of account under ASC 606. The transaction price is allocated when each distinct performance obligation is satisfied. The Company’s non-statutory member services and statutory assessments performance obligations are satisfied over time as services are provided to members.

Practical Expedients and Exemptions – The Company has elected to treat similar contracts as a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 1—General and summary of significant accounting policies (continued)

Property and Equipment – Property and equipment with an original cost over \$5,000 are capitalized and are stated at cost, less accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives as follows:

Computers and equipment	5 years
Software	3 years
Furniture and fixtures	7 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the life of the respective lease or the service life of the improvement, whichever is shorter. Maintenance and repairs are expensed as incurred.

Accrued Expenses – Accrued expenses are comprised of various accruals including retirement costs, bonuses and deferred rent.

Line of Credit – In 2019, 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, 2019, the Company has not drawn on the line of credit.

Functional Allocation of Expenses – The cost of providing certain activities of the Company have been summarized on a functional basis in Note 11. Certain categories of expenses are attributable to more than one program or supporting function with the exception of penalty expense which is fully considered a program activity. The remaining expense accounts are allocated between program activities and supporting activities based on time and effort incurred with the exception of depreciation and rent which is allocated based on square footage utilized for certain functions.

Use of Estimates – The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures 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 vary from those estimates.

Income Taxes – The Company has been approved for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code (“IRC”) and Florida Statutes. Accordingly, no provision for income taxes is included in the financial statements.

Subsequent Events – Management has evaluated subsequent events through February 5, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 2—Fair value measurements

The Company records certain assets at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. A fair value hierarchy is utilized which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Three levels may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical assets or liabilities;

Level 2 – Inputs to the valuation methodology include are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

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. There have been no changes in the methodologies used at December 31, 2019 from prior years.

The only asset measured at fair value is the 457(b) plan included in other assets on the statement of financial position. The investments included in the 457(b) plan consist of mutual funds. Mutual funds are public investment vehicles valued using the net asset value ("NAV") provided by the administrator of the fund. The NAV is based on the value of underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

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.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 3—Liquidity and availability of financial assets

Company management monitors its liquidity so that it is able to cover operating expenses and other costs related to special projects. Management budgets for such costs based on the prior year actual expenses and anticipated future expenses. Budgets are approved by the Board of Directors in August for the following year. Member assessments are billed one month in advance of each quarter and are due from the members prior to the beginning of the next quarter.

Company funds are invested conservatively with the primary objective of preservation of capital (including diversification of risk of institutional failure) and liquidity in order to provide sufficient cash to meet obligations in a timely manner. The total cash held in bank accounts consists of working capital and operating reserve funds equal to a minimum of one month of the total annual budget. The reserve amount may be higher or lower depending on actual expenses incurred and paid throughout the budget year. Based on the working capital and operating reserve policy, and timing of cash collections, two months of liquid cash would be appropriate to kept on hand. Any amount of working capital and operating reserve funds in excess of two months can be invested according to the permissible investment assets and parameters outlined in the Company's investment policy. Two months provides a conservative figure intended to balance the desire to mitigate risks while ensuring that cash needs are met without adding administrative burdens. Management estimates two months of expense to be approximately \$2,300,000.

The Company is able to make additional member assessments or use the \$1,500,000 line of credit, as more fully described in Note 1, in the event of an unanticipated liquidity need.

Management has budgeted approximately \$13,900,000 of operating expenses to be paid within one year of the statement of financial position date. The Company's financial assets that could readily be made available consist of cash and cash equivalents, contract assets and related party receivables, which total approximately \$6,942,000. There are no donor restrictions, board designations, or other restrictions limiting the use of the Company's financial assets. The Company additionally anticipates receiving funding of approximately \$13,500,000 from its members to meet its financial obligations.

Note 4—Property and equipment

A summary of property and equipment at December 31, 2019 is as follows:

Computers and equipment	\$ 835,848
Software	434,496
Furniture and fixtures	319,255
Leasehold improvements	125,283
	<u>1,714,882</u>
Less accumulated depreciation and amortization	<u>(1,507,914)</u>
Net property and equipment	<u><u>\$ 206,968</u></u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 5—Capital leases

The Company leases audio and video equipment under an agreement that is classified as a capital lease. The cost of equipment under the capital lease was approximately \$99,000 at October 1, 2017 and is included in property and equipment. Depreciation expense related to the leased equipment was approximately \$20,000 for the year ended December 31, 2019.

The minimum future lease payments under the capital lease for the year ended December 31, 2019 are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 24,834
2021	24,834
2022	<u>16,555</u>
Total minimum lease payments	66,223
Less Amount representing interest	<u>(8,416)</u>
Present value of net minimum lease payment	<u><u>\$ 57,807</u></u>

Note 6—Postretirement benefits other than pensions

The Company provides 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. Benefits paid to members of the plan are also based on the terms specified in individual agreements. These plans cease upon the death of the retiree/retiree spouse/employee and all fund balances in each of the health retirement accounts revert back to the Company. The individual plans are noncontributory for retirees.

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, 2019:

Accumulated postretirement benefit obligation:	
Plan assets at fair value	<u>\$ -</u>
Funded status	<u><u>\$ -</u></u>
Accrued postretirement benefit obligation:	
Current portion	\$ 31,010
Long-term portion	<u>329,020</u>
	<u><u>\$ 360,030</u></u>

Since the plan is non-contributory, the entire balance of the accumulated benefit obligation is recorded as a liability in the statements of financial position as of December 31, 2019.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 6—Postretirement benefits other than pensions (continued)

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

<u>Years Ending December 31,</u>	
2020	\$ 31,010
2021	32,259
2022	33,438
2023	19,609
2024	19,609
Thereafter	224,105
	<u>\$ 360,030</u>

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2019:

Service cost	\$ (1,960)
Interest cost	(12,301)
Amortization of unrecognized prior service cost	30,433
Recognition of net actuarial loss	15,672
Net periodic postretirement benefit cost	<u>31,844</u>
Benefits paid during 2019	<u>22,991</u>
Net postretirement benefit gain	<u>\$ 54,835</u>

Items not yet recognized as a component of net periodic postretirement benefit costs

Unrecognized net gain	\$ 217,235
Net unrecognized prior service cost	192,615
Total	<u>\$ 409,850</u>

Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2018

	\$ 505,697
Net periodic change in postretirement obligation	<u>(95,847)</u>
Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2019	<u>\$ 409,850</u>

Amounts are included in net assets without donor restrictions 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 (\$16,000), respectively. For measurement purposes, an 8% annual rate per capita cost of covered health care benefits was assumed for 2021; the rate was assumed to be 7% for 2022; 6% for 2023, 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, 2019 would be increased \$10,228 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2019 would be increased by \$514.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 6—Postretirement benefits other than pensions (continued)

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 3.25%. 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, 2019.

Note 7—Retirement plans

Effective January 1, 2001, the Company adopted a 401(k) Plan (the “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 IRC. 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 approximately \$254,000 and a discretionary contribution to the Plan of approximately \$343,000 for the year ended December 31, 2019.

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 approximately \$36,000 in 2019 for the 2018 liability and recorded a liability of approximately \$46,000 for amounts to be funded in 2020.

The fair value and cost of the Company’s securities invested in the deferred compensation plan are as follows as of December 31, 2019:

	<u>Cost Value</u>	<u>Market Value</u>
Mutual funds - equities	\$ 197,365	\$ 255,884
Total	<u>\$ 197,365</u>	<u>\$ 255,884</u>

Note 8—Related parties

Various members of the Company are founding members of Florida Electric Power Coordinating Group, Inc. (“FCG”). The Company provides FCG with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 2% of the Company’s administrative expenses in 2019. The service agreement with FCG is a one-year agreement that automatically renews unless canceled in advance by either party. At December 31, 2019, the Company had billed and collected approximately \$56,000 from FCG relating to the service agreement and has a receivable from FCG in the amount of approximately \$4,000.

The Company purchases services from Florida Power and Light (“FPL”), a member of the Company, to fulfill the responsibilities of reliability coordinator as well as various other services. The Company paid FPL approximately \$5,081,000 for these services in 2019, and at December 31, 2019 had approximately \$671,000 of accounts payable to FPL.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 9—Contingencies

The Company is a NERC registered entity for the FRCC Reliability Coordinator function and the Planning Authority function for the FRCC region. As a NERC registered entity, the Company must comply with applicable NERC reliability standards. Violations of these standards could result in financial penalties. During 2018, the Company was involved in one enforcement action for violations of NERC reliability standards from 2016. As a result, the Company received a \$1,000,000 penalty which was paid in 2019.

During 2019, potential non-compliance with NERC reliability standards was identified. As a result of the non-compliance the Company may receive penalties from NERC and FERC. The management of the Company has not recorded an estimate of the liability as of December 31, 2019 due to the uncertainty of the amount of the penalty, as of the date of these financial statements.

Note 10—Commitments

The Company has an operating lease at its current location on Bayport Drive that expires on September 30, 2020. The lease required an initial \$150,000 deposit of which \$100,000 was refunded in 2016. For all leases, rental payments escalate based on the schedules set forth in the lease agreement. Minimum future rental payments are approximately \$645,000. Rent expense charged to operations during the year ended December 31, 2019 was approximately \$1,080,000 including the effects of lease payment escalations over the term of the leases.

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 approximately \$3,800 per month and included an automatic renewal for successive 12-month term extensions. After the initial extension, subsequent renewals could be at an increase of no greater than 5%. The current monthly fee is approximately \$4,400.

In October 2019, the Company entered into an agreement with Open Access Technology, Inc. to be the provider of the FTMS software package. The initial term of the agreement is 120 months from an agreed-upon milestone. The contract includes a service initiation fee of approximately \$254,000 and an annual recurring fee of \$81,000.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019

Note 11—Functional expenses

The detail of functional expenses for the year ended December 31, 2019 is as follows:

	Program Activities		Supporting	Total
	Regional	Member	General and	
	Entity	Services	Administrative	Expenses
Personnel expenses	\$ 3,366,581	\$ 3,222,899	\$ 1,944,229	\$ 8,533,709
Meeting expenses	99,145	161,329	36,911	297,385
Operating expenses:				
Consultants and contracts	190,933	5,912,585	142,477	6,245,995
Office rent	315,299	-	765,019	1,080,318
Office costs	18,359	405,550	124,511	548,420
Professional services	-	3,110	38,743	41,853
Penalty	-	1,000,000	-	1,000,000
Depreciation	35,440	14,827	71,772	122,039
	<u>\$ 4,025,757</u>	<u>\$ 10,720,300</u>	<u>\$ 3,123,662</u>	<u>\$ 17,869,719</u>

SUPPLEMENTAL SCHEDULES

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
SUMMARY TOTALS – TOTAL ACTUAL TO TOTAL BUDGET
TOTAL COMPANY

DECEMBER 31, 2019

	2019 YTD Actual	2019 YTD Budget (Unaudited)	2019 YTD Variance	%
ERO Funding:				
ERO assessments	\$ 3,776,828	\$ 5,827,924	\$ (2,051,096)	
Penalty sanctions	383,000	-	383,000	
Total ERO Funding	4,159,828	5,827,924	(1,668,096)	-28.6%
Membership dues	12,388,798	12,388,798	-	
Services and software	344,083	263,210	80,873	
Workshops	119,805	92,000	27,805	
Interest	13,506	-	13,506	
Miscellaneous	1,500	-	1,500	
Postretirement benefits	54,835	-	54,835	
Total Funding	17,082,355	18,571,932	(1,489,577)	-8.0%
Expenses:				
Personnel Expenses:				
Salaries	7,053,682	6,870,202	183,480	
Payroll taxes	290,798	417,648	(126,850)	
Benefits	542,770	1,027,892	(485,122)	
Retirement costs	646,460	959,583	(313,123)	
Total Personnel Expenses	8,533,710	9,275,325	(741,615)	-8.0%
Meeting Expenses:				
Meetings	96,068	102,606	(6,538)	
Travel	166,214	255,554	(89,340)	
Conference calls	35,096	54,982	(19,886)	
Total Meeting Expenses	297,378	413,142	(115,764)	-28.0%
Operating Expenses:				
Consultants and contracts	6,245,995	8,030,961	(1,784,966)	
Office rent	1,080,318	946,642	133,676	
Office costs	548,421	487,653	60,768	
Professional services	41,854	104,970	(63,116)	
Penalty	1,000,000	-	1,000,000	
Depreciation	122,040	126,170	(4,130)	
Total Operating Expenses	9,038,628	9,696,396	(657,768)	-6.8%
Other non-operating expenses	95,847	-	95,847	
Total Expenses	17,965,563	19,384,863	(1,419,300)	-7.3%
Change in Assets/Additions (Use) of Reserves	(883,208)	(812,931)	(70,277)	8.6%
Fixed Asset Expenditures:				
Depreciation	(122,040)	(126,170)	4,130	
Postretirement benefits	(41,012)	-	(41,012)	
Software	-	40,000	(40,000)	
Equipment and computers	19,848	49,101	(29,253)	
Decrease in Fixed Assets	(143,204)	(37,069)	(106,135)	286.3%
Total Budget	17,822,359	19,347,794	(1,525,435)	-7.9%
Change in Working Capital	\$ (740,004)	\$ (775,862)	\$ 35,858	-4.6%
FTEs	33.05	40.82	(7.77)	
Beginning Working Capital 1/1/2019	\$ 3,283,171	\$ 2,963,563	\$ 319,608	
Change in Working Capital	(740,004)	(775,862)	35,858	
Working Capital at 12/31/2019	\$ 2,543,167	\$ 2,187,701	\$ 355,466	

See report of independent auditor.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
STATUTORY SUMMARY – TOTAL ACTUAL TO TOTAL BUDGET
TOTAL STATUTORY

YEAR ENDED DECEMBER 31, 2019

	2019 YTD Actual	2019 YTD Budget (Unaudited)	2019 YTD Variance	%
ERO Funding:				
ERO assessments	\$ 3,776,828	\$ 5,827,924	\$ (2,051,096)	
Penalty sanctions	383,000	-	383,000	
Total ERO Funding	4,159,828	5,827,924	(1,668,096)	-28.6%
Workshops	91,285	92,000	(715)	
Interest	3,690	-	3,690	
Total Funding	4,254,803	5,919,924	(1,665,121)	-28.1%
Expenses:				
Personnel Expenses:				
Salaries	3,414,827	3,595,017	(180,190)	
Payroll taxes	87,503	221,843	(134,340)	
Benefits	127,136	523,400	(396,264)	
Retirement costs	198,848	470,029	(271,181)	
Total Personnel Expenses	3,828,314	4,810,289	(981,975)	-20.4%
Meeting Expenses:				
Meetings	59,283	68,826	(9,543)	
Travel	43,832	146,263	(102,431)	
Conference calls	5,730	10,318	(4,588)	
Total Meeting Expenses	108,845	225,407	(116,562)	-51.7%
Operating Expenses:				
Consultants and contracts	214,304	875,842	(661,538)	
Office rent	505,546	565,921	(60,375)	
Office costs	48,281	106,860	(58,579)	
Professional services	10,818	44,073	(33,255)	
Depreciation	51,177	80,735	(29,558)	
Total Operating Expenses	830,126	1,673,431	(843,305)	-50.4%
Total Expenses	4,767,285	6,709,127	(1,941,842)	-28.9%
Change in Assets/Additions (Use) of Reserves	(512,482)	(789,203)	276,721	-35.1%
Fixed Asset Expenditures:				
Depreciation	(51,177)	(80,735)	29,558	
Software	-	40,000	(40,000)	
Equipment and computers	-	27,394	(27,394)	
Decrease in Fixed Assets	(51,177)	(13,341)	(37,836)	283.6%
Total Budget	4,716,108	6,695,786	(1,979,678)	-29.6%
Change in Working Capital	\$ (461,305)	\$ (775,862)	\$ 314,557	-40.5%
FTEs	19.77	20.75	(0.98)	
Beginning Working Capital 1/1/2019	\$ 461,305	\$ 1,333,844	\$ (872,539)	
Change in Working Capital	(461,305)	(775,862)	314,557	
Working Capital at 12/31/2019	\$ -	\$ 557,982	\$ (557,982)	

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
NON-STATUTORY SUMMARY – TOTAL ACTUAL TO TOTAL BUDGET
TOTAL MEMBER SERVICES

YEAR ENDED DECEMBER 31, 2019

	2019 YTD Actual	2019 YTD Budget (Unaudited)	2019 YTD Variance	%
Funding:				
Membership dues	\$ 12,388,798	\$ 12,388,798	\$ -	
Services and software	344,083	263,210	80,873	
Workshops	28,520	-	28,520	
Interest	9,816	-	9,816	
Miscellaneous	1,500	-	1,500	
Postretirement benefits	54,835	-	54,835	
Total Funding	12,827,552	12,652,008	175,544	1.4%
Expenses:				
Personnel Expenses:				
Salaries	3,638,854	3,275,185	363,669	
Payroll taxes	203,295	195,805	7,490	
Benefits	415,633	504,492	(88,859)	
Retirement costs	447,612	489,554	(41,942)	
Total Personnel Expenses	4,705,394	4,465,036	240,358	5.4%
Meeting Expenses:				
Meetings	36,785	33,780	3,005	
Travel	122,382	109,291	13,091	
Conference calls	29,366	44,664	(15,298)	
Total Meeting Expenses	188,533	187,735	798	0.4%
Operating Expenses:				
Consultants and contracts	6,031,691	7,155,119	(1,123,428)	
Office rent	574,772	380,721	194,051	
Office costs	500,139	380,793	119,346	
Professional services	31,035	60,897	(29,862)	
Penalty	1,000,000	-	1,000,000	
Depreciation	70,862	45,435	25,427	
Total Operating Expenses	8,208,499	8,022,965	185,534	2.3%
Other non-operating expenses	95,847	-	95,847	
Total Expenses	13,198,273	12,675,736	522,537	0.0%
Change in Assets/Additions (Use) of Reserves	(370,721)	(23,728)	(346,993)	1462.4%
Fixed Asset Expenditures:				
Depreciation	(70,862)	(45,435)	(25,427)	
Postretirement benefits	(41,012)	-	(41,012)	
Equipment and computers	19,848	21,707	(1,859)	
Decrease in Fixed Assets	(92,026)	(23,728)	(68,298)	287.8%
Total Budget cott	13,106,247	12,652,008	454,239	3.6%
	\$ (278,695)	\$ -	\$ (278,695)	0.0%
FTEs	23.17	20.07	3.10	
Beginning Working Capital 1/1/2019	\$ 2,821,866	\$ 1,629,719	\$ 1,192,147	
Change in Working Capital	(278,695)	-	(278,695)	
Working Capital at 12/31/2019	\$ 2,543,171	\$ 1,629,719	\$ 913,452	

See report of independent auditor.

ATTACHMENT 9

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2019 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

**Analysis of Indirect (Administrative Services) Costs
2019 Actual versus 2019 Budget**

2019 ACTUAL					2019 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
\$ 71,737,869	\$ 40,114,899	\$ 31,622,970	44.1%	\$ 1.27	NERC	\$ 80,049,655	\$ 48,703,292	\$ 31,346,363	39.2%	\$ 1.55
14,361,603	8,494,244	5,867,359	40.9%	1.45	MRO	15,980,354	10,967,562	5,012,792	31.4%	2.19
14,255,185	9,114,640	5,140,545	36.1%	1.77	NPCC	15,803,891	10,086,864	5,717,027	36.2%	1.76
22,328,205	15,375,822	6,952,383	31.1%	2.21	RF	22,648,458	15,832,553	6,815,905	30.1%	2.32
20,518,333	11,137,494	9,380,839	45.7%	1.19	SERC	18,144,949	8,637,441	9,507,508	52.4%	0.91
15,911,973	11,046,285	4,865,688	30.6%	2.27	Texas RE	13,069,599	7,974,838	5,094,761	39.0%	1.57
26,568,505	17,231,323	9,337,182	35.1%	1.85	WECC	26,950,566	17,730,811	9,219,755	34.2%	1.92
\$ 185,681,673	\$ 112,514,707	\$ 73,166,966	39.4%	\$ 1.54	TOTAL/AVERAGE	\$ 192,647,472	\$ 119,933,361	\$ 72,714,111	37.7%	\$ 1.65

2019 ACTUAL FTEs					2019 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
202.49	131.78	70.71	34.9%	1.86	NERC	204.92	137.24	67.68	33.0%	2.03
52.98	40.02	12.96	24.5%	3.09	MRO	59.00	47.78	11.22	19.0%	4.26
35.03	26.28	8.75	25.0%	3.00	NPCC	38.86	29.86	9.00	23.2%	3.32
77.84	61.00	16.84	21.6%	3.62	RF	78.20	61.60	16.60	21.2%	3.71
78.05	52.17	25.88	33.2%	2.02	SERC	78.00	44.85	33.15	42.5%	1.35
56.90	42.15	14.75	25.9%	2.86	Texas RE	60.00	45.25	14.75	24.6%	3.07
127.50	92.90	34.60	27.1%	2.68	WECC	143.00	105.00	38.00	26.6%	2.76
630.79	446.30	184.49	29.2%	2.42	AVERAGE	661.98	471.58	190.40	28.8%	2.48

2019 ACTUAL SPEND per FTE					2019 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	
\$ 354,279	\$ 304,408	\$ 447,221	\$ 156,171	NERC	\$ 390,639	\$ 354,877	\$ 463,155	\$ 152,969	
271,076	212,250	452,728	110,747	MRO	270,853	229,543	446,773	84,963	
406,942	346,828	587,491	146,747	NPCC	406,688	337,805	635,225	147,119	
286,847	252,063	412,849	89,316	RF	289,622	257,022	410,597	87,160	
262,887	213,485	362,474	120,190	SERC	232,628	192,585	286,803	121,891	
279,648	262,071	329,877	85,513	Texas RE	217,827	176,240	345,408	84,913	
208,380	185,482	269,861	73,233	WECC	188,465	168,865	242,625	64,474	
\$ 294,364	\$ 252,106	\$ 396,590	\$ 115,993	AVERAGE	\$ 291,017	\$ 254,322	\$ 381,902	\$ 109,843	

Analysis of Administrative (Indirect) Costs
2017, 2018, and 2019 Actual

	2017 ACTUAL SPEND					2018 ACTUAL SPEND					2019 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	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
NERC	\$ 68,156,945	\$ 39,552,176	\$ 28,604,769	41.97%	\$ 1.38	\$ 70,569,405	\$ 41,489,041	\$ 29,080,364	41.21%	\$ 1.43	\$ 71,737,869	\$ 40,114,899	\$ 31,622,970	44.08%	\$ 1.27
MRO	11,035,840	6,378,537	4,657,303	42.20%	1.37	10,711,050	6,678,117	4,032,933	37.65%	1.66	14,361,603	8,494,244	5,867,359	40.85%	1.45
NPCC	14,652,315	9,450,212	5,202,103	35.50%	1.82	14,541,068	9,400,523	5,140,545	35.35%	1.83	14,255,185	9,114,640	5,140,545	36.06%	1.77
RFC	20,017,483	13,887,195	6,130,288	30.62%	2.27	20,882,555	14,498,485	6,384,070	30.57%	2.27	22,328,205	15,375,822	6,952,383	31.14%	2.21
SERC	16,261,640	7,645,191	8,616,449	52.99%	0.89	17,272,682	7,658,360	9,614,322	55.66%	0.80	20,518,333	11,137,494	9,380,839	45.72%	1.19
Texas RE	11,495,436	7,058,954	4,436,482	38.59%	1.59	11,343,290	6,880,565	4,462,725	39.34%	1.54	15,911,973	11,046,285	4,865,688	30.58%	2.27
WECC	26,794,210	17,760,217	9,033,993	33.72%	1.97	26,961,283	17,638,680	9,322,603	34.58%	1.89	26,568,505	17,231,323	9,337,182	35.14%	1.85
TOTAL/Average	\$ 186,221,894	\$ 113,440,106	\$ 72,781,788	39.08%	\$ 1.56	\$ 185,320,122	\$ 113,780,283	\$ 71,539,839	38.60%	\$ 1.59	\$ 185,681,673	\$ 112,514,707	\$ 73,166,966	39.40%	\$ 1.54
3-Year Average														39.03%	\$ 1.56
	2017 ACTUAL FTEs					2018 ACTUAL FTEs					2019 ACTUAL 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	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	191.07	122.15	68.92	36.07%	1.77	202.49	131.78	70.71	34.92%	1.86
MRO	41.72	30.80	10.92	26.17%	2.82	43.18	31.67	11.51	26.66%	2.75	52.98	40.02	12.96	24.46%	3.09
NPCC	36.40	28.40	8.00	21.98%	3.55	36.53	28.53	8.00	21.90%	3.57	35.03	26.28	8.75	24.98%	3.00
RFC	73.86	58.66	15.20	20.58%	3.86	74.02	59.23	14.79	19.98%	4.00	77.84	61.00	16.84	21.63%	3.62
SERC	60.29	37.06	23.23	38.53%	1.60	62.00	33.60	28.40	45.81%	1.18	78.05	52.17	25.88	33.16%	2.02
Texas RE	56.00	42.25	13.75	24.55%	3.07	55.00	40.25	14.75	26.82%	2.73	56.90	42.15	14.75	25.92%	2.86
WECC	130.20	92.40	37.80	29.03%	2.44	133.20	96.20	37.00	27.78%	2.60	127.50	92.90	34.60	27.14%	2.68
TOTAL/Average	645.62	459.70	185.92	28.80%	2.47	634.52	443.48	191.04	30.11%	2.32	630.79	446.30	184.49	29.25%	2.42
3-Year Average														29.38%	2.40
	2017 ACTUAL SPEND per FTE				2018 ACTUAL SPEND per FTE				2019 ACTUAL 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	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE			
NERC	\$ 357,161	\$ 322,743	\$ 418,933	\$ 149,897	\$ 369,338	\$ 339,656	\$ 421,944	\$ 152,197	\$ 354,279	\$ 304,408	\$ 447,221	\$ 156,171			
MRO	264,522	207,095	426,493	111,632	248,056	210,866	350,385	93,398	271,076	212,250	452,728	110,747			
NPCC	402,536	332,754	650,263	142,915	398,058	329,496	642,568	140,721	406,942	346,828	587,491	146,747			
RFC	271,019	236,740	403,308	82,999	282,120	244,783	431,648	86,248	286,847	252,063	412,849	89,316			
SERC	269,724	206,292	370,919	142,917	278,592	227,927	338,532	155,070	262,887	213,485	362,474	120,190			
Texas RE	205,276	167,076	322,653	79,223	206,242	170,946	302,558	81,140	279,648	262,071	329,877	85,513			
WECC	205,793	192,210	238,995	69,386	202,412	183,354	251,962	69,990	208,380	185,482	269,861	73,233			
TOTAL/Average	\$ 288,439	\$ 246,770	\$ 391,468	\$ 112,732	\$ 292,065	\$ 256,565	\$ 374,476	\$ 112,747	\$ 294,364	\$ 252,106	\$ 396,590	\$ 115,993			
3-Year Average									\$ 291,623	\$ 251,813	\$ 387,511	\$ 113,824			