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May 30, 2012

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. RR12-_-000
Report of Comparisons of Budgeted to Actual Costs for 2011
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 2011 for NERC and the Regional Entities.”

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

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric
Reliability Corporation

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**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2011
FOR NERC AND THE REGIONAL ENTITIES**

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2011 for NERC and the eight Regional Entities.¹ The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007, concerning the 2008 business plans and budgets of NERC and the Regional Entities.² As described in §III below, in several subsequent orders, the Commission has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons.

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, 2011, 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, 2011.
- Metrics concerning NERC and Regional Entity administrative costs in their 2011 budgets and actual results.³

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

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

³ The metrics information is provided in response to P 39 of the Commission’s Order issued June 19, 2008. *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) (“June 19, 2008 Budget Compliance Order”).

This filing includes the following attachments:

Attachment 1: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 3: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 4: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 5: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for Reliability *First*.

Attachment 6: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 7: 2011 Actual Cost-to-Budget Comparison for SPP RE and 2011 Audited Financial Statements for Southwest Power Pool, Inc.

Attachment 8: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 9: 2011 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 10: Metrics Concerning Administrative Costs in 2011 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, 2011

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.”⁴ In the *June 19, 2008 Budget Compliance Order*, which addressed 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:

⁴ *2008 ERO Budget Order* at P 23.

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.

In addition, although the following directive in the *2008 ERO Budget Order* was expressly applicable to NERC's compliance filing due April 1, 2008 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 April 1, 2008 compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

Finally, in its order issued June 29, 2009, on NERC's April 1, 2009 filing of actual cost-to-budget comparisons for NERC and the Regional Entities for 2008, the Commission approved NERC's proposal that the due date for the annual filings be moved to May 30 of the following

year so that the comparisons can be based on the audited financial reports of NERC and the Regional Entities for the preceding year. Consistent with this proposal, NERC also proposed to include the audited financial reports in the annual filing that would be due May 30.⁵

The comparisons of 2011 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2011, as prepared by its independent public accounting firm.

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

- Each comparison contains a cover letter 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 2011 budget, 2011 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 2011, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's

⁵ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 127 FERC ¶ 61,307 (2009) (“June 29, 2009 Budget Compliance Order”), at PP 23-24.

2011 budget, 2011 actual amounts, and the variance, for major line-item categories of Funding and Expenses.⁶

- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2011 budget, 2011 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs⁷ (direct costs) and the overhead functions⁸ (indirect costs). These tables also provide explanations for significant line-item actual-to-budget variances.⁹

The Attachments also address (generally in the cover letter) (i) where applicable, whether any statutory funds were used in 2011 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2011); (ii) the impact of the entity's 2011 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2011)¹⁰; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable,

⁶ FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2011 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2011 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

⁷ Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security.

⁸ Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. Some of the Regional Entities report budget and actual expenditure information for some or all of the overhead functions on a combined basis, in order to protect the confidentiality or compensation information for departments that have a limited number of staff members.

⁹ 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. Explanations have also been provided for some line item variances that are less than 10% of the budgeted amount, where the dollar amount of the variance is substantial.

¹⁰ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show "Total Change in Working Capital" for the 2011 Actual Funding and Expenditures. A positive "Total Change in Working Capital" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2011; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2010 to fund 2011 expenditures.

whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2011.

NERC has included two new sets of information in its actual cost-to-budget comparison for 2011. These additional tables are provided on pages 19-22 of NERC's report in **Attachment 1**. First, NERC has provided a detailed analysis and comparison of the major sources of changes in its Working Capital reserve for 2011, as budgeted and per actual results (*see* page 19). This analysis shows the impact on NERC's Working Capital of 2011 expenses that were not specifically budgeted and were funded by Working Capital reserve, including the relocation of the headquarters and Washington, D.C. offices and the NERC data center, the 2011 Grid Security Conference and related attendance fees and the 2011 Cyber Security (Grid Security) Exercise, and certain business process improvements. Second, NERC has provided a detailed listing of budgeted and actual expenditures for Consultants and Contracts, by consultant/contract or project and by NERC program area (*see* pages 20-22).

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2011 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual-to-budget variances experienced by NERC and the Regional Entities in 2011, as identified by NERC's review of the comparisons.

- A number of entities¹¹ experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Savings & Retirement), in one or more program areas, due to being unable to fill budgeted positions, due to filling budgeted positions later in the year than was assumed in the

¹¹ The term "entities" is used here generically to include NERC as well as Regional Entities.

budget, or due to employees in existing positions leaving the entity, resulting in a vacant position for a portion of the year. Additionally, having fewer personnel on staff than budgeted tended to reduce Meetings and/or Travel Expense below the budgeted amounts.

- However, in some instances, due to the difficulty in filling budgeted positions, the entity hired a less experienced candidate than was assumed for purposes of the budget, which may have resulted in lower Personnel Expense for the new employee than was assumed for purposes of the budget.
- The inability to fill budgeted positions as planned, or the departure of existing employees, also resulted in some instances in higher-than budgeted Consultants & Contracts expense, due to either or both the need to use consultants or contractors to perform work that would have been done by employees, or the need to make greater use than budgeted of personnel recruiting services.
- Due to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities realized lower than budgeted expense for Payroll Taxes, as a result of budgeting Payroll Taxes based on historical data, which resulted in estimates that were too high for 2011.
- Several entities realized lower than budgeted costs for Employee Benefits due to receiving lower than projected medical program premium increases, successfully negotiating lower rates with providers, switching providers to achieve lower costs, or making other changes to their medical benefits programs to contain cost increases.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. In some cases newly-hired employees elected to stay on the health and medical programs of their previous employers.
- Some entities experienced lower than budgeted Retirement costs due to less-than-budgeted participation by employees in the entity's retirement plan.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to continuing efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings. These efforts in turn tended to result in higher than budgeted costs for Conference Calls and Internet expenses (the latter expense is recorded in Office Costs). However, some entities actually experienced lower than budgeted costs for Conference Calls due to greater use of WebEx or other Internet-based options for "teleconferences."
- Further, both NERC and Regional Entities placed continued emphasis on holding meetings at the entity's facility or at participants' (stakeholder) facilities, rather than being held at paid venues such as hotels or conference centers, thereby further reducing Meeting expenses. In some cases, the entity achieved lower Meeting expense by negotiating a lower rate from the meeting space provider and/or using the same meeting services provider for multiple meetings.

- Some entities realized higher than budgeted Travel Expenses due to the need to conduct a greater number of Technical Feasibility Exception reviews at Registered Entities' locations (*i.e.*, on-site rather than off-site reviews) than had been assumed for purposes of the budget.
- Several entities were able to spend less on Consultants and Contracts and/or Professional Services than budgeted due to hiring additional staff to perform work that was budgeted to be done by consultants or contractors, or as a result of having work budgeted to be performed by contractors and consultants handled by internal entity staff.
- Several entities experienced higher than budgeted Office Rent, Office Costs and/or Furniture & Fixtures capital expenditures, due to relocations or expansions of their offices.
- Some Regional Entities expressly budgeted for Professional Services or other resources for one or more compliance-related hearings with registered entities; however, these Regional Entities either did not have any hearings in 2011, or the hearing process was initiated for a matter that was settled before completing the entire hearing process, thereby resulting in an under-budget variance.
- For some entities, Information Technology projects or Fixed Asset purchases that were included in the budget were not carried out in 2011, or were initiated later in the year than assumed in the budget. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts).
- Some entities budgeted certain expenditures as expenses (*e.g.*, as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions) based on the entity's capitalization policy. The determination to capitalize rather than expense these expenditures also resulted in additional Depreciation expense.
- 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 assumed in the budget, or a combination of both factors. NERC experienced higher than budgeted Funding from system operator examination and certification fees.
- Some entities realized greater Interest or other investment income than budgeted, due to having larger than expected fund balances to invest or on deposit. A principal cause of the larger than expected balances was the receipt of penalty payments, which are not budgeted.

In addition to the above-described causes of actual-to-budget variances that were experienced by more than one entity, NERC and the Regional Entities experienced other above- or below-budget variances in actual Funding, Expenses and Fixed Asset Additions in individual

line items due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1 through 9**.

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2011 as well as the year-to-date actual cost-to-budget comparisons for 2012 into account in developing their business plan and budget for 2013, which are to be submitted to the NERC Board for approval in August 2012 and filed with the Commission for approval by August 24, 2012.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2011 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 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:

39. Our analysis of the Regional Entities' true-up statements indicates that many Regional Entities spent a significant percentage of their 2007 budgets on various administrative functions to support their statutory functions.¹³ The amounts spent on administrative functions vary widely among the Regional Entities. . . . We recognize that 2007 is the first year that these Regional Entities have prepared a budget for statutory functions and that there are some startup costs that will be unique to 2007. The Commission anticipates, however, that such effects will diminish as NERC and the Regional Entities gain experience preparing their budgets. To promote better transparency, the Commission directs NERC to develop additional metrics to identify, in a uniform manner, information detailing its total expenses for administrative functions as well as the expenses for administrative functions for each Regional Entity. For example, one of the matrices should be the percentage spent by the Regional Entity on administrative functions as a portion of its total approved budgeted funding similar to the information provided in the table attached to this order. These new metrics should be designed to enhance the Commission's ability to compare information provided by the Regional Entities on administrative costs and to understand the reasons for any significant differences in amounts budgeted by different Regional Entities for the same function. The Commission therefore directs NERC to

develop these additional metrics for use in the true-up filings for NERC's 2008 and 2009 budgets and for use in NERC's subsequent business plans and budgets beginning with NERC's 2010 Business Plan and Budget.

¹³ The Commission considered the amount each Regional Entity spent on administrative functions as a percentage of its total budgeted funding. The administrative functions included in staff's analysis are: Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. A table of administrative expenses spent by each Regional Entity as a percentage of its budgeted funding is included as Attachment A to this order.

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that NERC and the Regional Entities refer to as "indirect costs" in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as the Commission did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*), rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, as noted earlier, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two employees in each of these functions, and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.¹²

¹² In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Professional Services expenses budgeted in Legal and Regulatory in the direct program for which outside legal services were performed, or recording the actual costs of information technology initiatives in the statutory program or programs that utilized the resulting product).

Attachment 10 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2011 budgets and 2011 actual costs:

- Statutory indirect expenditures as a percent of total statutory expenditures,¹³ and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 10**).¹⁴
- Statutory indirect full-time equivalent employees (“FTE”) as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 10**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on **Attachment 10**).

These are the same metrics that NERC provided in its annual previous filings comparing actual-to-budget costs for NERC and the Regional Entities for 2008, 2009 and 2010.¹⁵ In the *June 29, 2009 Budget Compliance Order*, the Commission indicated that these metrics were acceptable.¹⁶

The following subsections provide discussion and analysis of the metrics provided in **Attachment 10**.

¹³ This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

¹⁴ The term “expenditures” is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

¹⁵ *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities*, filed April 1, 2009 in Docket No. RR07-16-005; *North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional Entities*, filed June 1, 2010 in Docket No. RR08-6-000; *North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2010 for NERC and the Regional Entities*, filed May 31, 2011 in Docket No. RR11-4-000 (“2010 True-Up Filing”).

¹⁶ *June 29, 2009 Budget Compliance Order* at PP 13-14.

Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures

Based on 2011 actual data, statutory indirect expenditures averaged 31.06% of total statutory expenditures for NERC and the Regional Entities, and the average statutory direct expenditure per dollar of statutory indirect expenditure was \$2.22.¹⁷ The actual average statutory indirect expenditure percentage was higher, and the actual average statutory direct expenditure per dollar of indirect expenditure was lower, than the averages based on the NERC and Regional Entity budgets (25.62% and \$2.90, respectively). However, NERC and each Regional Entity increased total direct statutory expenditures in 2011 over 2010, and, as shown in the discussion of the second set of metrics, below, NERC and each Regional Entity increased both total statutory direct function staffing in 2011 over 2010, thereby devoting greater amounts of resources to their direct statutory responsibilities in 2011 than in 2010. Further, the 2011 actual results are not significantly different from the 2010 actual results for these metrics. The 2011 actual average statutory indirect expenditure percentage was 31.06% while the 2010 actual average statutory indirect expenditure percentage was 30.45% (2% difference). The 2011 actual average statutory direct expenditure per dollar of indirect expenditure was \$2.22 while the 2010 statutory direct expenditure per dollar of statutory indirect expenditure was \$2.28 (6 cents, or

¹⁷ These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC's and WECC's expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is further magnified due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC's 2011 budget and actual results.) The arithmetic averages for these two metrics are 32.12% for statutory indirect expenditures as a percent of total statutory expenditures, and \$2.67 for statutory direct expenditures per dollar of statutory indirect expenditures.

2.6%, difference).¹⁸ It is also notable that the actual 2011 total statutory expenditures of each Regional Entity was lower than the Regional Entity's budgeted 2011 total statutory expenditures (although for some Regional Entities, most notably for ReliabilityFirst and SERC, the differences between actual values and budgeted values were small).

The percentages of actual statutory indirect expenditures to total statutory expenditures for NERC and SPP RE were noticeably higher than the overall weighted and arithmetic averages, and their ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages. The principal factor impacting these metrics for NERC was the one-time expenditures in 2011 to relocate the NERC headquarters offices from Princeton to Atlanta, to relocate and expand NERC's Washington, D.C. office, and to relocate NERC's primary data center. These costs will not recur in 2012 and subsequent years. SPP RE's actual 2011 indirect expense amount was in fact significantly lower than budgeted (by approximately \$570,000, or about 12%), but SPP RE's 2011 statutory direct expenditures were also lower than budgeted, with the result that SPP RE continued to have a higher percentage of statutory indirect expenditures to total statutory expenditures, and a lower ratio of statutory direct expenditures to statutory indirect expenditures, among the Regional Entities. SPP RE's percentage of total statutory indirect expenditures to total statutory expenditures for 2011 was lower than its percentage for 2010 (50.98% for 2011 versus 52.75% for 2010). The 2011 actual hourly rate used to charge SPP RE for indirect services provided by SPP, Inc. was \$67.35 (*see* calculation in **Attachment 7**) versus an actual rate of \$71.04 in 2010

¹⁸ Actual 2010 figures in this discussion are taken from the administrative cost metrics presented in Attachment 10 of the *2010 True-Up Filing*.

(5.2% lower), so SPP's hourly indirect cost rate was actually a factor pushing SPP RE's statutory indirect costs lower for 2011.¹⁹

FRCC, SPP, Texas RE and WECC experienced lower actual percentages of statutory indirect expenditures to total statutory expenditures in 2011 than in 2010. (Texas RE's indirect costs were significantly higher in 2010 due to one-time costs incurred in connection with the separation from the Electric Reliability Council of Texas, Inc., and the formation of Texas Reliability Entity as a separate legal entity.) NERC, MRO, NPCC, *ReliabilityFirst* and SERC experienced higher actual percentages of statutory indirect expenditures to total statutory expenditures in 2011 than in 2010. With respect to direct statutory expenditures per dollar of statutory indirect expenditures, FRCC, SPP, Texas RE and WECC also experienced higher actual values in 2011 than in 2010, with the values for Texas RE and WECC each being significantly higher in 2011 than in 2010. NERC, MRO, NPCC, *ReliabilityFirst* and SERC experienced lower actual values for this metric for 2011 as compared to 2010.

Comparisons of the actual 2011 results for these metrics to the actual results for 2010 for this first set of metrics show that, in the aggregate, NERC and the Regional Entities spent about the same portion of their total statutory expenditures on indirect costs in 2011 as was the case in 2010, with half of the Regional Entities spending a higher percentage of total statutory expenditures on indirect costs in 2011 than in 2010, and half of the Regional Entities spending a lower percentage of total statutory expenditures on indirect costs in 2011 than in 2010.

**Statutory indirect FTE as a percent of total statutory FTE,
and ratio of statutory direct FTE to statutory indirect FTE**

On average for NERC and the Regional Entities, 2011 actual statutory indirect FTEs

¹⁹ As also shown in **Attachment 7**, SPP's actual indirect hourly cost rate of \$67.35 for 2011 was lower than the estimated value of \$69.35 that was used in preparing SPP RE's 2011 budget.

were 23.42% of total statutory FTEs, and on average NERC and the Regional Entities had 3.27 statutory direct FTE per statutory indirect FTE in 2011. These 2011 actual values are not materially different from the 2010 values for these metrics. For 2010, on average for NERC and the Regional Entities, the actual statutory indirect FTEs were 23.15% of total statutory FTEs, and on average NERC and the Regional Entities had 3.32 statutory direct FTE per statutory indirect FTE in 2010. In 2011, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity except NERC (for which the percentage was 27.96%), MRO (25.78%) and Texas RE (26.00%); and NERC and each Regional Entity had at least 2.58 statutory direct FTE per statutory indirect FTE (this was also the case in 2010). FRCC, NPCC, SERC and Texas RE each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2011 than in 2010. NERC, MRO, ReliabilityFirst, SPP RE and WECC each experienced somewhat higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2011 than in 2010, although the percentage increases for SPP RE and WECC with respect to this metric were not substantial.

Similarly, FRCC, NPCC, SERC and Texas RE each had a higher actual ratio of statutory direct FTEs per statutory indirect FTEs in 2011 than in 2010, and WECC's ratios of statutory direct FTEs per statutory indirect FTE for the two years were approximately equal. NERC, MRO, ReliabilityFirst and SPP RE each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2011 than in 2010.

As for the first set of metrics, the results for the metrics based on total statutory FTEs and total statutory direct and indirect FTEs for 2011 show, in the aggregate, minimal changes from the 2010 values, with half of the Regional Entities increasing their percentages of statutory direct

FTEs to total statutory FTEs, and half of the Regional Entities experiencing lower percentages of statutory direct FTEs to total statutory FTEs, in 2011 compared to 2010.

Total actual statutory direct function FTE staffing for NERC and the eight Regional Entities for 2011 was 463.37 FTEs, which was lower than the budgeted total of 505.48 FTEs. As reported in their individual actual-to-budget analyses in the Attachments, a number of the entities experienced difficulty in filling some budgeted positions in 2011, filled positions at later points in the year than had been assumed in the budget development, and/or experienced departures of existing staff members which resulted in vacant positions during 2011. However, NERC and each Regional Entity had higher statutory direct function staffing (FTEs) in 2011 than in 2010. As compared to 2010 actual values, NERC and the seven Regional Entities increased total statutory FTEs by approximately 69 FTEs (13%), increased total direct statutory FTEs by approximately 51 FTEs (12%), and increased total statutory indirect FTEs by approximately 17 (14%).

**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**

The bottom row of tables on **Attachment 10** shows the 2011 actual and budgeted (i) total statutory expenditures per total FTE (total statutory expenditures divided by total number of statutory FTE), (ii) statutory direct expenditures per direct FTE, (iii) statutory indirect expenditures per indirect FTE, and (iv) statutory indirect expenditures per total FTE (statutory indirect expenditures divided by total number of FTE), for NERC and each Regional Entity. For NERC and the eight Regional Entities, in the aggregate:

- The actual average total statutory expenditures per statutory FTE were approximately the same as budgeted (\$291,503 actual versus \$291,815 budgeted).

- The actual average statutory direct expenditures per statutory direct FTE were lower than budgeted, by 6.2% (\$262,409 actual versus \$279,624 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were higher than budgeted, by 15.7% (\$386,650 actual versus \$334,110 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were also higher than budgeted, by 21% (\$90,544 versus \$74,756).

Overall, for NERC and the Regional Entities in the aggregate, the actual 2011 value for each of these four metrics was somewhat higher than the actual value for 2010:

- The actual average total statutory expenditures per statutory FTE was \$291,503 in 2011 as compared to \$265,263 in 2010.
- The actual average statutory direct expenditures per statutory direct FTE was \$262,409 in 2011 as compared to \$240,052 in 2010.
- The actual average statutory indirect expenditures per statutory indirect FTE was \$386,650 in 2011 as compared to \$348,964 in 2010.
- The actual average statutory indirect expenditures per total statutory FTE was \$90,544 in 2011 as compared to \$80,779 in 2010.

V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliance 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, 2011.

Respectfully submitted,

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ATTACHMENT 1

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation - 2011 Audited Results - Budget to Actual Variance Analysis

Summary of Results as of December 31, 2011

For the year ending December 31, 2011, NERC exceeded its combined expense and fixed asset budget by \$2.6M (5.4%). Year end expenses were \$410.1K under budget, while expenditures for fixed assets were \$3.0M over budget. Fixed asset expenditures in excess of budget were related to the office and data center relocation and were funded as planned out of available working capital reserves.

Notwithstanding the added funding requirements associated with the office and data center relocation, working capital reserves ended the year approximately \$1.6M higher than budgeted. In addition and notwithstanding the significant resources required in connection with the relocation, NERC achieved approximately 90% of its 2011 corporate goals.¹

NERC's 2011 Business Plan and Budget included approximately \$1.2M for expenses to fund relocation of its primary headquarters and data center, including \$750k for Other Non-Operating Expenses, \$200k for employee relocation, and \$225k in consulting related to network and data center design. Because the total cost of the office and data center relocation were not known at the time the budget was finalized, NERC planned to rely on working capital to fund the relocation and refine projected relocation costs and monitor spending throughout the course of the year to determine what portions of the relocation could be completed in 2011 or would need to be deferred until 2012. The relocation of its primary headquarters, relocation and expansion of its Washington, DC office and relocation of its primary data center were all completed before the end of the year by negotiating financially attractive leases, which included rent abatement in Atlanta for 2011, diligent monitoring of spending throughout the course of the year, and, significantly, because NERC began the year with a working capital reserve that was \$3.6M higher than planned due to lower 2010 year end expenses. NERC moved into its new primary headquarters on May 31st, and moved into its new Washington, DC location on December 16th. NERC substantially finalized the relocation of the data center with the move of the DC office, with the exception of a few outstanding expenses for hardware and software as described below under Fixed Assets. During the fourth quarter, management executed separate agreements to sublet 17.2% and to buy-out 31.4% of the Princeton, NJ office, which will result in savings of approximately \$250k of the remaining costs of the NJ office lease. NERC continues to market the 51.4% remaining space. Also during the fourth quarter, management executed an agreement to sublet 100% of its former Washington, DC office. The combination of these agreements and the cash contribution by the landlord which was negotiated as part of the new DC office space to assist in NERC's resolution of the

¹Refer to Agenda item 6a in the agenda for the February 8, 2012 Corporate Governance and Human Resources Committee meeting, available at: http://www.nerc.com/docs/bot/governance/0-CGHRC_02-12a_OPEN-PUBLIC.pdf.

liabilities associated with its existing DC lease more than offset the remaining lease liabilities of the Princeton and former Washington, DC offices. This was all accomplished without the need to draw on NERC's line of credit or consider more expensive capital equipment and furniture financing options.

The major expense variances for the year included a \$2.3M or 8.1% under run in personnel expenses, a \$391.5k or 4.2% over run for consultant and contract costs and a \$352.8 or 14.6% over run for office costs related to telephone and internet expenses, bank fees and sales and use taxes as further explained below. Costs in excess of budget related to the office and data center relocations, included rent, \$1.1M (approximately \$745k of which was a non-cash item), employee relocation costs, \$293.4k over budget, other non-operating expenses, \$735.6k under budget, and fixed assets, \$3.0M over budget. Most of these costs, while not specifically budgeted at the time of budget preparation since the relocation was still in the planning stages, were planned to be funded with working capital resources in the 2011 business plan and budget.

The working capital balance at year end 2011 was \$3.7M versus the \$2.2M working capital balance projected in the 2011 Business Plan and Budget. Achievement of the targeted working capital balance was due to the \$3.6M higher than anticipated working capital balance at the beginning of the year, increased funding from workshop and testing fees, lower than budgeted personnel expenses and the \$735.6k under budget variance for other non-operating expenses, which offset increased operating expenses and the costs associated with the relocation of the offices and data center. An analysis of budgeted and unbudgeted items affecting the working capital balance is included on page 19 of this report.

FUNDING – (\$588.1k over budget)

Total funding exceeded budget primarily due to increased funding from system operator certification testing fees and recertification fees and workshop fees, offset by a reduction in miscellaneous funding which reflects the termination of NERC's role in acting as the compliance enforcement authority (CEA) for certain registered functions in FRCC, SPP, Texas RE and WECC. NERC's role as the CEA in any Region ceased at the end of the year as a result of an agreement between NPCC and WECC to have NPCC act as the CEA for the registered functions in the WECC Region, which followed Texas RE's separation from ERCOT in 2010, and agreements signed by FRCC and SPP to have SERC act as the CEA for the registered functions in those Regions, which went into effect in July 2010. Funding from testing fees exceeded budget due a higher number of operator certification tests being administered and more certificate renewals than planned. Workshop fees exceeded budget due to a number of unbudgeted workshops, including additional NASPI workshops, the Grid Security Conference, and Standards and Compliance workshops. The increase in workshops also resulted in increased Meeting Expense, which is further explained below.

EXPENSES

- **Personnel Expenses** (\$2.3M, or 8.1% under budget) – NERC ended the year with 156 employees on staff (headcount) versus the budgeted headcount of 157. Due to the timing of new hires during 2011, the actual FTEs were 140.25 for the year, which was 10.5 fewer FTEs than budgeted.
 - **Salaries and Payroll Taxes** (\$1.0M under budget) Salaries expense is comprised of salaries, at risk performance compensation, employment agency fees and temporary office services. Salaries were \$1.0M under budget due to having 10.5 fewer FTEs during the budget period than planned. The at risk performance compensation payout, which is included in salaries expense and approval by the Corporate Governance and Human Resources Committee of the Board of Trustees, is approximately \$56k under budget. These under budget expenses were offset by higher employment agency fees (\$88.3k over budget) and temporary office services (\$212.1k over budget) related to the increased number of positions being filled and the increased use of temporary staffing to support NERC’s ongoing operations during times of staff vacancies.
 - **Employee Benefits** (\$493.0k under budget) Employee benefits expense includes education and training, medical and life insurance benefits, workers compensation insurance and relocation expenses. The expense associated with medical and life insurance benefits was \$837.4k (29.0%) under budget related to having fewer FTEs on staff than planned, lower enrollment and a lower average cost per enrolled employee than budgeted. This under budget expense was partially offset by relocation expenses which were \$293.8k over budget and expected to be funded with working capital.
 - **Savings and Retirement** (\$785.8k under budget) Savings and Retirement expenses were under budget due to fewer FTEs on staff, later entry dates than planned for new hires and forfeiture of unvested funds due to personnel attrition.
- **Meeting, Travel and Conferencing Expenses** (\$71.4k, or 1.9% over budget)
 - **Meeting Expenses** were over budget \$147.1k, however \$407.8k of total meeting costs were related to workshop expenses that were offset by \$407.8k in workshop fees. Workshop expenses were \$259.8k over budget due to an additional NASPI workshop, the Grid Security Conference and an additional Standards-Compliance workshop held in 2011 that were not specifically budgeted. Excluding workshops, the cost of Board of Trustee meetings, Board committee meetings, NERC’s standing committee meetings, Standards drafting team meetings and all other meetings held to facilitate NERC’s operating needs and goals was under budget \$112.7k. The savings achieved in meeting expenses resulted from negotiating better rates with hotels, and from use of the meeting space in NERC’s Atlanta office instead of hotels. After moving into its Atlanta office at the end of May, 2011, NERC’s meeting facilities

- were used for over 150 meetings that included stakeholders and NERC staff as well as numerous internal meetings for NERC staff only.
- **Travel Expenses** were under budget \$168.8k. Although travel expenses increased during the year as employees transitioned from Princeton to either Atlanta or Washington, DC, the year ended under budget due to further review and tightening of travel related needs and costs. NERC also believes that use of the meeting facilities in the Atlanta office will continue to put downward pressure on the cost of employee travel and meeting expenses in 2012.
 - **Conferencing Expenses** were over budget \$93.0k at year end as NERC continues to rely heavily on the use of webinars for communication and education opportunities, as well as a means to reduce the need and associated cost to travel for face to face meetings. In 2011, NERC hosted 62 webinars compared to 32 webinars in 2010.
- **Operating Expenses** (\$2.6M, or 16.8% over budget)
 - **Consultants and Contracts**² (\$391.5k over budget)
 - **Standards** (\$162.1k under budget) The use of consultants and contracts to support the standards development process diminished in 2011 as the number of staff in the Standards Program increased. The under budget spend was primarily related to lower expense to complete the standards module in the Compliance C-RATS database and postponement of an upgrade to the standards balloting software pending completion of NERC's IT infrastructure design and business process mapping initiatives
 - **Compliance** (\$594.4 under budget)
 - **Compliance Operations** (\$456.2k under budget) The under budget spend was primarily related to reduced expenses related to the development of the C-RATS database and the elimination of projected nuclear CIP audit workload as a result of the NRC's assumption of responsibility for these audits.
 - **Events Analysis and Investigations** (\$140.8k under budget) – Due to the need to finalize business process mapping and IT architecture work prior to development, the \$165k budgeted for an events analysis tool was delayed.
 - **Reliability Assessments and Performance Analysis** (\$150.1k over budget) The over budget variance was primarily related to higher costs for the development of webGADS, (\$12.0k), webTADS, (\$139.9k) and webDADS (\$97.7k) which were not fully known at the time the budget was approved. This over budget spend was partially offset by the combined under budget spend of \$103.3k on the modeling

² A detailed analysis comparing actual to budget amounts for contractors and consultants is included on pages 20 through 22.

initiative, generator controls support and studies of the reliability effects of Geomagnetic Disturbance.

- **Training and Education** (\$5.4k under budget) The increased number of system operator tests which generated additional funding, also increased consulting fees, resulting in \$42.3k of over budget spending. Development of the database used for the system operator and certification program and the continuing education program exceeded budget by \$68.3k. These increases were offset by the elimination of funding to develop a searchable knowledge management database in 2011
- **Situation Awareness and Infrastructure Security** (\$539.4k over budget) The SAFNR and NASPI projects exceeded budget by \$124.2k and \$391.6k, respectively. NASPI funding was primarily related to the NERC's contract with the Grid Protection Alliance (GPA). At the time NERC's budget was approved the contract negotiations with GPA were not complete. After reviewing working capital reserves and discussing the 2011 work plan further with GPA, management decided not to reduce the 2011 contract year scope to be consistent with budgeted levels and instead worked with GPA to reach agreement on a mutually acceptable scope of work, which included NERC's support of a joint gateway development effort being funded by DOE and third parties, as part of NERC's long term strategy to transition its funding support for the NASPI initiative.

The excess SAFNR funding was primarily related to higher than estimated costs associated with software licenses and service agreements to deploy the SAFNR technology platform in 2011 than was contemplated in NERC's approved 2011 business plan and budget. Funding levels are projected to significantly decrease in 2012 and thereafter.

The cost of the IDC was \$261.1k under budget as a result of reduced spending for change orders associated with this tool. NERC has issued a notice of termination of its IDC contract, effective in the second quarter of 2013.

The cost of NERCnet, the secure network used for communication by the reliability coordinators throughout North America was over budget \$254.4k due to billing errors by Verizon. Verizon has been working for several months to resolve the billing errors and will issue credits for the over-billing when the issues have been fully resolved. As of the writing of this report, Verizon has identified \$197k in billing errors that will be credited to NERC.

- **Information Technology** (\$309.1k over budget) The over budget spend related to contracted support for IT infrastructure design and planning as well as ongoing business process improvement initiatives.
- **Human Resources** (\$99.3k over budget) The over budget spend is related to executive search fees, compensation studies and implementation of improvements to the HRIS and payroll systems.
- **Office Rent** (\$1.1M over budget) Higher rent expense was a result of the relocation of NERC's headquarters to Atlanta, the move to a new office in Washington, DC and the buy-out of a portion of the Princeton, NJ lease, which will result in savings over the remaining term of the lease. As explained above, NERC signed an agreement to sublet approximately 3,964 square feet of the remaining space not included in the partial buy out to further reduce the remaining expense of the Princeton lease and NERC signed an agreement to sublet 100% of its prior DC office space. Further, because rent payments in Atlanta are abated in 2011, \$745.1k of the over budget variance is a non-cash expense.
- **Office Costs** (\$352.1k over budget) The over budget spend for Office Costs was related to additional transitional internet expenses incurred in 2011 to support new office locations, as well as the investment in and deployment of new technology at the new office locations and the new data center. Termination of service at existing locations is expected to result in savings in 2012 and beyond. Other expenses that exceeded budget included bank charges and merchant card fees related to increased business activity, use taxes paid to the State of NJ for purchases of services from various suppliers for which the supplier invoice NERC taxes, increased mail costs and increased costs for additional copiers for both the Atlanta and Washington, DC offices.
- **Professional Services** (\$213.2k over budget) Primarily related to outside legal fees which exceeded budget \$286.8k due to one-time costs associated with the negotiation of SAFNR, GADS, TADS and DADS software licenses and legal fees associated with real estate lease negotiations. These services were needed given the complexity of the contractual arrangements but were not budgeted. Commercial insurance was over budget \$15.7k related to an increase in covered assets and hired and non-owned automobile coverage. These increases were offset by under budget spending for BOT search fees which were not required.
- **Depreciation** (\$464.9k over budget) The over budget expense for depreciation was related to investments in the new data center, NERC's new headquarters and expansion of the Washington, DC office which was not included in the budget due to the unknown

cost of the assets at the time of finalization of the 2011 Business Plan and Budget but was anticipated to be paid out of working capital.

- **Miscellaneous Expense** – (\$78.4k over budget) \$55.6k was for costs associated with yearend employee meetings and holiday event, which were not specifically budgeted. \$17.5k of the variance was due to a loss on disposal of fixed assets. The remaining \$5.3k was related to employee recognition, expressions of condolences upon the loss of a loved one, and various other expenses that do not fit the descriptions of other accounts.
- **Other Non-Operating Expenses** (\$735.6k under budget) The budget for Other Non-Operating Expenses represents an amount set aside for funding of the relocation of NERC's headquarters, although as explained in the 2011 Business Plan and Budget, management planned to fund most of the costs associated with the relocation from working capital reserves because actual costs were not known at the time the Budget was submitted to FERC for approval. Actual costs, which could not be classified as operating expenses, were related to moving files and other office items from Princeton and from temporary to permanent space.

FIXED ASSETS (\$3.0M over budget)

The over budget variances are related to the relocation of NERC's headquarters and primary data center. All costs associated with the Atlanta and DC offices have been recorded as of December 31, 2011. Approximately \$310k in costs for a storage area network tray (SAN), and software licenses associated with the relocation of the data center were incurred in early 2012.

ALLOCATION OF INDIRECT EXPENSES

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

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 activity.

North American Electric Reliability Corporation
Statement of Activities
For the Period Ended 12/31/2011

	2011 Actual	2011 Budget	2011 Actual Variance from Budget Over(Under)	%
Funding				
Assessments	41,106,965	41,106,965	0	
Penalties	10,175,000	10,175,000	(0)	
Testing	2,333,524	1,940,000	393,524	
Services & Software	236,603	250,000	(13,397)	
Workshop Fees	400,851	92,500	308,351	
Interest	12,702	12,000	702	
Miscellaneous	48,951	150,000	(101,049)	
A Total Funding	54,314,596	53,726,465	588,131	1.09%
Expenses				
Personnel Expenses				
Salaries	20,080,400	21,095,935	(1,015,534)	
Payroll Taxes	1,248,462	1,285,299	(36,837)	
Employee Benefits	2,770,626	3,263,696	(493,069)	
Savings & Retirement	2,192,042	2,977,801	(785,759)	
Total Personnel Expenses	26,291,531	28,622,731	(2,331,200)	-8.14%
Meeting Expenses				
Meetings	1,008,643	861,500	147,143	
Travel	2,466,783	2,635,537	(168,754)	
Conference Calls	320,812	227,800	93,012	
Total Meeting Expenses	3,796,237	3,724,837	71,400	1.92%
Operating Expenses				
Consultants and Contracts	9,730,178	9,338,716	391,461	
Rent & Improvements	2,104,677	1,020,151	1,084,526	
Office Costs	2,772,981	2,420,176	352,805	
Professional Services	2,173,036	1,959,854	213,182	
Miscellaneous	82,372	4,000	78,372	
Depreciation	1,217,872	752,988	464,884	
Total Operating Expenses	18,081,115	15,495,885	2,585,229	16.68%
Other Non-Operating Expenses	14,437	750,000	(735,563)	-98.08%
Indirect Expenses	(0)	(0)	(0)	
B Total Expenses	48,183,319	48,593,453	(410,133)	-0.84%
=A-B Net Change in Assets	6,131,277	5,133,012	998,264	19.45%
Fixed Assets				
Depreciation	(1,217,872)	(752,988)	(464,884)	
Computer & Software CapEx	1,212,675	845,200	367,475	
Furniture & Fixtures CapEx	1,693,453	-	1,693,453	
Equipment CapEx	964,022	40,800	923,222	
Leasehold Improvements	495,863	-	495,863	
Allocation of Fixed Assets	(0)	-	(0)	
C Incr(Dec) in Fixed Assets	3,148,141	133,012	3,015,128	2267%
=B+C Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	51,331,461	48,726,468	2,604,992	5.35%
=A-B-C Change in Working Capital (Total Funding less Total Budget)	2,983,136	5,000,000	(2,016,861)	-40.34%
FTE's	140.25	150.75	(10.50)	
Headcount	156.00	157.00	(1.00)	
Beginning WC - 1/1/11	789,862	(2,848,109)	3,637,971	
Change to WC - 2011	2,983,136	5,000,000	(2,016,861)	
Working Capital at 12/31/11	3,772,998	2,151,891	1,621,110	

North American Electric Reliability Corporation
Statement of Activities
For the Period Ended 12/31/2011

RELIABILITY STANDARDS	2011 YTD		2011 YTD Actual		%	Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Over(Under)	Variance from Budget		
Funding						
Assessments	5,872,230	5,872,230	-	-	0.00%	
Penalties	1,808,389	1,808,389	-	-	0.00%	
Testing	-	-	-	-		
Services & Software	-	-	-	-		
Workshop Fees	89,575	-	89,575	89,575	100.00%	All workshops were budgeted in the Training department but were recorded in the department sponsoring the workshop. The Standards Program sponsored (2) workshops in 2011 compared to (1) in prior years.
Interest	2,343	2,133	210	210		
Misc.	-	-	-	-		
Total Funding	7,772,537	7,682,752	89,785	89,785	1.17%	
Expenses						
Personnel Expenses						
Salaries	2,636,286	2,835,888	(199,602)	(199,602)	-7.04%	Fewer FTEs due to the timing of new hires and related to the departure of the Chief Reliability Officer and the transfer of staff who reported to the CRO to other departments. The CRO and his staff of (4) were allocated equally between Standards, Compliance and Situation Awareness.
Payroll Taxes	163,139	179,070	(15,931)	(15,931)	-8.90%	Fewer FTEs on staff and lower rate for FICA taxes than budgeted.
Employee Benefits	345,264	381,842	(36,578)	(36,578)	-9.58%	Medical and life benefits were \$130.5k under budget due to lower enrollment and lower average cost per enrolled employee than budget, offset by \$93.9k in education reimbursements and relocation expense budgeted in HR, but recorded in the employee's department.
Savings & Retirement	301,314	395,844	(94,530)	(94,530)	-23.88%	Due to the timing of new hires, eligibility in retirement programs was delayed
Total Personnel Expenses	3,446,003	3,792,644	(346,641)	(346,641)	-9.14%	
Meeting Expenses						
Meetings	145,876	80,000	65,876	65,876	82.35%	\$79k of total meeting costs are related to expenses for (2) workshops that were offset by \$89.6k in workshop fees. All workshops were budgeted in the Training Department, but recorded in the department sponsoring the workshop.
Travel	354,434	400,500	(46,066)	(46,066)	-11.50%	The savings in travel expense result from use of the meeting space in NERC's Atlanta office instead of hotels.
Conference Calls	99,256	45,600	53,656	53,656	117.67%	Over budget spend due to the increased use of webinars to educate stakeholders and to reduce meeting and travel expenses.
Total Meeting Expenses	599,566	526,100	73,466	73,466	13.96%	
Operating Expenses						
Consultants and Contracts	329,409	491,500	(162,091)	(162,091)	-32.98%	The under budget spend is primarily related to lower expense to complete the standards module in the Compliance C-RATS database and delays in the upgrade to the standards balloting software resulting from personnel turnover and work associated with NERC's IT infrastructure design and business process mapping initiatives.
Rent & Improvements	-	-	-	-		
Office Costs	69,906	52,894	17,012	17,012	32.16%	The over budget spend for office costs is related to wireless phone and internet expenses due to the increase in number of staff.
Professional Services	155	-	155	155		FMLA administration fees budgeted in HR but recorded by department.
Miscellaneous	1,038	-	1,038	1,038		Primarily employee recognition or condolences upon death of a family member
Depreciation	-	-	-	-		
Total Operating Expenses	400,508	544,394	(143,886)	(143,886)	-26.43%	
Other Non-Operating Expenses						
	2,663	133,296	(130,633)	(130,633)	0.00%	\$750k budgeted for the relocation of NERC's primary headquarters allocated to the statutory programs based on FTEs. Actual expenses were charged to the appropriate account, except for \$14.4k in costs to relocate files and office supplies.
Indirect Expenses						
	3,366,212	2,669,696	696,516	696,516	26.09%	Administrative expenses were 21% higher than budget as further explained in each department Statement of Activities and the Standards Program had a higher percentage of FTEs related to total statutory program FTEs than budgeted.
Total Expenses	7,814,952	7,666,130	148,822	148,822	1.94%	
Net Change in Assets	(42,415)	16,621	(59,037)	(59,037)		
Fixed Assets						
Depreciation	-	-	-	-		
Computer & Software CapEx	-	-	-	-		
Furniture & Fixtures CapEx	-	-	-	-		
Equipment CapEx	-	-	-	-		
Leasehold Improvements	-	-	-	-		
Allocation of Fixed Assets	624,541	16,621	607,920	607,920	3658%	Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Incr(Dec) in Fixed Assets	624,541	16,621	607,920	607,920	3658%	
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	8,439,493	7,682,751	756,742	756,742	9.85%	
Change in Working Capital (Total Funding less Total Budget)	(666,956)	(0)	(666,957)	(666,957)		
FTE's	19	20	(1.44)	(1.44)	-7.19%	
Headcount on 12/31/2011	20	20	(0.33)	(0.33)	-1.64%	

North American Electric Reliability Corporation
Statement of Activities
For the Period Ended 12/31/2011

COMPLIANCE OPERATIONS and ORGANIZATION REGISTRATION	2011 YTD Actual	2011 YTD Budget	2011 YTD Actual Variance from Budget Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	13,063,317	13,063,318	(0)	0%	
Penalties	4,239,583	4,239,583	(0)	0%	
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	22,875	-	22,875		Fees related to the Compliance Auditor Workshop. All workshops were budgeted in the Training department but were recorded in the department sponsoring the workshop.
Interest	5,333	5,000	333	7%	
Miscellaneous	44,779	150,000	(105,221)	-70%	Miscellaneous Funding represents anticipated funding for performance of CEA for WECC RC function.
Total Funding	17,375,888	17,457,901	(82,013)	0%	
Expenses					
Personnel Expenses					
Salaries	5,213,432	6,344,045	(1,130,613)	-18%	Fewer FTEs due to the timing of new hires and related to the departure of the Chief Reliability Officer and the transfer of staff who reported to the CRO to other departments.
Payroll Taxes	352,594	416,818	(64,223)	-15%	The CRO and his staff of (4) were allocated equally between Standards, Compliance and Situation Awareness.
Employee Benefits	839,451	895,128	(55,678)	-6%	
Savings & Retirement	618,961	892,082	(273,121)	-31%	In addition to fewer FTEs than budgeted, the timing of new hires resulted in delayed entry into NERC's retirement program.
Total Personnel Expenses	7,024,438	8,548,073	(1,523,635)	-18%	
Meeting Expenses					
Meetings	139,049	32,500	106,549	328%	\$100k was budgeted for two Compliance Auditors workshops in the Training department, but actual expense and the offsetting fees collected were recorded in Compliance.
Travel	590,464	909,833	(319,370)	-35%	The savings in travel expense result from fewer FTEs than budgeted and use of the meeting space in NERC's Atlanta office instead of hotels.
Conference Calls	65,395	28,200	37,195	132%	Increased use of webinars for stakeholder education and training
Total Meeting Expenses	794,907	970,533	(175,626)	-18%	
Operating Expenses					
Consultants and Contracts	600,613	1,195,000	(594,387)	-50%	The under budget spend was primarily related to reduced expenses related to the development of the C-RATS database and the elimination of projected nuclear CIP audit workload as a result of the NRC's assumption of responsibility for these audits.
Rent & Improvements	-	-	-		
Office Costs	143,402	84,000	59,402	71%	The over budget spend for office costs are related to wireless phone expense due to the increase in number of staff and unbudgeted internet expense
Professional Services	5,130	-	5,130		Expense of outside counsel for development of TFE processing procedure not budgeted
Miscellaneous	6,754	-	6,754		\$5.8k related to loss on disposal of fixed assets. The remaining expense related to employee recognition expenses.
Depreciation	227,928	26,494	201,434	760%	C-RATS software development costs were classified as consulting expense in early 2010 when the 2011 budget was developed and later reclassified as a fixed asset resulting in under estimating depreciation expense in the 2011 budget.
Total Operating Expenses	983,827	1,305,494	(321,667)	-25%	
Other Non-Operating Expenses	6,061	312,500	(306,439)		
Indirect Expenses	7,660,661	6,258,830	1,401,831	22.40%	Administrative expenses were 21% higher than budget as further explained in each department Statement of Activities and the Compliance Program had a slightly higher percentage of FTEs related to total statutory program FTEs than budgeted.
Total Expenses	16,469,894	17,395,431	(925,537)	-5.32%	
Net Change in Assets	905,994	62,470	843,524	1350%	
Fixed Assets					
Depreciation	(227,928)	(26,494)	(201,434)	760%	
Computer & Software CapEx	-	50,000	(50,000)		Development of the new Reporting and Analysis tool as part of the C-RATS database was not started in 2011 as planned.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	1,421,299	38,966	1,382,333	3548%	Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Incr(Dec) in Fixed Assets	1,193,370	62,472	1,130,898	1810%	
Total Budget (Expenses plus Incr(Dec) in Fixed	17,663,264	17,457,903	205,361	1.18%	
Change in Working Capital (Total Funding less Total	(287,376)	(2)	(287,374)		
FTE's	42.42	47.08	(4.66)	-9.9%	
Headcount on 12/31/2011	46.00	48.33	(2.33)	-4.8%	

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

Reliability Assessments and Performance Analysis			2011 YTD Actual		Comments (Explain variances < +/- 10% and \$10,000)
	2011 YTD Actual	2011 YTD Budget	Variance from Budget Over(Under)	%	
Funding					
Assessments	4,802,760	4,802,760	-	0%	
Penalties	1,238,108	1,238,108	-	0%	
Testing			-		
Services & Software	210,869	250,000	(39,131)	-16%	Funding from the sales of GADS software and services lower than budget
Workshop Fees	77,200	-	77,200		Workshop fees and related expenses were budgeted in the Training Program, but recorded in the department sponsoring the workshop. \$48k was budgeted for the GADS workshop in 2011, but due to higher participation, \$77.2k in fees were collected.
Interest	1,740	1,460	280	19%	
Miscellaneous			-		
Total Funding	6,330,677	6,292,329	38,349	1%	
Expenses					
Personnel Expenses					
Salaries	2,041,833	1,837,743	204,090	11%	Salaries and payroll taxes are over budget due to having more FTEs during the budget period than planned
Payroll Taxes	135,301	118,451	16,850	14%	
Employee Benefits	279,598	261,836	17,762	7%	
Savings & Retirement	232,080	261,411	(29,330)	-11%	The timing of new hires resulted in delayed entry into NERC's retirement program.
Total Personnel Expenses	2,688,812	2,479,440	209,372	8%	
Meeting Expenses					
Meetings	76,055	100,000	(23,945)	-24%	Includes \$44.9k in GADS workshop expenses offset by fees collected. Remaining \$31.1k in meeting expense was under budget due to use of regional entity, stakeholder and NERC meeting facilities instead of hotels
Travel	391,589	326,250	65,339	20%	Travel expenses increased during the year as employees transitioned from Princeton to Atlanta.
Conference Calls	29,688	42,500	(12,812)	-30%	RAPA has a set schedules of using webinars and conference calls and they have been using the service. The budget assumption was for an increase in the number and cost of RAPA conference calls, however actual expense was consistent with prior year.
Total Meeting Expenses	497,333	468,750	28,583	6%	
Operating Expenses					
Consultants and Contracts	1,310,095	1,160,000	150,095	13%	The over budget variance was primarily related to higher costs for the development of webGADS, webTADS, and webDADS which were not fully known at the time the budget was approved
Rent & Improvements		-	-		
Office Costs	136,071	123,700	12,371	10%	Higher cell phone, air card and internet charges were offset by lower software maintenance fees.
Professional Services	29,308	-	29,308		Outside counsel used to review GADS, TADS and DADS contracts was not budgeted.
Miscellaneous	347	-	347		
Depreciation	27,859	68,129	(40,270)	-59%	Lower cost of analysis software reduced depreciation
Total Operating Expenses	1,503,679	1,351,829	151,850	11%	
Other Non-Operating Expenses	1,978	91,261	(89,283)		
Indirect Expenses	2,499,376	1,827,800	671,576	37%	Administrative expenses were 21% higher than budget as further explained in each department Statement of Activities and the RAPA Program had a higher percentage of FTEs related to total statutory program FTEs than budgeted.
Total Expenses	7,191,178	6,219,080	972,098	16%	
Net Change in Assets	(860,501)	73,249	(933,749)	-1275%	
Fixed Assets					
Depreciation	(27,859)	(68,129)	40,270	-59%	
Computer & Software CapEx	66,750	130,000	(63,250)		Software license for data and analysis software was less than estimated in the budget.
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	463,715	11,380	452,335	3975%	Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Incr(Dec) in Fixed Assets	502,605	73,251	429,354	586%	
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	7,693,783	6,292,331	1,401,452	22.27%	
Change in Working Capital (Total Funding less Total Budget)	(1,363,106)	(2)	(1,363,104)		
FTE's	13.84	13.75	0.09	0.65%	
Headcount on 12/31/2011	16.00	16.00	-	0.00%	

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

Training, Education and Operator Certification	2011 YTD Actual	2011 YTD Budget	2011 YTD Actual Variance from Budget Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments	327,071	327,071	-	0%	
Penalties	562,777	562,777	-	0%	
Testing	2,333,524	1,940,000	393,524	20%	\$152.8k due to more system operator tests taken; \$234.9k due to more certificate renewals processed; and \$6.8k from higher continuing education hour fees than anticipated.
Services & Software			-		
Workshop Fees		92,500	(92,500)	-100%	All workshop fees and expenses were budgeted in Training, but actuals were recorded in the departments sponsoring the workshops.
Interest	620	664	(44)	-7%	
Miscellaneous			-		
Total Funding	3,223,991	2,923,011	300,980	10%	
Expenses					
Personnel Expenses					Due fewer FTEs on staff due to timing of new hires and due to lower than budgeted salaries.
Salaries	598,433	815,066	(216,633)	-27%	
Payroll Taxes	47,905	54,445	(6,540)	-12%	Fewer FTEs on staff than budgeted due to timing of new hires.
Employee Benefits	92,457	119,092	(26,635)	-22%	Fewer FTEs on staff than budgeted due to timing of new hires.
Savings & Retirement	62,906	114,877	(51,971)	-45%	Timng of new hires delayed eligiblily in the retirement program
Total Personnel Expenses	801,702	1,103,480	(301,778)	-27%	
Meeting Expenses					\$248.0k related to workshop expenses budgeted in Training but charged to the departments sponsoring the workshop, (\$100k for compliance auditor workshops, \$40k for Standards workshops, \$48k for GADS workshop, and \$60k for NASPI workshops; \$30k budgeted for meetings in the Training Program, but fewer face-to-face meetings held in 2011 than budgeted.
Meetings	14,379	278,000	(263,621)	-95%	New staff liasons to the Personnel Certification and Governance Committee traveled more than anticipated to meet with the committee.
Travel	55,112	48,000	7,112	15%	
Conference Calls	30,728	35,000	(4,272)	-12%	
Total Meeting Expenses	100,218	361,000	(260,782)	-72%	
Operating Expenses					
Consultants and Contracts	482,381	487,658	(5,277)	-1%	
Rent & Improvements			-		
Office Costs	94,385	93,400	985	1%	
Professional Services	47		47		
Miscellaneous	469		469		
Depreciation			-		
Total Operating Expenses	577,282	581,058	(3,776)	-1%	
Other Non-Operating Expenses	704	41,482	(40,778)	-98%	Administrative expenses were 21% higher than budget as further explained in each department Statement of Activities. The Training department had a lower percentage of total FTEs in the five statutory programs than budgeted.
Indirect Expenses	890,313	830,818	59,495	7%	
Total Expenses	2,370,218	2,917,838	(547,619)	-19%	
Net Change in Assets	853,773	5,173	848,600		
Fixed Assets					
Depreciation	0	0	-		
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	165,182	5,173	160,009	3093%	Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Incr(Dec) in Fixed Assets	165,182	5,173	160,009		
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	2,535,400	2,923,011	(387,611)	-13.26%	
Change in Working Capital (Total Funding less Total Budget)	688,591	0	688,591		
FTE's	4.93	6.25	(1.32)	-21%	Fewer FTEs due to timing of new hires
Headcount on 12/31/2011	6.00	6.00	-	0%	

North American Electric Reliability Corporation
Statement of Activities
As of December 31, 2011

Situation Awareness and Infrastructure Security	2011 YTD				Comments (Explain variances < +/- 10% and \$10,000)
	2011 YTD Actual	2011 YTD Budget	Actual Variance from Budget Over(Under)	%	
Funding					
Assessments	12,041,586	12,041,586	0	0%	
Penalties	2,326,143	2,326,143	(0)	0%	
Testing	-	-	-		
Services & Software	25,735	-	25,735		FIST Royalties and TSIN fees not budgeted.
Workshop Fees	211,201	-	211,201		NASPI workshops budgeted in training and the Grid Security Conference was not budgeted
Interest	2,666	2,743	(77)	-3%	
Miscellaneous	-	-	-		
Total Funding	14,607,331	14,370,472	236,859	2%	
Expenses					
Personnel Expenses					
Salaries	3,244,741	4,048,114	(803,373)	-20%	Fewer FTEs due to the timing of new hires and related to the departure of the Chief Reliability Officer and the transfer of staff who reported to the CRO to other departments. The CRO and his staff of (4) were allocated equally between Standards, Compliance and Situation Awareness.
Payroll Taxes	220,723	232,388	(11,665)	-5%	
Employee Benefits	376,499	508,662	(132,163)	-26%	
Savings & Retirement	346,414	555,278	(208,864)	-38%	
Total Personnel Expenses	4,188,377	5,344,442	(1,156,065)	-22%	
Meeting Expenses					
Meetings	366,938	135,000	231,938	172%	\$202k of the meetings expense is related to workshops which is offset by the workshop fees
Travel	455,968	579,833	(123,865)	-21%	Decreased travel related to fewer FTEs
Conference Calls	42,155	10,200	31,955	313%	Increased use of webinars
Total Meeting Expenses	865,061	725,033	140,028	19%	
Operating Expenses					
Consultants and Contracts	5,120,961	4,581,558	539,403	12%	The SAFNR and NASPI contracts were over budget \$124.2k and \$391.6k respectively.
Rent & Improvements	-	-	-		
Office Costs	114,135	92,550	21,585	23%	Primarily related to Ventyx software licensing fee which was not budgeted.
Professional Services	166,153	-	166,153		Outside counsel needed for negotiation of SAFNR contract.
Miscellaneous	821	-	821		
Depreciation	48,206	45,884	2,322	5%	
Total Operating Expenses	5,450,277	4,719,992	730,285	15%	
Other Non-Operating Expenses	3,031	171,460	(168,430)	-98%	
Indirect Expenses	3,830,330	3,434,048	396,282	12%	Administrative expenses were 21% higher than budget as further explained in each department Statement of Activities. The Situation Awareness & Infrastructure Protection Program had a lower percentage of total FTEs in the five statutory programs than budgeted.
Total Expenses	14,337,077	14,394,976	(57,899)	0%	
Net Change in Assets	270,254	(24,503)	294,758	-1203%	
Fixed Assets					
Depreciation	(48,206)	(45,884)	(2,322)	5%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	710,649	21,380	689,269	3224%	Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Incr(Dec) in Fixed Assets	662,443	(24,504)	686,947	-2803%	
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	14,999,520	14,370,472	629,048	4.38%	
Change in Working Capital (Total Funding less Total)	(392,189)	1	(392,190)		
FTE's	21.21	25.83	(4.62)	-18%	Fewer FTEs due to the timing of new hires and related to the departure of the Chief Reliability Officer and the transfer of staff who reported to the CRO to other departments. The CRO and his staff of (4) were allocated equally between Standards, Compliance and Situation Awareness.
Headcount on 12/31/2011	20.00	26.33	(6.33)	-24%	

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

General and Administrative and Government Relations	2011 YTD Actual				Comments (Explain variances < +/- 10% and \$10,000)
	2011 YTD Actual	2011 YTD Budget	Variance from Budget Over(Under)	%	
Funding					
Assessments	5,000,000	5,000,000	0	0%	
Penalties	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	4,172	-	4,172		
Total Funding	5,004,172	5,000,000	4,172	0%	
Expenses					
Personnel Expenses					
Salaries	1,678,448	1,501,010	177,438	12%	Salaries and payroll tax expense over budget due to more FTEs on staff.
Payroll Taxes	72,476	64,219	8,257	13%	Lower enrollment in medical benefits plan and at a lower cost for those enrolled result in under budget spend throughout the year.
Employee Benefits	215,832	226,509	(10,677)	-5%	Under budget due to forfeitures of unvested funds all recorded in G&A
Savings & Retirement	122,989	242,792	(119,803)	-49%	
Total Personnel Expenses	2,089,745	2,034,530	55,216	3%	
Meeting Expenses					
Meetings	250,570	225,000	25,570	11%	4th quarter 2010 BOT meeting paid in 2011 - not accrued Related to additional FTEs and increased travel by the CEO and Board of Trustees.
Travel	314,741	268,120	46,621	17%	
Conference Calls	46,128	61,800	(15,672)	-25%	Lower expense than prior years. The budget was based on historical usage.
Total Meeting Expenses	611,439	554,920	56,519	10%	
Operating Expenses					
Consultants and Contracts	95,118	-	95,118		Senior management training budgeted in HR but allocated the expense to proper cost center
Rent & Improvements	2,104,677	1,020,151	1,084,526	106%	Higher rent expense was a result of the relocation of NERC's headquarters to Atlanta, the move to a new office in Washington, DC and the buy-out of a portion of the Princeton, NJ lease, which will result in savings over the remaining term of the lease
Office Costs	500,444	407,498	92,946	23%	Expenses that exceeded budget included bank charges and merchant card fees related to increased business activity; use taxes paid to the State of NJ for purchases of services from various suppliers for which the supplier invoice NERC taxes; increased office supplies, mail costs, and increased costs for additional copiers for both Atlanta office and the expanded temporary office in Washington, DC.
Professional Services	1,123,770	1,180,000	(56,230)	-5%	
Miscellaneous	63,328	4,000	59,328	1483%	Related to costs associated with yearend employee meetings and holiday event and loss on disposal of fixed assets.
Depreciation	233,016	95,286	137,730	145%	NERC's new headquarters and expansion of the Washington, DC office which was not included in the budget due to the unknown cost of the assets at the time of finalization of the 2011 Business Plan and Budget but was planned to be funded from working capital.
Total Operating Expenses	4,120,354	2,706,935	1,413,419	52%	
Other Non-Operating Expenses					
Indirect Expenses	(6,821,538)	(5,296,384)	(1,525,154)	29%	
Total Expenses	0	0	(0)	-243%	
Net Change in Assets	5,004,172	5,000,000	4,172	0%	
Fixed Assets					
Depreciation	(233,016)	(95,286)	(137,730)	145%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	1,693,453	-	1,693,453		Related to the relocation of NERC's office and data center, which were funded through working capital as planned.
Equipment CapEx	-	-	-		
Leasehold Improvements	495,863	-	495,863		
Allocation of Fixed Assets	(1,956,300)	95,286	(2,051,586)	-2153%	
Incr(Dec) in Fixed Assets	0	0	0		
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	0	0	(0)		
Change in Working Capital (Total Funding less Total Budget)	5,004,172	5,000,000	4,172	0.08%	
FTE's	6.57	7.00	(0.43)	-6%	One position reporting to the Chief Reliability Officer transferred to G&A in the fourth quarter after the CRO's departure.
Headcount on 12/31/2011	8.00	7.50	0.50	7%	

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

LEGAL and REGULATORY

	2011 YTD		2011 YTD Actual		%	Comments (Explain variances < +/- 10% and \$10,000)
	Actual	Budget	Variance from Budget	Over(Under)		
Funding						
Assessments			-			
Penalties			-			
Testing			-			
Services & Software			-			
Workshop Fees			-			
Interest			-			
Miscellaneous			-			
Total Funding	-	-	-			
Expenses						
Personnel Expenses						
Salaries	1,856,349	1,400,013	456,336	33%	Higher salaries and payroll tax expense is due to increased number of	
Payroll Taxes	87,198	68,780	18,418	27%	FTEs than budgeted and higher average salaries than budgeted.	
Employee Benefits	198,652	179,908	18,744	10%	Due to more FTEs than budgeted	
Savings & Retirement	213,823	200,552	13,271	7%	Due to more FTEs than budgeted	
Total Personnel Expenses	2,356,023	1,849,254	506,769	27%		
Meeting Expenses						
Meetings	5,552	5,000	552	11%	Increased travel due to (i) attendance at standards drafting team	
					meetings; (ii) compliance enforcement initiatives, including Find, Fix,	
					Track; (iii) Rules of Procedure changes; and (iv) onsite Compliance	
					audits of Regional Entities.	
Travel	107,546	50,500	57,046	113%		
Conference Calls	3,899	1,500	2,399	160%		
Total Meeting Expenses	116,998	57,000	59,998	105%		
Operating Expenses						
Consultants and Contracts	100,257	135,000	(34,743)	-26%	Canadian affairs required less time than budgeted.	
Rent & Improvements			-			
Office Costs	52,900	28,620	24,280	85%	Cell phone/air card charges increased due to the increase in FTEs.	
					Outside counsel fees are budgeted in Legal but actuals are recorded in	
					the department incurring the expense. In total, NERC exceeded	
					budget for outside counsel fees \$286.8k as explained in the cover	
					letter.	
Professional Services	615,419	665,000	(49,581)	-7%		
Miscellaneous			-			
Depreciation			-			
Total Operating Expenses	768,576	828,620	(60,044)	-7%		
Other Non-Operating Expenses						
Indirect Expenses	(3,241,597)	(2,734,875)	(506,722)	19%		
Total Expenses	-	(0)	(0)			
Net Change in Assets	-	0	0	100%		
Fixed Assets						
Depreciation	0	0	-			
Computer & Software CapEx			-			
Furniture & Fixtures CapEx			-			
Equipment CapEx			-			
Leasehold Improvements			-			
Allocation of Fixed Assets			-			
Incr(Dec) in Fixed Assets	0	0	0			
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	-	(0)	(0)			
Change in Working Capital (Total Funding less Total Budget)	-	0	0			
FTE's	10.00	8.00	2.00	25%	1.0 budgeted positions transferred to legal from another program and	
					one position which was budgeted to be shared with another program	
					was allocated 100% to Legal. 1.0 positions budgeted for 2012 was	
					hired at the end of 2011.	
Headcount on 12/31/2011	11.00	8.50	2.50	29%		

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

INFORMATION TECHNOLOGY	2011 YTD Actual				Comments (Explain variances < +/- 10% and \$10,000)
	2011 YTD Actual	2011 YTD Budget	Variance from Budget	%	
Funding					
Assessments					
Penalties					
Testing					
Services & Software					
Workshop Fees					
Interest					
Miscellaneous					
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
Salaries	1,076,110	1,031,531	44,579	4%	Higher salary, payroll tax and benefits expense are related the 3.0
Payroll Taxes	78,421	73,182	5,238	7%	employees who transferred to IT from other departments in the 4th
Employee Benefits	209,272	202,588	6,684	3%	quarter. Due to turnover and the timing of new hires, eligibility in the
Savings & Retirement	137,006	145,162	(8,155)	-6%	retirement plans reduced retirement expenses below budget.
Total Personnel Expenses	1,500,808	1,452,463	48,345	3%	
Meeting Expenses					
Meetings	2,324		2,324		
					Travel expenses increased during the year due to increased travel
					from Princeton to Atlanta related to build-out of the new office and
					relocation of the data center.
Travel	74,799	21,000	53,799	256%	
Conference Calls	2,271	1,200	1,071	89%	
Total Meeting Expenses	79,395	22,200	57,195	258%	
Operating Expenses					
					The over budget spend related to contracted support for IT
					infrastructure design and planning as well as ongoing business
Consultants and Contracts	1,342,075	1,033,000	309,075	30%	process improvement initiatives.
Rent & Improvements	-		-		
Office Costs	1,601,312	1,516,144	85,168	6%	
					Outside counsel used to review new contracts related to the data
Professional Services	6,747		6,747		center.
Miscellaneous	6,755		6,755		\$6k related to disposal of fixed assets.
					The over budget expense for depreciation was related to investments
					in the new data center, NERC's new headquarters and expansion of
					the Washington, DC office which was not included in the budget due
					to the unknown cost of the assets at the time of submission of the
					2011 Business Plan and Budget but was anticipated to be paid out of
					working capital.
Depreciation	679,958	515,445	164,513	32%	
Total Operating Expenses	3,636,847	3,064,589	572,258	19%	
Other Non-Operating Expenses					
Indirect Expenses	(5,217,050)	(4,539,253)	(677,797)	15%	
Total Expenses	-	0	(0)	-100%	
Net Change in Assets	-	(0)	0	-100%	
Fixed Assets					
Depreciation	(679,958)	(515,445)	(164,513)	32%	
Computer & Software CapEx	1,143,530	665,200	478,330		Computer, software and equipment expenditures related to the
Furniture & Fixtures CapEx			-		relocation of the office and data center and were planned to be
Equipment CapEx	964,022	40,800	923,222		funded from working capital.
Leasehold Improvements			-		
Allocation of Fixed Assets	(1,427,593)	(190,555)	(1,237,038)		
Incr(Dec) in Fixed Assets	0	0	0		
Total Budget (Expenses plus Incr(Dec) in Fixed	-	0	(0)		
Change in Working Capital (Total Funding less Total	-	(0)	0		
FTE's	9.39	10.75	(1.36)	-13%	3.0 budgeted positions transferred to IT from other departments in
Headcount on 12/31/2011	14.00	11.00	3.00	27%	the fourth quarter, but total FTEs were under budget due to turnover

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

HUMAN RESOURCES			2011 YTD Actual		%	Comments (Explain variances < +/- 10% and \$10,000)
	2011 YTD Actual	2011 YTD Budget	Variance from Budget Over(Under)			
Funding						
Assessments					-	
Penalties					-	
Testing					-	
Services & Software					-	
Workshop Fees					-	
Interest					-	
Miscellaneous					-	
Total Funding	-	-	-	-		
Expenses						
Personnel Expenses						\$148.4k related to higher employment agency fees and temporary office services to fill open positions and provide support during times of vacancies.
Salaries	736,676	510,266	226,410	44%		Salary expense for staff averaged more than budget.
Payroll Taxes	36,945	31,354	5,591	18%		Though fewer FTEs on staff than budgeted, higher payroll taxes than budget due to higher average salary expense
Employee Benefits	76,668	357,134	(280,466)	-79%		Relocation and Education Reimbursement expenses were under budget because they are budgeted in HR but are charged to the Program where the employee works; medical benefits budgeted for all FTEs but not all in HR are enrolled.
Savings & Retirement	47,719	58,320	(10,601)	-18%		The timing of new hires resulted in delayed entry into NERC's retirement program.
Total Personnel Expenses	898,009	957,075	(59,066)	-6%		
Meeting Expenses						
Meetings	6,537	2,000	4,537	227%		Additional staff meetings related to the relocation of the office
Travel	30,066	6,000	24,066	401%		Due to the headquarter relocation and company expansion, HR specialist required more traveling than budgeted amount to go to DC and ATL to interview candidates and for new employee orientations
Conference Calls	1,028	600	428	71%		Increased use of conference calls related to new hire interviews.
Total Meeting Expenses	37,631	8,600	29,031	338%		
Operating Expenses						
Consultants and Contracts	349,269	250,000	99,269	40%		The over budget spend is related to executive search fees, compensation studies and implementation of improvements to the HRIS and payroll systems.
Rent & Improvements						
Office Costs	26,031	10,970	15,061	137%		Higher cell phone/air card, and express shipping service higher than budgeted amount
Professional Services	52,676	14,854	37,822	255%		FMLA administration not budgeted; outside legal fees budgeted in the Legal & Regulatory
Miscellaneous	2,688		2,688			Primarily staff recognition or condolences upon death of a family member
Depreciation	-		-			
Total Operating Expenses	430,664	275,824	154,840	56%		
Other Non-Operating Expenses						
Indirect Expenses	(1,366,304)	(1,241,500)	(124,804)	10%		
Total Expenses	-	(0)	0	-100%		
Net Change in Assets	-	0	(0)	-100%		
Fixed Assets						
Depreciation	0	0	-			
Computer & Software CapEx					-	
Furniture & Fixtures CapEx					-	
Equipment CapEx					-	
Leasehold Improvements					-	
Allocation of Fixed Assets	-					
Incr(Dec) in Fixed Assets	0	0	0			
Total Budget (Expenses plus Incr(Dec) in Fixed	-	(0)	0			
Change in Working Capital (Total Funding less Total	-	0	(0)			
FTE's	4.68	5.50	(0.82)	-15%		
Headcount on 12/31/2011	5.00	6.00	(1.00)	-17%		

North American Electric Reliability Corp
Statement of Activities
For the Period Ended 12/31/2011

FINANCE and ACCOUNTING	2011 YTD	2011 YTD	2011 YTD Actual		
	Actual	Budget	Budget	Variance from	
			Over(Under)	%	Comments (Explain variances < +/- 10% and \$10,000)
Funding					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
Salaries	998,093	772,260	225,833	29%	Higher salary and payroll tax expense due to having more
Payroll Taxes	53,758	46,591	7,167	15%	FTEs than budgeted amount
Employee Benefits	136,934	130,997	5,937	5%	
Savings & Retirement	108,829	111,483	(2,654)	-2%	Timing of new hires delayed participation in retirement plans
Total Personnel Expenses	1,297,614	1,061,331	236,283	22%	
Meeting Expenses					
Meetings	1,362	4,000	(2,638)	-66%	The cost of the NERC and Regional Entity finance group face to face meetings were less than budgeted.
Travel	92,064	25,500	66,564	261%	Travel expenses increased during the year as employees transitioned from Princeton to Atlanta.
Conference Calls	264	1,200	(936)	-78%	
Total Meeting Expenses	93,689	30,700	62,989	205%	
Operating Expenses					
Consultants and Contracts		5,000	(5,000)	-100%	Planned development of meeting planning software was not utilized due to website redesign
Rent & Improvements			-		
Office Costs	34,395	10,400	23,995	231%	Expenses over budget included cell phone/air card, fixed assets software monthly charge, dues, and express shipping costs
Professional Services	173,631	100,000	73,631	74%	Outside Counsel fees related to various budget related filings are charged to Finance but are budgeted in Legal and Regulatory
Miscellaneous	170		170		
Depreciation	904	1,750	(846)	-48%	
Total Operating Expenses	209,100	117,150	91,950	78%	
Other Non-Operating Expenses			-		
Indirect Expenses	(1,600,403)	(1,209,180)	(391,223)	32%	
Total Expenses	-	(0)	0		
Net Change in Assets	-	0	(0)		
Fixed Assets					
Depreciation	(904)	(1,750)	846	-48%	
Computer & Software CapEx	2,395		2,395		Fixed asset tracking software not budgeted.
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(1,492)	1,750	(3,242)		
Incr(Dec) in Fixed Assets	0	0	0		
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	-	(0)	0		
Change in Working Capital (Total Funding less Total Budget)	-	0	(0)		
FTE's	8.57	6.50	2.07	32%	
Headcount on 12/31/2011	10.00	7.00	3.00	43%	2.0 transfers from other departments and 1.0 unbudgeted position added

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION - 2011 Working Capital Analysis

The more significant factors impacting the generation and use of working capital during 2011 are listed below. Variances in Contracts and Consultants are further detail on pages 20-22 of this report.

	2011 Actual	2011 Budget	Impact on Working Capital
Working Capital Generated			
<u>Beginning Balance</u>	789,862	(2,848,109)	3,637,971
<u>Contracts and Consultants</u>			
RE Compliance Audits		325,000	325,000
706B 3-year plan - National Labs Training Development		150,000	150,000
NERC Events Analysis Tool (NEAT)		165,000	165,000
ES-ISAC		50,000	50,000
CIP - HILF, TFE and Tools Support		150,000	150,000
Searchable Knowledge Management Database		100,000	100,000
	-	940,000	940,000
Working Capital Generated from Beginning Balance and Budgeted Items not Expended			4,577,971
Expenditures not Specifically Budgeted			
<u>Office and Data Center Relocation</u>			
Data Center	1,744,468	225,000	1,519,468
Atlanta Office	2,565,443		2,565,443
DC Office	1,165,899		1,165,899
Rent, net of non-cash expense	337,261		337,261
Employee Relocation	493,387	200,000	293,387
Other Non-Operating Expenses	14,437	750,000	(735,563)
	6,320,895	1,175,000	5,145,895
<u>Meetings and Workshops</u>			
Grid Security Conference Expense	97,065		97,065
Grid Security Conference Workshop Fees	(95,250)		(95,250)
	1,815	-	1,815
<u>Contracts and Consultants</u>			
Cyber Security Exercise	250,000	-	250,000
Business Process Improvements	498,976		498,976
	748,976	-	748,976
Total Expenditures not Specifically Budgeted	7,071,686	1,175,000	5,896,686
Other Over(Under) Budgeted Expenses			(2,939,825)
Net Generation(Use) of Working Capital	(7,071,686)	(1,175,000)	1,621,110

Program	Consultants & Contracts	2011 Total Budget	YTD Variance Over(Under)	TOTAL ACTUAL
RELIABILITY STANDARDS	Subject Matter Experts -Std Development			
	CIP 706 and Order 733 Project	183,500		177,162
		77,000		34,411
	Technical Writer	60,000		61,915
	Training - AMA	15,000		10,770
	Guidance Database Development-User Guided Content	64,000		3,150
	Standards Balloting-Upgrade	50,000		-
	Standards Balloting Maintenance	42,000		42,000
	TOTAL RELIABILITY STANDARDS	491,500	(162,091)	329,409
COMPLIANCE MONITORING and ENFORCEMENT and ORGANIZATION REGISTRATION				
Compliance Operations	RE Compliance Audits	325,000		-
	Compliance Database/IT Tools (CRATS)	275,000		185,895
	Compliance Database/IT Tool (CITS/Portal Enhancements)	180,000		1,097
	706B 3-year plan - National Labs Training Development	150,000		-
	Process Improvements			286,843
Events Analysis and Investigations	SME's - Event Analysis	100,000		78,159
	Southern CA Event			30,816
	NERC Events Analysis Tool (NEAT)	165,000		-
	ACE - Federal CVI (Court Recording Services)			15,241
Compliance Enforcement	Data management support	-		2,562
	TOTAL COMPLIANCE MONITORING and ENFORCEMENT and ORGANIZATION REGISTRATION	1,195,000	(594,387)	600,613
Reliability Assessments, System Analysis, GADS, TADS, & DADS				
Reliability Assessments	Automatic Reliability Reports	85,000		85,000
	Reliability affects of GMD	250,000		223,886
	Spare Equipment Database (SED)	100,000		69,755
	Benchmarking-Centralized data collection	100,000		56,125
	Senario Consultant			131,565
	Presentation Training			4,000
System Analysis	Generator Controls Support	50,000		11,400
	Modeling Initiative	50,000		-
GADS/TADS/DADS	GADS Programming Support	135,000		50,760
	webGADS			100,000
	TADS Change management	50,000		214,000
	TADS Monthly maintenance	30,000		30,000
	TADS Development	160,000		135,883
	DADS Development and Services	100,000		197,722
	TOTAL RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	1,160,000	150,095	1,310,095

Program	Consultants & Contracts	2011 Total Budget	YTD Variance Over(Under)	TOTAL ACTUAL	
SITUATION AWARENESS and INFRASTRUCTURE SECURITY (INCLUDING CRITICAL INFRASTRUCTURE PROTECTION)					
Situation Awareness	Synchro Phasor (NASPI)	500,000		712,655 178,911	
	RCIS Support				
	Resource Adequacy Tool	80,000		80,000	
	Inadvertent Interchange			30,000	
	AIE Monitoring	25,000		30,000	
	CPS1-BA ACE Limit Monitoring	-		40,000	
	Frequency Monitoring	50,000		70,000	
	Intelligent Alarms/DARA	60,000		50,000	
	Secure Alerting System	141,468		144,599	
	Secure Alerting System Help Desk	88,416		88,416	
	Secure Alert Change Management	50,000		-	
	SAFNR - Phase II	750,000		874,168	
	Contract - IDC				
	IDC Billing (46000)			(227,527)	
	IDC Base Contract	1,662,420		1,745,902	
	IDC 2010 Deferred Change Orders	135,360		45,632	
	SDX Maintenance	20,000		-	
	SDX 2010 Deferred Change Orders	5,000		4,244	
	DF Support Services Agreement.	50,000		41,193	
	Book of Flowgate Database	28,800		31,000	
	Contracts - IDC Total	1,901,580		1,640,444	
	Contracts - Frame Relay (NERCnet)				
	Frame Relay Billing	(389,222)		(894,392)	
Frame Relay-RC's	689,316		1,448,879		
Contracts - Total Frame Relay	300,094		554,487		
Total Situation Awareness	3,946,558		547,121	4,493,680	
Critical Infrastructure Protection	Project management support	200,000			
	Technical Security Experts	100,000			
				32,047	
				134,228	
				176,274	
	ES-ISAC (ES-ISAC Secure Portal development)				
	ES-ISAC secure portal platform and annual hosting for communications systems	50,000		-	
	Cyber Security Exercise			250,000	
	Threat Assessment Program	75,000		12,000	
	CIP-002 Implement. Survey/Monitoring	60,000		22,732	
	HILF	60,000		-	
	TFE Reporting	50,000		-	
	Program Tools Support	40,000		-	
Total Critical Infrastructure Protection	635,000		(7,719)	627,281	
TOTAL SITUATION AWARENESS and INFRASTRUCTURE SECURITY, including CRITICAL INFRASTRUCTURE PROTECTION	4,581,558		539,403	5,120,961	

Program	Consultants & Contracts	2011 Total Budget	YTD Variance Over(Under)	TOTAL ACTUAL
TRAINING, EDUCATION and OPERATOR CERTIFICATION				
OpCert	System Operator Testing Expenses 2011 1,025 @ \$70)	84,000		104,446
	System Operator Examination Development	95,458		117,277
	Examination Analysis (750 exams@\$17 per exam)	19,200		-
	Database Development	35,000		61,960
	Database Maintenance	4,500		11,704
	Total Operator Certification	238,158	57,229	295,387
Tr & Ed	Searchable Knowledge Management Database	100,000		-
	CE Program ILA Reviewers	100,000		70,729
	Database Development	35,000		61,510
	Database Maintenance	4,500		12,154
	Web-based course hosting	10,000		5,474
	Project Management			11,025
	Learning Environment			19,062
		Total Training and Education	249,500	(69,546)
TOTAL TRAINING, EDUCATION and OPERATOR CERTIFICATION		487,658	(12,317)	475,341
Legal	Canadian Affairs Representative	135,000		100,257
	TOTAL Legal	135,000	(34,743)	100,257
Information Technology	Programing Support/Website	100,000		106,000
	Security Assessment	200,000		259,239
	Service Agreements	108,000		-
	Relocation of primary data center	225,000		92,511
	Phase II - IT Strategy	400,000		281,609
	Phase III - Business Process Mapping			212,133
	Phase IV - IT Architecture			284,858
	Needs assessment - new office AV			4,500
	Legacy Application Support			47,250
	Secure Internet Portal for Board Communications			-
	Assessment of the existing NERC public facing website			30,335
	license for delivery of online board material			20,639
	Support for CCC Audit- IT Controls			3,000
		TOTAL Information Technology	1,033,000	309,075
Human Resources	Executive Training and Development	250,000		-
	Executive Recruiting			126,763
	Compensation Studies			163,664
	Job Board (advertisement)			-
	Performance management, 360 reviews, succession planning, external surveys			19,354
	Self-service file feeds, customization and training - HRIS and Payroll Systems			27,050
	Online Training			12,437
	TOTAL Human Resources	250,000	99,269	349,269
Finance and Accounting	Meeting Software	5,000		-
	TOTAL Finance and Accounting	5,000	(5,000)	-
GENERAL and ADMINISTRATIVE	FERC audit response			11,188
	Executive Training			81,275
	NERC Template Redesign			2,655
	TOTAL GENERAL and ADMINISTRATIVE	-	95,118	95,118
TOTAL CONSULTANTS AND CONTRACTS		9,338,716	384,421	9,723,137

WeiserMazars LLP

**North American
Electric Reliability
Corporation**

**Financial Statements and
Supplementary Information
December 31, 2011 and 2010**



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North American Electric Reliability Corporation

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December 31, 2011 and 2010

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Independent Auditors' Report

To the Board of Trustees of
North American Electric Reliability Corporation

We have audited the accompanying statements of financial position of North American Electric Reliability Corporation (the "Corporation") as of December 31, 2011 and 2010 (as restated), and the related statements of activities, and cash flows for 2011 and 2010 (as restated). These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 (as restated) and the changes in its net assets and its cash flows for 2011 and 2010 (as restated) in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of expenses on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the basic 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.

WeiserMazars LLP

May 9, 2012

North American Electric Reliability Corporation

Statements of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u> (Restated)
Assets		
Cash and cash equivalents	\$ 19,016,150	\$ 27,401,407
Accounts receivable, net of allowance for doubtful accounts of \$179,566 in 2011 and 2010	3,542,891	2,890,791
Prepaid expenses	551,841	536,521
Property and equipment, net (Note 2)	5,088,886	2,004,118
Security deposits	114,903	100,549
Cash surrender value of insurance policies	282,098	252,309
	<u>282,098</u>	<u>252,309</u>
Total assets	<u>\$ 28,596,769</u>	<u>\$ 33,185,695</u>
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 6,781,754	\$ 3,987,119
Deferred income	2,644,176	4,219,530
Regional assessments collected in advance (Note 5)	4,675,028	9,748,633
Deferred rent	880,941	165,559
Deferred compensation (Note 6)	594,629	620,961
Accrued retirement liabilities (Note 8)	1,682,481	1,474,913
Total liabilities	<u>17,259,009</u>	<u>20,216,715</u>
Commitments		
Net assets		
Unrestricted	8,925,260	2,793,980
Temporarily restricted net assets (restated, Note 10)	2,412,500	10,175,000
	<u>11,337,760</u>	<u>12,968,980</u>
Total liabilities and net assets	<u>\$ 28,596,769</u>	<u>\$ 33,185,695</u>

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

North American Electric Reliability Corporation

Statements of Activities

Years Ended December 31, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted (Restated)	Total
Revenues						
NERC assessments	\$ 41,106,965	\$	\$ 41,106,965	\$ 37,063,568	\$	\$ 37,063,568
Penalty income		2,412,500	2,412,500		175,000	175,000
Testing/fees	2,333,524		2,333,524	2,182,290		2,182,290
Services and software	236,604		236,604	347,216		347,216
Workshops	400,850		400,850	191,200		191,200
Interest	12,702		12,702	20,793		20,793
Miscellaneous	48,951		48,951	3,901		3,901
Net assets released from restrictions	10,175,000	(10,175,000)				
Total revenues	54,314,596	(7,762,500)	46,552,096	39,808,968	175,000	39,983,968
Expenses						
Salaries	19,681,040		19,681,040	16,878,927		16,878,927
Employee costs	4,019,088		4,019,088	2,830,100		2,830,100
Retirement and savings plans	2,172,130		2,172,130	1,751,791		1,751,791
Travel and meetings	3,796,238		3,796,238	3,018,135		3,018,135
Services	13,007,942		13,007,942	9,047,124		9,047,124
Rent	2,016,490		2,016,490	959,819		959,819
Office costs	2,002,252		2,002,252	1,393,267		1,393,267
Computer	252,788		252,788	137,055		137,055
Depreciation and amortization	1,217,872		1,217,872	748,864		748,864
Loss on disposal of fixed assets	17,476		17,476			
Provision for bad debts				29,438		29,438
Total expenses	48,183,316		48,183,316	36,794,520		36,794,520
Change in net assets	6,131,280	(7,762,500)	(1,631,220)	3,014,448	175,000	3,189,448
Net assets (deficiency), beginning of year - restated	2,793,980	10,175,000	12,968,980	(220,468)	10,000,000	9,779,532
Net assets, end of year	\$ 8,925,260	\$ 2,412,500	\$ 11,337,760	\$ 2,793,980	\$ 10,175,000	\$ 12,968,980

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

North American Electric Reliability Corporation

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u> (Restated)
Cash flows from operating activities		
Change in net assets	(\$1,631,220)	\$ 3,189,448
Adjustments to reconcile changes in unrestricted net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,217,872	748,864
Deferred rent	715,382	18,627
Loss on disposal of fixed assets	17,476	
Provision for bad debt expense	-	29,438
Cash value of insurance policies	(29,789)	(10,069)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(652,100)	48,274
Prepaid expenses	(15,320)	(323,901)
Accounts payable and accrued expenses	2,794,635	(74,603)
Deferred income	(1,575,354)	(998,873)
Regional assessments collected in advance	(5,073,605)	1,268,580
Deferred compensation	(26,332)	7,929
Accrued retirement liabilities	207,568	104,971
Net cash (used in) provided by operating activities	<u>(4,050,787)</u>	<u>4,008,685</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,320,116)	(950,032)
Security deposits	(14,354)	(84,782)
Net cash used in investing activities	<u>(4,334,470)</u>	<u>(1,034,814)</u>
Net (decrease) increase in cash and cash equivalents	(8,385,257)	2,973,871
Cash and cash equivalents, beginning of year	<u>27,401,407</u>	<u>24,427,536</u>
Cash and cash equivalents, end of year	<u>\$ 19,016,150</u>	<u>\$ 27,401,407</u>
Supplementary disclosures of non-cash information		
Transfer of cash surrender value of life insurance policies from the company to its employees	<u>\$ -</u>	<u>\$ 7,429</u>

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

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

1. Businesses and Summary of Significant Accounting Policies

Description of Business

North American Electric Reliability Corporation (the “Corporation” or “NERC”) is an international, independent, not-for-profit organization, whose mission is to ensure the reliability of the bulk power system in North America. NERC relies on the diverse and collective expertise of electricity industry participants, subject to government oversight and audit. The Corporation is certified by the U.S. 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.

The Corporation’s mission is to enhance the reliability and security of the bulk power system in North America. To achieve that, the Corporation 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 of America, Canada and a portion of Baja California, Norte, Mexico.

The Corporation is the successor to 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 Corporation became the surviving entity. All of the property, assets, rights, privileges, powers, franchises and immunities of the Council became the property of the Corporation. All debts, liabilities and obligations of the Council were also assumed by the Corporation. The Corporation is organized and operates as a business league under Internal Revenue Code Section 501(c)(6). The activities of the Corporation are directed by an independent board of trustees.

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

Annually, the board of trustees approves an operating budget for the Corporation that includes a mechanism to adjust the overall assessments to a Load-Serving Entity (“LSE”) to maintain a working capital reserve. The Corporation assesses each LSE its proportional share of the operating budget based on “net energy for load”. On an annual basis, the assessments to LSEs make up approximately 90% of the total funding for the Corporation. The Corporation also generates funding from the collection of fees charged for various services the Corporation provides to the bulk power system industry. These services include 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 standards development.

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

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

The Corporation must annually approve the eight Regional Entities' budgets and submit them along with its budget and schedule of assessments to load serving entities 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 related Note 5.

Basis of Accounting and Presentation

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of both December 31, 2011 and 2010. Cash of \$2,412,500 and \$10,175,000 was temporarily restricted as of December 31, 2011 and 2010, respectively.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Corporation maintains its cash balances with one bank. The accounts at the bank are insured by the Federal Deposit Insurance Corporation. Balances in these accounts may exceed Federally-insured limits from time to time.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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

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

Deferred Income

Deferred revenue represents assessments billed to certain regional entities and received in advance of the period in which it is earned. Deferred revenue is recognized as revenue in the period in which it is earned.

Accounts Receivable

Accounts receivable are recorded at 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.

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Depreciation and Amortization

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

Software development	3 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.

Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Corporation is subject to income taxes on revenues related to unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2011 or 2010.

The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2008.

Subsequent Events

The Corporation has evaluated subsequent events through May 9, 2012, the date the financial statements were available for issuance.

2. Property and Equipment

Property and equipment consist of the following at December 31:

	2011	2010
Software development	\$ 1,412,769	\$ 1,656,536
Furniture and equipment	5,624,304	1,948,974
Leasehold improvements	897,308	442,489
	<u>7,934,381</u>	<u>4,047,999</u>
Accumulated depreciation and amortization	<u>(2,845,496)</u>	<u>(2,043,881)</u>
	<u>\$ 5,088,885</u>	<u>\$ 2,004,118</u>

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$1,217,872 and \$748,864, respectively.

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

3. Line of Credit

The Corporation has a line of credit with a bank that expires in June 2012. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. The line of credit accrues interest at prime plus 0.5% (3.25% at December 31, 2011). Total borrowings under the line of credit may not exceed 70% of the qualified accounts receivable. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. As part of the line of credit agreement, the Corporation must maintain \$400,000 in a non-interest bearing account with the lender. There were no borrowings outstanding at both December 31, 2011 and 2010. At December 31, 2011, the available amount under the line of credit was reduced by an open letter of credit of \$65,820, which represents a security deposit for the Corporation's office in Washington, D.C., and an open letter of credit of \$84,781, which represents a security deposit for the Corporation's office in Atlanta, GA. Pursuant to the line of credit agreement, the Corporation is required to comply with financial covenants primarily related to minimum net asset requirements and minimum interest coverage ratio.

4. Penalty Income

The Corporation received \$2,412,500 and \$175,000 of penalty income in 2011 and 2010, respectively, which is temporarily restricted. The penalty monies received in 2011 will be utilized in 2013, in accordance with the timing of the receipt of the income and FERC's requirement for the use of penalty income to reduce assessments. During 2011, NERC recognized the transfer of \$10,175,000 from temporarily restricted net assets to unrestricted net assets.

5. Regional Assessments Collected in Advance

In addition to Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the regional entities. The regional assessment is based on approved budgets of the eight regional entities and remitted to the regional entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the regional entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. During 2011 and 2010, the regional assessments included in accounts payable were:

	<u>2011</u>	<u>2010</u>
Total regional assessments billed to WECC, ERCOT, individual LSEs and designees	\$ 105,913,224	\$ 103,151,455
Total regional assessments remitted to regional entities	<u>(105,819,809)</u>	<u>(103,089,946)</u>
Billings over remittances	<u>\$ 93,415</u>	<u>\$ 61,509</u>

As of December 31, 2011 and 2010, regional assessments collected in advance and not remitted to the regional entities were \$4,675,028 and \$9,748,633, respectively.

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

6. Deferred Compensation

Agreements and Life Insurance Policies

During 2005, the Council entered into a deferred compensation agreement (the “Deferred Compensation Agreement”) with a retiring executive that provided benefits to the individual upon reaching normal retirement age and was payable over a period selected by the retiring employee. Under certain circumstances, benefits were payable to his surviving spouse. The Corporation assumed the liabilities upon merger with the Council effective January 1, 2007. The present value of the estimated liability under the agreement at December 31, 2007 was accrued using a discount rate of 4.91%. The Corporation provided for some of the benefit funding through a variable universal life policy. Effective October 15, 2008, the Deferred Compensation Agreement was superseded by a new agreement. The variable universal life policy used to fund the liability, including the cash surrender value of the policy of \$139,640, was assigned and transferred to the retired executive in January 2009. In accordance with the new agreement, the Corporation will continue to pay the policy premiums through 2014. At December 31, 2011 and 2010, the present value of the unfunded liability, using a discount rate of 0.75% was \$64,392 and \$113,293, respectively, and is included in deferred compensation on the statement of financial position.

On October 15, 2008, the Corporation entered into various Executive Benefit Agreements (the “Agreements”) with certain executives and the aforementioned retired executive. The Agreements supersede and replace all previous written or oral agreements between the Corporation and these executives. In accordance with the Agreements, while employed by the Corporation, the executives shall be provided with life insurance coverage, through individual and/or group policies, providing a death benefit equal to the lesser of three times base salary or \$500,000, or three times base salary depending upon the executives’ employment date. The executives agreed to issue split dollar endorsement agreements with respect to such policies. The Corporation is the sole and exclusive owner of the executives’ policies. All policy dividends shall be applied to purchase paid-up additional death benefits. Certain executives have multiple insurance policies and the Corporation agreed to pay the premiums on these policies through December 31, 2013, provided the policies stay in force. Premium costs of the policies will be expensed as incurred during the remaining employment terms of the executives. At December 31, 2011, the face value of the policies in which the Corporation is a primary or co-beneficiary is \$182,502. At December 31, 2011 and 2010, the cash surrender value of all remaining policies was \$282,098 and \$252,309, respectively, and is included as an asset and deferred compensation on the statement of financial position since the policies will be transferred to the employees upon their termination of employment per the Agreements.

Retiree Medical Benefits

Effective September 1, 2007, the board of trustees approved and adopted a policy to provide medical coverage for certain current retirees and any and all dependents and transition retirees and any and all dependents, as defined by the board resolution, up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2004 Social Security Administration Actuarial Period Life Table, annual inflation rate of 5% and discount rate of 8%. At December 31, 2011 and 2010, the accrued retiree medical benefits liability was \$248,139 and \$255,359, respectively, and is included in deferred compensation on the statement of financial position. The retiree medical expense related to this policy was \$28,984 and \$26,314, respectively, for the years ended December 31, 2011 and 2010.

7. Commitments

The Corporation leases office space in Princeton, New Jersey and Atlanta, Georgia under non-cancellable lease agreements, with expiration dates in 2013 and 2023, respectively. The Corporation also leases office space in two locations in Washington D.C. under non-cancellable lease agreements with expiration dates of 2017 and 2022, respectively.

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

In 2011, the Corporation entered into separate sub-lease agreements for a portion of the office space in Princeton, New Jersey with an expiration date in 2013, and for one of the two locations in Washington D.C., with an expiration date of 2017.

The Corporation has executed multiple software license, maintenance support and data management service agreements with varying expiration dates through 2017.

Approximate future minimum payments on office lease space, net of rental income for sub-leased space, and service agreements at December 31, 2011, for the next five years individually and in the aggregate are as follows:

<u>Years Ending December 31,</u>	<u>Leased Space</u>	<u>Sub-leased Space</u>	<u>Service Agreements</u>	<u>Total</u>
2012	\$ 2,068,000	\$ (271,000)	\$ 1,958,000	\$ 3,755,000
2013	2,697,000	(293,000)	607,000	3,011,000
2014	2,585,000	(276,000)	145,000	2,454,000
2015	2,654,000	(286,000)	132,000	2,500,000
2016	2,726,000	(248,000)	125,000	2,603,000
Thereafter	14,885,000	(50,000)	30,000	14,865,000
	<u>\$ 27,615,000</u>	<u>\$ (1,424,000)</u>	<u>\$ 2,997,000</u>	<u>\$ 29,188,000</u>

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 rent paid according to the lease, is recorded as a deferred rent obligation in the amount of \$880,941 and \$165,559 at December 31, 2011 and 2010, respectively, and is included in accounts payable and accrued expenses on the statement of financial position.

Office rent expense for the years ended December 31, 2011 and 2010, was \$2,016,490 and \$959,819, respectively.

8. Defined Contribution Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible participating employees may elect to contribute up to the Internal Revenue Service Code 402(g)(1) limit. The Corporation contributes a 75% match of the participant's elective contribution, provided that the elective contribution does not exceed 6% of eligible compensation. The Corporation also makes a profit sharing contribution of 10% of the compensation of all qualifying participants. The additional profit sharing contributions are subject to the limitation imposed by the Internal Revenue Service Code 401(a)(17). The Corporation's expenses related to the Plan for the years ended December 31, 2011 and 2010, were \$2,172,129 and \$1,751,791, respectively. The contributions accrued as of December 31, 2011 and 2010, amounted to \$1,682,481 and \$1,415,641, respectively, and are included in accrued retirement liabilities in the statement of financial position.

North American Electric Reliability Corporation

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

9. Concentration of Credit Risk

The Corporation receives a significant portion of its income from assessments, based upon “net energy for load”, to LSEs within the eight regions which are located throughout the United States of America, 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 Texas Reliability Entity (“TRE”), the Corporation issues a quarterly invoice to Electric Reliability Council of Texas (“ERCOT”) which then issues invoices to the LSEs in its region, collects the assessments and remits the funds to the Corporation. The Corporation then remits the regional assessments to TRE. A similar arrangement exists with respect to LSEs located within the Western Electricity Coordinating Council (“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 Reliability First Corporation (“RFC”), the regional entity. The Corporation is extending credit to the LSEs and designees and is exposed to credit risk to the extent regional assessments are paid by the Corporation to the regional entities prior to collecting assessments from the LSEs or designees. Based on past history, the Corporation believes that the risk of its trade accounts receivable credit exposure is limited.

10. Prior Period Adjustment/Restatement

Management determined that penalty income received in 2009 and 2010 should have been recorded as temporarily restricted income in the years received. A prior period adjustment is reflected in the financial statements to recognize \$10,000,000 of penalty income as income in 2009 by adjusting temporarily restricted net assets as of January 1, 2010. The 2010 financial statements have been restated to recognize \$175,000 of penalty income in that year as temporarily restricted income and net assets.

North American Electric Reliability Corporation

Schedule of Expenses

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries	<u>\$ 19,681,040</u>	<u>\$ 16,878,927</u>
Employee costs		
Payroll taxes		
FICA	\$ 865,935	\$ 711,246
NJUC	87,478	62,863
FUI	10,560	7,920
Medicare	284,489	233,619
Employee benefits - medical	1,893,325	1,423,294
Employee benefits - life/disability	182,421	108,672
Employee benefits - officers' life	20,574	31,795
Insurance - workers' compensation	72,815	65,555
Relocation expenses	493,388	117,040
Educational	108,103	68,096
	<u>\$ 4,019,088</u>	<u>\$ 2,830,100</u>
Retirement and savings plans	<u>\$ 2,172,130</u>	<u>\$ 1,751,791</u>
Travel and meetings		
Meetings	\$ 600,821	\$ 469,140
Workshops	407,822	153,596
Travel	2,466,783	2,046,977
On-line meetings	320,812	348,422
	<u>\$ 3,796,238</u>	<u>\$ 3,018,135</u>

North American Electric Reliability Corporation

Schedules of Expenses

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Services		
Temporary office services and agency fees	\$ 399,360	\$ 178,731
Contract and consultants	9,730,179	6,797,263
Independent trustee fees	978,800	818,550
Search fees	1,263	62,033
Office and equipment repair/services	776,164	379,406
Recordkeeping fees	19,913	28,744
Accounting and auditing fees	150,486	118,034
Legal fees	951,777	664,363
	<u>\$ 13,007,942</u>	<u>\$ 9,047,124</u>
Office costs		
Insurance - commercial	\$ 90,711	\$ 61,624
Publications and subscriptions	38,754	44,381
Dues	34,038	31,664
Postage	15,748	20,606
UPS, express mail, etc.	60,649	42,948
Telephone	484,973	272,561
Utilities	59,369	33,620
Copying	111,622	78,022
Stationery and office forms	12,474	10,985
Office supplies	181,393	118,909
Bank charges	23,525	14,746
Repairs and maintenance	22,512	8,362
Sales and use tax	85,245	48,280
Card fees	102,384	74,393
Internet expenses	593,218	472,370
Miscellaneous	85,637	59,796
	<u>\$ 2,002,252</u>	<u>\$ 1,393,267</u>

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ATTACHMENT 2

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.



True Up 2011 2011 Budget Variance Explanations Based on Audited Financials

Statutory Funding

Total Actual Under Budget (\$9k):

- Work Shops – Training Costs were lower than budgeted, therefore tuition was lower
Under Budget (\$5,000)
- Services & Software – Models on Demand Annual License Fees Pass Through actual was less than budgeted amount
Under Budget (\$4,000)

Statutory Expenditures

Total Under Budget (\$411k)

Statutory Personnel Expenses

Total Actual Under Budget (\$323k):

- Reliability Standards Development – More time spent than was budgeted on this program due to the leadership roll taken by staff for the BES definition project
Over budget \$54,000
- Compliance Enforcement – Represents 1 new position unfilled all year, others budgeted for January starts but not filled until end of 1st quarter, and 1 management position vacant in the 4th quarter. Payroll taxes and retirement are down for the same reason, offset by expenses associated with the search for a new President not being budgeted.
Under budget (\$388,000)
- Reliability Assessment – More time spent than was budgeted.
Over budget \$32,000
- Training & Education – Operator and Compliance seminars have not required as much in-house time.
Under budget (\$65,000)
- Situational Awareness – Less time spent than budgeted
Under budget (\$17,000)
- Non-Technical General Administrative-More time being spent on Statutory than Non-Statutory programs.
Over budget \$61,000

Statutory Meeting Expenses

Total Actual Under Budget (\$52k):

- Reliability Standards Development – Meetings, Conference calls and Travel all over budgeted
Under budget (\$5,000)

Compliance Enforcement –Decrease in travel costs associated with the 1.69 audit positions that were unfilled Under budget (\$10,000)
Reliability Assessment – Meeting Costs and Conference calls less than anticipated, offset by travel being more than anticipated Over budget \$2,000
Training & Education – The System Operator Training Seminars cost were less than anticipated. Under budget (\$37,000)
Non-Technical General Administrative-Travel Costs are less than anticipated Under budget (\$2,000)

Statutory Operating Expenses

Total Actual Under Budget (\$9k)

Reliability Standards – More Non-Technical General Administrative was spent on this program than anticipated due to the time spent on the BES Definition and legal fees associated with the RE Legal Committee Over budget \$28,000
Compliance Enforcement –Effect of New Office lease, the and legal fees associated with the RE Legal Committee offset by the effect of the Guidance Software depreciation expenses being budgeted but not spent Net Over budget \$80,000
Reliability Assessment – Consultant contracts and depreciation are less than budgeted offset by the and legal fees associated with the RE Legal Committee Under budget (\$51,000)
Training & Education –The Legal Fees associated with the RE Legal Committee Over budget \$7,000
Situational Awareness –Consultant Contracts budgeted but not spent Under budget (\$14,000)
Non-Technical General Administrative – More items charged direct than budgeted Under budget (\$59,000)

Statutory Fixed Asset Expenditures

Total Actual Under Budget (\$27k)

The Compliance Software consortium group was dissolved therefore there was no Software in progress until the 4th quarter. An agreement with 2 other Regions is now in effect and Software has been committed to but not fully completed. Additionally, equipment was budgeted for new hires that are still open at year end. Under budget (\$27,000)

Statutory Net Funding Variance

Under Budget (\$402k)

Non Statutory (Member Services) Funding:

Total Actual Under Budget (\$20k):
Pass through billings to members for Frame Relay was greater than expected Total Over Budget \$16,000
CIP Workshops were budgeted but were done free to the members Total Under Budget (4,000)
Interest Earned not Budgeted Total Over Budget \$2,000
Non-Cash Postretirement effect not budgeted Total Under Budget (\$34,000)

Non Statutory Expenditures

Total Over Budget \$243k

Non Statutory Personnel Expenses

Total Actual Over Budget \$10k

Planning – Staff has been spending more time than budgeted in the Planning Member Services area rather than the Statutory Programs.

Over budget \$61,000

Operations – The new hires (1 Engineer and 1 Administrative Assistant) were budgeted to start January 1, however, they were not hired until the end of the 2nd Quarter.

Under budget (\$51,000)

Non Statutory Meeting Expenses

Total Actual Under Budget (\$44k):

Planning – Travel and Meeting costs are less than anticipated, however conference calls are more than anticipated

Net Under budget (\$8,000)

Operations – Travel and Meeting costs are less than anticipated

Net Under budget (\$36,000)

Non Statutory Operating Expenses

Total Actual Over Budget \$164k:

Planning – Consultants (\$66,000) and legal fees (\$34,000) are offset by Office rent, depreciation and reserve (-\$30,000)

Over budget \$70,000

Operations – The RC Agent decision to pass the Audit Preparation Costs to the members (\$114,000) and unanticipated legal fees (\$63,000) are offset by the over budgeting of Office Lease, Reserve and depreciation (-\$83,000)

Over budget \$94,000

Non Statutory Fixed Asset Expenditures

Total Actual Over Budget \$15k

Non Statutory Adjustment to Non Cash Post Retirement Benefit

Total Actual Over Budget \$98,000

Non - Statutory Net Funding Variance **Over budget \$263k**

2011 Net Change in Funding Through 12/31/2011: Shortage of (\$329k)

Statutory – Shortage of (\$66k)

Member Services Non Statutory – Shortage of (\$263k)

2011 Net Change in Assets Through 12/31/2011: Shortage of (\$453k)

Statutory – Shortage of (\$170k)

Member Services Non Statutory – Shortage of (\$283k)

Net Assets As Of 12/31/2011: Surplus \$1,614k
Statutory – Surplus of \$1,456k
Member Services Non Statutory – Surplus of \$158k

Statement Concerning Work Completed in 2011.

Although there was significant surplus, the FRCC did complete all work as scheduled for 2011. Specifically, the Compliance Program verifies that:

1. All Compliance audits (11) planned for 2011 were completed as scheduled;
2. All CIP Audits (9) planned for 2011 were completed as scheduled;
3. All CIP Spot Checks (5) planned for 2011 were completed as scheduled;
4. Part A-CIP reviews were completed for all (134) TFEs submitted in 2011 per the ROP Appendix D;
5. Part B-reviews for (55) TFEs were completed in 2011 and were completed within the one year rule per the ROP Appendix D;
6. The annual self-certification of all registered entities in the region was completed on schedule;
7. Review and acceptance was completed for fifty-three (53) Mitigation Plans submitted by registered entities in 2011;
8. Verification of entity completion was finalized for sixty-five (65) Mitigation plans during 2011; and
9. Regional Compliance Assessments were completed for three (3) entity reliability events during 2011.

Additionally, all NERC Reliability Assessments including two Post-Seasonal Assessments, and the NERC Scenario Analysis studies were all completed as scheduled. The FRCC also participated in a trial Probabilistic Reliability Assessment, an Events Analysis field trial, and continues to support the NERC Alerts process.

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

The FRCC uses standard cost accounting procedures to allocate general expenses (that cannot be directly assigned) to a specific function. The system used consists of directly expensing as much as possible directly to the function (whether that function is Statutory or Member Services) that incurred the expense. This is accomplished by routing to the responsible departmental head all invoices pertaining to their job responsibility. The departmental head assigns the functional category and returns the invoice to accounting who assigns the General Ledger Account Number (as specified in the FRCC Accounting Policy Manual – Coding of Invoices for Goods and Services). If the expense cannot be directly charged to

a particular function (example rent, payroll taxes, benefits, general office supplies, etc.), the expense is charged to holding accounts by chart of accounts line item to be allocated back to the program areas (to include General & Administrative) at the end of the month. This is done by using the monthly time accounting summarization of FTE by function. So there are two ways expenses are charged to a particular function, either by direct expense or by allocation from the results of the monthly time accounting summarization of FTE by function (including General & Administrative).

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

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

There are no shared costs.

Cash Reserves Statement

No Cash Reserves were used by the FRCC in 2011.

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

No Statutory Funds were used to pay for Member Services Functions in 2011 and no Member Services Funds were used to pay for Statutory Functions.

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
TOTAL COMPANY
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance
Funding			
ERO Funding			
ERO Assessments	\$ 4,967,059	\$ 4,967,060	\$ (1)
Penalty Sanctions	50,000	50,000	-
Total ERO Funding	<u>\$ 5,017,059</u>	<u>\$ 5,017,060</u>	<u>\$ (1)</u>
Membership Dues	\$ 5,212,063	\$ 5,212,063	\$ -
Testing Fees	-	-	-
Services & Software	269,780	258,200	11,580
Workshops	73,780	83,430	(9,650)
Interest	2,085	-	2,085
Miscellaneous	(33,842)	-	(33,842)
Total Funding	<u>\$10,540,925</u>	<u>\$10,570,753</u>	<u>\$ (29,828)</u>
Expenses			
Personnel Expenses			
Salaries	\$ 4,271,575	\$ 4,632,600	\$ (361,025)
Payroll Taxes	266,077	283,014	(16,937)
Benefits	703,099	563,464	139,635
Retirement Costs	595,448	670,547	(75,099)
Total Personnel Expenses	<u>\$ 5,836,199</u>	<u>\$ 6,149,625</u>	<u>\$ (313,426)</u>
Meeting Expenses			
Meetings	\$ 88,361	\$ 145,674	\$ (57,313)
Travel	251,131	285,816	(34,685)
Conference Calls	38,077	41,940	(3,863)
Total Meeting Expenses	<u>\$ 377,569</u>	<u>\$ 473,430</u>	<u>\$ (95,861)</u>
Operating Expenses			
Consultants & Contracts	\$ 3,060,669	\$ 2,866,926	\$ 193,743
Office Rent	482,257	482,402	(145)
Office Costs	523,728	\$ 514,046	9,682
Professional Services	440,636	275,999	164,637
Miscellaneous	-	71,804	(71,804)
Depreciation	175,487	317,211	(141,724)
Total Operating Expenses	<u>\$ 4,682,777</u>	<u>\$ 4,528,388</u>	<u>\$ 154,389</u>
Total Indirect Expenses	-	-	-
Other Non-Operating Expenses	<u>\$ 97,674</u>	<u>\$ -</u>	<u>\$ 97,674</u>
Total Expenses	<u>\$10,994,219</u>	<u>\$11,151,443</u>	<u>\$ (157,224)</u>
Change in Assets	<u>\$ (453,294)</u>	<u>\$ (580,690)</u>	<u>\$ 127,396</u>
Fixed Asset Expenditures			
Depreciation	\$ (175,487)	\$ (317,211)	\$ 141,724
Software CapEx	20,000	156,381	(136,381)
Furniture & Fixtures CapEx	-	-	-
Equipment & Computers CapEx	30,915	48,060	(17,145)
Leasehold Improvements	-	-	-
Increase/(Decrease) in Fixed Assets	<u>\$ (124,572)</u>	<u>\$ (112,770)</u>	<u>\$ (11,802)</u>
Total Budget	<u>\$10,869,647</u>	<u>\$11,038,673</u>	<u>\$ (169,026)</u>
CHANGE IN WORKING CAPITAL	<u>\$ (328,722)</u>	<u>\$ (467,920)</u>	<u>\$ 139,198</u>
FTEs	38.25	38.88	(0.63)

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
TOTAL Statutory Only
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance
Funding			
ERO Funding			
ERO Assessments	\$ 4,967,059	\$ 4,967,060	\$ (1)
Penalty Sanctions	50,000	50,000	-
Total ERO Funding	<u>\$ 5,017,059</u>	<u>\$ 5,017,060</u>	<u>\$ (1)</u>
Membership Dues	\$ -	\$ -	\$ -
Testing Fees	-	-	-
Services & Software	20,160	24,200	(4,040)
Workshops	73,780	79,430	(5,650)
Interest	-	-	-
Miscellaneous	-	-	-
Total Funding	<u>\$ 5,110,999</u>	<u>\$ 5,120,690</u>	<u>\$ (9,691)</u>
Expenses			
Personnel Expenses			
Salaries	\$ 2,839,487	\$ 3,151,751	\$ (312,264)
Payroll Taxes	177,231	192,546	(15,315)
Benefits	445,131	384,080	61,051
Retirement Costs	399,407	456,201	(56,794)
Total Personnel Expenses	<u>\$ 3,861,256</u>	<u>\$ 4,184,578</u>	<u>\$ (323,322)</u>
Meeting Expenses			
Meetings	\$ 68,828	\$ 97,972	\$ (29,144)
Travel	203,640	219,986	(16,346)
Conference Calls	14,385	20,745	(6,360)
Total Meeting Expenses	<u>\$ 286,853</u>	<u>\$ 338,703</u>	<u>\$ (51,850)</u>
Operating Expenses			
Consultants & Contracts	\$ 216,247	\$ 202,110	\$ 14,137
Office Rent	404,460	373,086	31,374
Office Costs	125,683	131,001	(5,318)
Professional Services	245,621	178,047	67,574
Miscellaneous	-	-	-
Depreciation	140,939	257,913	(116,974)
Total Operating Expenses	<u>\$ 1,132,950</u>	<u>\$ 1,142,157</u>	<u>\$ (9,207)</u>
Total Indirect Expenses	-	-	-
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 5,281,059</u>	<u>\$ 5,665,438</u>	<u>\$ (384,379)</u>
Change in Assets	<u>\$ (170,060)</u>	<u>\$ (544,748)</u>	<u>\$ 374,688</u>
Fixed Asset Expenditures			
Depreciation	\$ (140,939)	\$ (257,913)	\$ 116,974
Software CapEx	20,000	156,381	(136,381)
Furniture & Fixtures CapEx	-	-	-
Equipment & Computers CapEx	16,900	24,704	(7,804)
Leasehold Improvements	-	-	-
Increase/(Decrease) in Fixed Assets	<u>\$ (104,039)</u>	<u>\$ (76,828)</u>	<u>\$ (27,211)</u>
Total Budget	<u>\$ 5,177,020</u>	<u>\$ 5,588,610</u>	<u>\$ (411,590)</u>
CHANGE IN WORKING CAPITAL	<u>\$ (66,021)</u>	<u>\$ (467,920)</u>	<u>\$ 401,899</u>
FTEs	25.48	26.45	(0.97)

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
RELIABILITY STANDARDS
For the Year Ended 12/31/2011

(In Whole Dollars)

Funding	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 289,173	\$ 289,173	\$ -	0.0%	
Penalty Sanctions	2,541	2,541	-	0.0%	
Total ERO Funding	\$ 291,714	\$ 291,714	\$ -	0.0%	
Membership Dues	-	-	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 291,714	\$ 291,714	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 179,101	\$ 137,033	\$ 42,068	30.7%	More time was spent due to the lead roll taken by staff in the BES definition project.
Payroll Taxes	11,130	8,372	2,758	32.9%	
Benefits	26,121	22,316	3,805	17.1%	
Retirement Costs	24,955	19,835	5,120	25.8%	
Total Personnel Expenses	\$ 241,307	\$ 187,556	\$ 53,751	28.7%	
Meeting Expenses					
Meetings	\$ 825	\$ 1,832	\$ (1,007)	-55.0%	
Travel	37,784	40,832	(3,048)	-7.5%	
Conference Calls	553	1,580	(1,027)	-65.0%	
Total Meeting Expenses	\$ 39,162	\$ 44,244	\$ (5,082)	-11.5%	
Operating Expenses					
Consultants & Contracts	\$ 796	\$ 84	\$ 712	847.6%	
Office Rent	9,465	10,116	(651)	-6.4%	
Office Costs	6,544	7,530	(986)	-13.1%	
Professional Services	17,827	7,741	10,086	130.3%	Legal costs for the RE Legal Committee were not budgeted
Miscellaneous	-	-	-		
Depreciation	2,893	4,858	(1,965)	-40.4%	
Total Operating Expenses	\$ 37,525	\$ 30,329	\$ 7,196	23.7%	
Total Indirect Expenses	\$ 54,671	\$ 34,092	\$ 20,579	60.4%	More non-technical GA allocated due to the time spent on the BES definition.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 372,665	\$ 296,221	\$ 76,444	25.8%	
Change in Assets	\$ (80,951)	\$ (4,507)	\$ (76,444)	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (2,893)	\$ (4,858)	\$ 1,965	-40.4%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapE	755	351	404	115.1%	
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ (2,138)	\$ (4,507)	\$ 2,369	-52.6%	
Total Budget	\$ 370,527	\$ 291,714	\$ 78,813	27.0%	
CHANGE IN WORKING CAPITAL	\$ (78,813)	\$ -	\$ (78,813)		
FTEs	1.54	1.15	0.39		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
COMPLIANCE
For the Year Ended 12/31/2011

(In Whole Dollars)

Funding	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 3,910,561	\$ 3,910,561	\$ -	0.0%	
Penalty Sanctions	36,655	36,655	-	0.0%	
Total ERO Funding	\$ 3,947,216	\$ 3,947,216	\$ -	0.0%	
Membership Dues	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 3,947,216	\$ 3,947,216	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 1,643,202	\$ 1,976,844	\$ (333,642)	-16.9%	1 position unfilled all year; others budgeted for 1/1 unfilled until April; 1 Mgt open 4th Quarter
Payroll Taxes	102,638	120,769	(18,131)	-15.0%	Taxes associated with unfilled positions
Benefits	271,532	256,740	14,792	5.8%	
Retirement Costs	235,441	286,139	(50,698)	-17.7%	Retirement associated with unfilled positions
Total Personnel Expenses	\$ 2,252,813	\$ 2,640,492	\$ (387,679)	-14.7%	
Meeting Expenses					
Meetings	\$ 7,128	\$ 5,059	\$ 2,069	40.9%	
Travel	119,555	131,418	(11,863)	-9.0%	Travel associated with unfilled positions
Conference Calls	7,951	8,128	(177)	-2.2%	
Total Meeting Expenses	\$ 134,634	\$ 144,605	\$ (9,971)	-6.9%	
Operating Expenses					
Consultants & Contracts	\$ 61,534	\$ 23,214	\$ 38,320	165.1%	More small Guidance fixes spent than budgeted
Office Rent	340,690	286,354	54,336	19.0%	More office space to house the Compliance staff
Office Costs	69,984	74,790	(4,806)	-6.4%	
Professional Services	172,151	111,675	60,476	54.2%	Legal costs for the RE Legal Committee were not budgeted
Miscellaneous	-	-	-		
Depreciation	104,562	179,487	(74,925)	-41.7%	Not as much Guidance Software spent than budgeted - thus less depreciation
Total Operating Expenses	\$ 748,921	\$ 675,520	\$ 73,401	10.9%	
Total Indirect Expenses	498,267	491,807	6,460	1.3%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 3,634,635	\$ 3,952,424	\$ (317,789)	-8.0%	
Change in Assets	\$ 312,581	\$ (5,208)	\$ 317,789	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (104,562)	\$ (179,487)	\$ 74,925	-41.7%	
Software CapEx	20,000	156,381	(136,381)	-87.2%	Consortium was dissolved therefore no Software in progress until 4th Quarter
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	12,173	17,898	(5,725)	-32.0%	
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ (72,389)	\$ (5,208)	\$ (67,181)	1290.0%	
Total Budget	\$ 3,562,246	\$ 3,947,216	\$ (384,970)	-9.8%	
CHANGE IN WORKING CAPITAL	\$ 384,970	\$ -	\$ 384,970		
FTEs	14.90	16.59	(1.69)		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
RELIABILITY ASSESSMENT
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 963,442	\$ 963,442	\$ -	0.0%	
Penalty Sanctions	8,330	8,330	-	0.0%	
Total ERO Funding	\$ 971,772	\$ 971,772	\$ -	0.0%	
Membership Dues	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	20,160	24,200	(4,040)	-16.7%	
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 991,932	\$ 995,972	\$ (4,040)	-0.4%	
Expenses					
Personnel Expenses					
Salaries	\$ 458,770	\$ 449,229	\$ 9,541	2.1%	
Payroll Taxes	28,311	27,444	867	3.2%	
Benefits	68,890	45,458	23,432	51.5%	Search for new CEO not budgeted and more time spent on program than budgeted
Retirement Costs	62,874	65,024	(2,150)	-3.3%	
Total Personnel Expenses	\$ 618,845	\$ 587,155	\$ 31,690	5.4%	
Meeting Expenses					
Meetings	\$ 4,476	\$ 5,542	\$ (1,066)	-19.2%	
Travel	42,238	32,965	9,273	28.1%	
Conference Calls	4,098	10,300	(6,202)	-60.2%	
Total Meeting Expenses	\$ 50,812	\$ 48,807	\$ 2,005	4.1%	
Operating Expenses					
Consultants & Contracts	\$ 130,538	\$ 168,450	\$ (37,912)	-22.5%	Software agreements are less than anticipated
Office Rent	24,700	33,162	(8,462)	-25.5%	
Office Costs	13,209	16,310	(3,101)	-19.0%	
Professional Services	48,663	25,378	23,285	91.8%	Legal costs for the RE Legal Committee were not budgeted
Miscellaneous	-	-	-		
Depreciation	8,993	56,430	(47,437)	-84.1%	Software budgeted to be purchased in 2011 not done - thus less depreciation
Total Operating Expenses	\$ 226,103	\$ 299,730	\$ (73,627)	-24.6%	
Total Indirect Expenses	134,280	111,761	22,519	20.1%	More non-technical GA allocated due to the increased time spent on this program.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 1,030,040	\$ 1,047,453	\$ (17,413)	-1.7%	
Change in Assets	\$ (38,108)	\$ (51,481)	\$ 13,373	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (8,993)	\$ (56,430)	\$ 47,437	-84.1%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapE	3,664	4,949	(1,285)	-26.0%	
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ (5,329)	\$ (51,481)	\$ 46,152	-89.6%	
Total Budget	\$ 1,024,711	\$ 995,972	\$ 28,739	2.9%	
CHANGE IN WORKING CAPITAL	\$ (32,779)	\$ -	\$ (32,779)		
FTEs	4.12	3.77	0.35		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
TRAINING AND EDUCATION
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 204,062	\$ 204,062	\$ -	0.0%	
Penalty Sanctions	1,944	1,944	-	0.0%	
Total ERO Funding	\$ 206,006	\$ 206,006	\$ -	0.0%	
Membership Dues	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	73,780	79,430	(5,650)	-7.1%	
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 279,786	\$ 285,436	\$ (5,650)	-2.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 54,533	\$ 104,860	\$ (50,327)	-48.0%	Operator & Compliance seminars have not required as much in-house staff time as budgeted.
Payroll Taxes	3,393	6,406	(3,013)	-47.0%	
Benefits	6,852	10,611	(3,759)	-35.4%	
Retirement Costs	7,361	15,178	(7,817)	-51.5%	
Total Personnel Expenses	\$ 72,139	\$ 137,055	\$ (64,916)	-47.4%	
Meeting Expenses					
Meetings	\$ 55,901	\$ 84,792	\$ (28,891)	-34.1%	Total Operator Training was budgeted here - see Consultants & Contracts for offset
Travel	3,331	10,964	(7,633)	-69.6%	
Conference Calls	462	444	18	4.1%	
Total Meeting Expenses	\$ 59,694	\$ 96,200	\$ (36,506)	-37.9%	
Operating Expenses					
Consultants & Contracts	\$ 22,431	\$ 64	\$ 22,367	34948.4%	Consultants & Contractors charged here for Operator Seminars but budgeted above.
Office Rent	2,690	7,741	(5,051)	-65.2%	
Office Costs	15,542	12,097	3,445	28.5%	
Professional Services	1,706	5,924	(4,218)	-71.2%	
Miscellaneous	-	-	-		
Depreciation	1,632	1,086	546	50.3%	
Total Operating Expenses	\$ 44,001	\$ 26,912	\$ 17,089	63.5%	
Total Indirect Expenses	16,172	26,087	(9,915)	-38.0%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 192,006	\$ 286,254	\$ (94,248)	-32.9%	
Change in Assets	\$ 87,780	\$ (818)	\$ 88,598	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (1,632)	\$ (1,086)	\$ (546)	50.3%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	271	268	3	1.1%	
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	\$ (1,361)	\$ (818)	\$ (543)	66.4%	
Total Budget	\$ 190,645	\$ 285,436	\$ (94,791)	-33.2%	
CHANGE IN WORKING CAPITAL	\$ 89,141	\$ -	\$ 89,141		
FTEs	0.45	0.88	(0.43)		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
SITUATIONAL AWARENESS
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 67,741	\$ 67,742	\$ (1)	0.0%	
Penalty Sanctions	530	530	-	0.0%	
Total ERO Funding	\$ 68,271	\$ 68,272	\$ (1)	0.0%	
Membership Dues	\$ -	\$ -	\$ -		
Testing Fees		-	-		
Services & Software		-	-		
Workshops		-	-		
Interest		-	-		
Miscellaneous		-	-		
Total Funding	\$ 68,271	\$ 68,272	\$ (1)	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 14,888	\$ 28,598	\$ (13,710)	-47.9%	Less time required than budgeted to accomplish this program.
Payroll Taxes	912	1,747	(835)	-47.8%	
Benefits	2,270	2,894	(624)	-21.6%	
Retirement Costs	2,003	4,139	(2,136)	-51.6%	
Total Personnel Expenses	\$ 20,073	\$ 37,378	\$ (17,305)	-46.3%	
Meeting Expenses					
Meetings	\$ 27	\$ 44	\$ (17)	-38.6%	
Travel	712	1,552	(840)	-54.1%	
Conference Calls	41	17	24	141.2%	
Total Meeting Expenses	\$ 780	\$ 1,613	\$ (833)	-51.6%	
Operating Expenses					
Consultants & Contracts	\$ 40	\$ 10,018	\$ (9,978)	-99.6%	
Office Rent	835	2,111	(1,276)	-60.4%	
Office Costs	8,081	8,349	(268)	-3.2%	
Professional Services	1,713	1,615	98	6.1%	
Miscellaneous					
Depreciation	15,944	15,819	125	0.8%	
Total Operating Expenses	\$ 26,613	\$ 37,912	\$ (11,299)	-29.8%	
Total Indirect Expenses	4,247	7,115	(2,868)	-40.3%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 51,713	\$ 84,018	\$ (32,305)	-38.5%	
Change in Assets	\$ 16,558	\$ (15,746)	\$ 32,304	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (15,944)	\$ (15,819)	\$ (125)	0.8%	
Software CapEx					
Furniture & Fixtures CapEx					
Equipment & Computers CapEx	37	73	(36)	-49.3%	
Leasehold Improvements					
Increase/(Decrease) in Fixed Assets	\$ (15,907)	\$ (15,746)	\$ (161)	1.0%	
Total Budget	\$ 35,806	\$ 68,272	\$ (32,466)	-47.6%	
CHANGE IN WORKING CAPITAL	\$ 32,465	\$ -	\$ 32,465		
FTEs	0.14	0.24	(0.10)		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
GENERAL ADMINISTRATIVE
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%	Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ (467,920)	\$ (467,920)	\$ -	0.0%	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ (467,920)	\$ (467,920)	\$ -	0.0%	
Membership Dues	\$ -	\$ -	\$ -	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshops	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding	\$ (467,920)	\$ (467,920)	\$ -	0.0%	
Expenses					
Personnel Expenses					
Salaries	\$ 488,993	\$ 455,187	\$ 33,806	7.4%	More time spent than budgeted
Payroll Taxes	30,847	27,808	3,039	10.9%	
Benefits	69,466	46,061	23,405	50.8%	Search costs for New CEO not budgeted
Retirement Costs	66,773	65,886	887	1.3%	
Total Personnel Expenses	\$ 656,079	\$ 594,942	\$ 61,137	10.3%	
Meeting Expenses					
Meetings	\$ 471	\$ 703	\$ (232)	-33.0%	
Travel	20	2,255	(2,235)	-99.1%	
Conference Calls	1,280	276	1,004	363.8%	
Total Meeting Expenses	\$ 1,771	\$ 3,234	\$ (1,463)	-45.2%	
Operating Expenses					
Consultants & Contracts	\$ 908	\$ 280	\$ 628	224.3%	
Office Rent	26,080	33,602	(7,522)	-22.4%	
Office Costs	12,323	11,925	398	3.3%	
Professional Services	3,561	25,714	(22,153)	-86.2%	Legal costs for the RE Legal Committee were not budgeted
Miscellaneous	-	-	-	-	
Depreciation	6,915	233	6,682	2867.8%	
Total Operating Expenses	\$ 49,787	\$ 71,754	\$ (21,967)	-30.6%	
Total Indirect Expenses	(707,637)	(670,862)	(36,775)	5.5%	Greater GA Costs to be allocated to other programs
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ (932)	\$ 932	-100.0%	
Change in Assets	\$ (467,920)	\$ (466,988)	\$ (932)	100.0%	
Fixed Asset Expenditures					
Depreciation	\$ (6,915)	\$ (233)	\$ (6,682)	2867.8%	
Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment & Computers CapEx	-	1,165	(1,165)	-100.0%	
Leaschold Improvements	-	-	-	-	
Increase/(Decrease) in Fixed Assets	\$ (6,915)	\$ 932	\$ (7,847)	-842.0%	
Total Budget	\$ (6,915)	\$ -	\$ (6,915)		
CHANGE IN WORKING CAPITAL	\$ (461,005)	\$ (467,920)	\$ 6,915		
FTEs	4.33	3.82	0.51		

Florida Reliability Coordinating Council, Inc.
2011 Statement of Activities and Capital Expenditures
TOTAL MEMBER SERVICES - NON STATUTORY
For the Year Ended 12/31/2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments (Explain Variances <+/- 10% and <\$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Dues	\$ 5,212,063	\$ 5,212,063	\$ -	0.0%	
Testing Fees	-	-	-		
Services & Software	249,620	234,000	15,620	6.7%	Pass through costs for Frame Relay greater than anticipated
Workshops	-	4,000	(4,000)	-100.0%	
Interest	2,085	-	2,085		
Non Cash Postretirement	(33,842)	-	(33,842)		Effect of Non-cash Post Retirement Benefit not budgeted
Total Funding	<u>\$ 5,429,926</u>	<u>\$ 5,450,063</u>	<u>\$ (20,137)</u>	<u>-0.4%</u>	
Expenses					
Personnel Expenses					
Salaries	\$ 1,432,088	\$ 1,480,849	\$ (48,761)	-3.3%	New hires budgeted for 1/1 not hired until July 1; less time spent in Non-Stat Planning
Payroll Taxes	88,846	90,468	(1,622)	-1.8%	
Benefits	257,968	179,384	78,584	43.8%	Search costs for new CEO not budgeted
Retirement Costs	196,041	214,346	(18,305)	-8.5%	Effect of delayed new hires and less time being spent in Non-Stat programs
Total Personnel Expenses	<u>\$ 1,974,943</u>	<u>\$ 1,965,047</u>	<u>\$ 9,896</u>	<u>0.5%</u>	
Meeting Expenses					
Meetings	\$ 19,533	\$ 47,702	\$ (28,169)	-59.1%	Meeting costs less than anticipated - more meetings by conference call
Travel	47,491	65,830	(18,339)	-27.9%	Less travel required than budgeted
Conference Calls	23,692	21,195	2,497	11.8%	
Total Meeting Expenses	<u>\$ 90,716</u>	<u>\$ 134,727</u>	<u>\$ (44,011)</u>	<u>-32.7%</u>	
Operating Expenses					
Consultants & Contracts	\$ 2,844,422	\$ 2,664,816	\$ 179,606	6.7%	RC Agent costs greater than anticipated due to RC Audit Preparation charges
Office Rent	77,797	109,316	(31,519)	-28.8%	Less space utilized than anticipated
Office Costs	398,045	383,045	15,000	3.9%	General office expenditures greater than anticipated
Professional Services	195,015	97,952	97,063	99.1%	Legal fees greater than anticipated
Miscellaneous	-	71,804	(71,804)	-100.0%	Reserve not used but budgeted
Depreciation	34,548	59,298	(24,750)	-41.7%	Less equipment than anticipated to be depreciated
Total Operating Expenses	<u>\$ 3,549,827</u>	<u>\$ 3,386,231</u>	<u>\$ 163,596</u>	<u>4.8%</u>	
Total Indirect Expenses					
Other Non-Operating Expenses	<u>\$ 97,674</u>	<u>\$ -</u>	<u>\$ 97,674</u>		Effect of Non-cash Post Retirement Benefit not budgeted
Total Expenses	<u>\$ 5,713,160</u>	<u>\$ 5,486,005</u>	<u>\$ 227,155</u>	<u>4.1%</u>	
Change in Assets	<u>\$ (283,234)</u>	<u>\$ (35,942)</u>	<u>\$ (247,292)</u>	<u>100.0%</u>	
Fixed Asset Expenditures					
Depreciation	\$ (34,548)	\$ (59,298)	\$ 24,750	-41.7%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapE	14,015	23,356	(9,341)	-40.0%	
Leasehold Improvements	-	-	-		
Increase/(Decrease) in Fixed Assets	<u>\$ (20,533)</u>	<u>\$ (35,942)</u>	<u>\$ 15,409</u>	<u>-42.9%</u>	
Total Budget	<u>\$ 5,692,627</u>	<u>\$ 5,450,063</u>	<u>\$ 242,564</u>	<u>4.5%</u>	
CHANGE IN WORKING CAPITAL	<u>\$ (262,701)</u>	<u>\$ -</u>	<u>\$ (262,701)</u>		
FTEs	12.77	12.43	0.34		

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**
December 31, 2011



Certified Public Accountants
Business Consultants
Limited Liability Company

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Florida Reliability Coordinating Council, Inc.

We have audited the accompanying statement of financial position of Florida Reliability Coordinating Council, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Reliability Coordinating Council, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statutory and Nonstatutory schedules on pages 15 through 23, inclusive, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

CARR, RIGGS & INGRAM, L.L.C.
February 16, 2012

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**STATEMENT OF FINANCIAL POSITION
December 31, 2011**

<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 5,378,917
Member receivables	2,250,789
Related party receivable	45,953
Prepaid expenses	<u>13,515</u>
Total current assets	7,689,174
Property and equipment - at cost	
Equipment and computers	459,538
Software	661,186
Furniture and fixtures	289,644
Leasehold improvements	<u>73,036</u>
Total	1,483,404
Less accumulated depreciation and amortization	<u>(1,224,437)</u>
Total property and equipment, net	258,967
Other assets	<u>77,623</u>
Total assets	<u>\$ 8,025,764</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Accounts payable	\$ 396,445
Current portion of accrued postretirement benefit obligation	16,001
Deferred revenue	2,528,507
Compliance penalty assessment	1,157,200
Accrued expenses	<u>1,575,366</u>
Total current liabilities	5,673,519
Long-term liabilities:	
Accrued postretirement benefit obligation	738,696
Net assets:	
Unrestricted statutory - FERC designated	1,455,607
Unrestricted member services - board designated	<u>157,942</u>
Total net assets	<u>1,613,549</u>
Total liabilities and net assets	<u>\$ 8,025,764</u>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

Revenues:	
Nonstatutory member assessments	\$ 5,212,064
Statutory member assessments	4,967,059
Services and software	269,781
Training and education fees	73,780
Postretirement benefit loss	(33,842)
Penalty and sanctions realized	50,000
Interest income	<u>2,084</u>
Total revenue	10,540,926
Expenses:	
Salaries	4,271,573
Payroll taxes	266,078
Employee benefits	703,100
Retirement and deferred compensation plans	595,448
Meetings	88,362
Travel	251,129
Conference Calls	38,078
Contracts & Consultants	3,060,669
Facilities rental	482,256
Office costs	523,727
Legal and accounting	440,636
Depreciation and amortization	<u>175,488</u>
Total expenses	<u>10,896,544</u>
Decrease in net assets before change in accumulated post retirement obligation	(355,618)
Net periodic change in postretirement obligation	<u>(97,674)</u>
Decrease in net assets	(453,292)
Net assets - beginning of year	<u>2,066,841</u>
Net assets - end of year	<u>\$ 1,613,549</u>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

Cash flows from operating activities:	
Cash received from members	\$ 10,536,637
Cash paid to suppliers and employees	(9,438,429)
Interest received	2,084
	2,084
Net cash provided by operating activities	1,100,292
Cash flows from investing activities	
Purchases of property and equipment	(60,385)
Cash from sale of property and equipment	9,470
	9,470
Net cash used in investing activities	(50,915)
Net increase in cash	1,049,377
Cash and cash equivalents at beginning of year	4,329,540
Cash and cash equivalents at end of year	\$ 5,378,917
Reconciliation of increase in net assets to net cash provided by operating activities	
Decrease in net assets	\$ (453,292)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	175,488
Increase in receivables, prepaid expenses and other assets	(57,058)
Increase in accounts payable and accrued expenses	1,323,662
Increase in postretirement benefit obligation	131,516
Decrease in deferred income	(20,024)
	(20,024)
Total adjustments	1,553,584
Net cash provided by operating activities	\$ 1,100,292

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. General and Summary of Significant Accounting Policies

General – Florida Reliability Coordinating Council, Inc. (the “Company”) is a group of electric utilities and energy marketers primarily doing business in the State of Florida. The purpose of the Company is to ensure and enhance the reliability and adequacy of the bulk power supply in Florida (which is defined as the general area encompassed by Peninsula Florida) now and into the future. The Company serves as a Regional Entity with delegated authority from the North American Electric Reliability Corporation (“NERC”) for the purpose of proposing and enforcing reliability standards within the FRCC region.

On May 2, 2007, the Company entered into a Delegation Agreement with North American Electric Reliability Corporation (“NERC”), an organization certified by the Federal Energy Regulatory Commission pursuant to Section 215(c) of the Federal Power Act. The Company is required by federal law to assess the reliability of the Bulk Power System. The Federal Energy Regulatory Commission (“FERC”) empowered the Company through a Delegation Agreement with NERC to monitor, enforce and implement electric reliability standards under Section 215 of the Federal Power Act. The Company is responsible for establishing the process for development, revision, withdrawals and approval of the Company’s Regional Reliability Standards for the region. The Company monitors and enforces compliance with NERC and FERC reliability standards through on-site audits, self-certifications, periodic spot checks, self-reports, event investigation, periodic data submittal, exception reporting and through complaints. The initial term of the agreement is for three years and is renewable for five more years upon a successful compliance audit conducted by NERC.

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

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

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

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Company considers highly liquid money market funds to be cash equivalents. At year-end, cash equivalents totaled \$5,378,917.

Concentration of Credit Risk – The Company places its cash and cash equivalents with high credit quality institutions. At times, these balances may be in excess of the FDIC insurance limit. Money market funds are not federally insured or readily marketable, and their estimated value is subject to uncertainty. Therefore, there may be a difference between their current estimated value and their net realizable value. Management has determined that the likelihood of sustaining losses from money market funds to be remote based on the marketability of the underlying investments of the funds.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. **General and Summary of Significant Accounting Policies (Continued)**

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

Income Taxes – The Company has been approved for tax-exempt status under Section 501(c) (6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. Tax years after 2007 remain subject to examination by taxing authorities.

The Company follows ASC 740 with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The policy had no effect on the Company’s financial statements.

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

Member, Related Party, and Other Receivables – The Company considers all receivables to be fully collectible, usually within 30 to 60 days; accordingly, no allowance for doubtful accounts is required and no late fees are assessed. If amounts become uncollectible, they will be charged to operations when that determination is made and will be paid by the remaining members.

Property and Equipment – Property and equipment with a cost over \$500 are capitalized and are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. The estimated lives used in determining depreciation are:

Equipment	5 years
Software	3 years
Furniture and fixtures	7 years
Leasehold improvements	5 years

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

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

1. General and Summary of Significant Accounting Policies (Continued)

Deferred Compensation – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2011, the Company contributed \$8,492 to benefit the participant in this Plan.

Postretirement Benefits Other Than Pensions – The Company sponsors a postretirement health care plan covering employees hired before October 1, 2003 if the retiree completes 10 years of service prior to retirement, is over the age of 60 at retirement and participates in the Company's IRS qualified retirement or profit-sharing plan at the time of retirement. The plan is noncontributory for retirees (see Note 5).

Date of Management's Review – Management has evaluated events and transactions for potential recognition or disclosure through February 16, 2012, which is the date the financial statements were available to be issued.

2. Deferred Revenues

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2012 budget, thus at December 31, 2011 it would be known whether all members are continuing with their membership.

3. Commitments

In December 2003, the Company entered into an agreement with Sprint Communications Company L.P. ("Sprint") to provide certain telecommunication services that are passed through to certain members beginning in 2004 for the Company's network. The initial term of the agreement is 36 months and has been renewed for an additional 12-month period each year thereafter. The agreement calls for the Company to make a minimum service commitment of \$96,000 for each contract year of the term.

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 is 36 months at \$3,750 per month and has been renewed for an additional 12-month period each year thereafter. The Company also has the option to purchase the system for \$100,000; however, at this time, the Company has no intention of doing so.

In June 2007, the Company entered into an agreement with Open Access Technology International, Inc. to provide certain webOASIS (Open Access Same-time Information System) and webTrans services for six of the Company's customers. The initial term of the agreement is 36 months at \$3,000 per member. In December 2010, the Company entered into an extension of this contract for additional 12 months periods until language could be worked out between all parties and the contract could be entered into directly by the six members who utilize this service. During 2008, the payment for these services and the related assessments to members were transferred to Florida Electric Power Coordinating Group, Inc. ("FCG") although the contract remains with FRCC (see Note 7) and will remain there until a participant agreement is completed by the six members.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

3. Commitments – (Continued)

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. In 2008, the Company entered into an agreement with several of the other regional entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. In June of 2011, the consortium broke up with certain member regions deciding to change software and vendors and go in a different direction for their Compliance Tracking System. The Company decided to remain with Guidance and has agreed to share costs of software enhancements with one other region that remains with Guidance. The cost of enhancements added or in progress for 2011 was \$20,000. The Company is obligated for enhancements in progress as of December 31, 2011 from this regional agreement of approximately \$60,000 for enhancements to be completed in 2012.

4. Operating Leases

The Company leases its facilities and has operating leases that expire January 31, 2013 at its current location on Westshore Boulevard. In 2009, the Company forecasted that it would run out of space in its current location and started the search for either additional space or interim and expansion space. On January 27, 2010, the Company entered into a lease agreement for approximately 5,000 square feet of interim space which was completed on April 1, 2010 to house the compliance department. This space at Bayport Plaza should be sufficient for projected expansion until the current lease expires in 2013. The lease then provides for the rental of an additional 20,600 square feet to be available and renovated by February 2013 when the current lease expires, which should be enough space for the entire company to be back under one roof. The Bayport Plaza lease required a \$50,000 deposit for the interim space and calls for an additional deposit of \$100,000 no later than December 1, 2012. For all leases, rental payments escalate based on the schedules set forth in the respective lease agreement. Minimum future rental payments are:

Year Ended December 31,		
2012	\$	509,564
2013		712,380
2014		749,086
2015		769,630
2016		790,682
2017 and thereafter		3,006,679
		<hr/>
Total	\$	<u><u>6,538,021</u></u>

Rent expense charged to operations during the year ended December 31, 2011 was \$482,256, including the effects of lease payment escalations over the term of the leases.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

4. Operating Leases – (Continued)

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

Year Ended December 31,		
2012	\$	466,124
2013		759,559
2014		786,234
2015		786,234
2016		786,234
2017 and thereafter		2,817,339
 Total	 \$	 <u><u>6,401,724</u></u>

5. Postretirement Benefits Other Than Pensions

The Company adopted ASC 715-30, *Defined Benefit Plans-Pension*, on December 31, 2007, which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan. The current year effect of the adoption is a \$97,674 decrease to unrestricted net assets.

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, 2011:

Accumulated postretirement benefit obligation		
Plan assets at fair value	\$	-
Funded Status		-
 Accrued postretirement benefit obligation		
Current portion	\$	16,001
Long-term portion		738,696
		\$ 754,697

Since the plan is non-contributory, the entire balance of the accumulated benefit obligation is recorded as a liability in the statement of financial position as of December 31, 2011.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2011

5. Postretirement Benefits Other Than Pensions – (Continued)

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2011.

Service Cost	\$ (24,520)
Interest Cost	(30,888)
Amortization of unrecognized net obligation	(10,664)
Recognition of net actuarial gain	<u>21,404</u>
 Net periodic postretirement benefit cost	 (44,668)
 Benefits paid during 2011	 <u>10,826</u>
 Net postretirement benefit loss	 <u><u>\$ (33,842)</u></u>
 Items not yet recognized as a component of net periodic postretirement benefit costs	
Unrecognized net gain	\$ 178,897
Unrecognized net transition obligations	<u>(61,311)</u>
 Transitional effect of ASC 715-30	 <u><u>\$ 117,586</u></u>
 Postretirement effect of ASC 715-30 as of December 31, 2010	 \$ 215,260
 Net periodic change in postretirement obligation	 <u>(97,674)</u>
 Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2011	 <u><u>\$ 117,586</u></u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

5. Postretirement Benefits Other Than Pensions – (Continued)

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

2012	\$	16,001
2013		17,337
2014		18,598
2015		19,749
2016		20,756
2017 & Thereafter		<u>154,279</u>
	\$	<u>246,720</u>

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial gain of approximately (\$11,000) and \$21,000, respectively. For measurement purposes, a 9% annual rate increase in the per capita cost of covered health care benefits was assumed for 2013; the rate was assumed to decrease gradually to 5% for 2017 and remain at that level 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, 2011 would be increased \$153,621 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2011 would be increased by \$7,311.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 4%. 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, 2011.

Glossary: Accumulated postretirement benefit obligation – The actuarial present value of benefits attributed to employee service rendered to a particular date.

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

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

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

6. Retirement Plan

Effective January 1, 2001, the Company adopted a 401(k) Plan ("Plan") intended to benefit substantially all employees with 6 months of service and 21 years of age. On September 30, 2007, the plan was amended to enable employees with one hour of service to be eligible to enter the plan. Participants can contribute any amount of their compensation for the Plan year, not to exceed the limits determined by the Internal Revenue Code. The Company may make matching contributions with prescribed limits. The Company may also make additional non-elective discretionary contributions to the Plan. The Company made matching contributions to the Plan of \$209,879 and a discretionary contribution to the Plan of \$384,261 (net of forfeitures) for the year ending December 31, 2011.

7. Related Parties

Various members of the Company are founding members of FCG and the organizations, excluding the board of directors, are under common management. FCG is a nonprofit organization operating under Section 501(c) (6) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company is providing Florida Electric Power Coordinating Group, Inc. ("FCG") with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 4.3% of the Company's administrative expenses in 2011. The service agreement with FCG is a one-year agreement that will automatically renew unless canceled in advance by either party. The original agreement was renewed for an additional year in February 2011. At December 31, 2011, the Company had billed and collected a total of \$253,951 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$45,953.

The Company is purchasing the services from Florida Power and Light ("FPL"), a member of the Company, to fulfill the responsibilities of reliability coordinator, operations planning coordinator, state capacity emergency coordinator as well as various other services. In 2009, the Company decided to increase the reliability coordinator coverage to full time, 24/7 coverage as of June 1, 2009. The Company paid FPL \$2,127,472 relating all of to these services and at December 31, 2011 had \$581,539 of accrued expenses recorded on the books.

8. Concentrations

Two members make up approximately 54.6% of the member services assessments and dues. The same two members comprise 66.9% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory functions.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

9. Contingencies

As part of the Company's Delegation Agreement with NERC, the Company has the authority to fine entities within its region for violation of reliability standards. During 2011, thirty four (34) notices of penalty were filed with FERC with settlement agreements addressing alleged violations of reliability standards for the entities within the FRCC region. The penalties totaling \$758,200 as of December 31, 2011, were approved by FERC and paid by the entities. The Delegation Agreement Rules of Procedures from NERC stipulate that any penalty monies collected by June 30 of each year, which is between budget submissions, are to be held until they can be accounted for in a budget submission. At year-end December 31, 2011, a total of \$1,157,200 penalty assessment is being held for future use of which \$874,700 was accounted for in the 2011 budget submission and will be taken into operating income at the beginning of 2012 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2012 will be held and accounted for in the 2013 budget submission.

10. Functional Expenses

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

Statutory expenses:	
Reliability Standards Development	\$ 372,665
Compliance Enforcement	3,634,635
Reliability Assessment & Performance Analysis	1,030,040
Training & Education	192,006
Situational Awareness & Infrastructure	<u>51,713</u>
Total statutory expenses	5,281,059
 Member Services expenses:	
Planning Committee	4,858,923
Operations Committee	756,563
General and Administrative	<u>97,674</u>
Total member services expenses	<u>5,713,160</u>
Total expenses	<u><u>\$ 10,994,219</u></u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

11. Net Assets

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

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

Statutory	\$ 1,455,607
Member services	<u>157,942</u>
Total unrestricted - board-designated net assets	<u><u>\$ 1,613,549</u></u>

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
TOTAL COMPANY
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 4,967,059	\$ 4,967,060	\$ (1)	
Penalty Sanctions	50,000	50,000	-	
Total ERO Funding	<u>\$ 5,017,059</u>	<u>\$ 5,017,060</u>	<u>\$ (1)</u>	0.0%
Membership Dues	\$ 5,212,063	\$ 5,212,063	\$ -	
Testing Fees	-	-	-	
Services & Software	269,780	258,200	11,580	
Workshops	73,780	83,430	(9,650)	
Interest	2,085	-	2,085	
Miscellaneous	(33,842)	-	(33,842)	
Total Funding	<u>\$ 10,540,925</u>	<u>\$ 10,570,753</u>	<u>\$ (29,828)</u>	-0.3%
Expenses				
Personnel Expenses				
Salaries	\$ 4,271,575	\$ 4,632,600	\$ (361,025)	
Payroll Taxes	266,077	283,014	(16,937)	
Benefits	703,099	563,464	139,635	
Retirement Costs	595,448	670,547	(75,099)	
Total Personnel Expenses	<u>\$ 5,836,199</u>	<u>\$ 6,149,625</u>	<u>\$ (313,426)</u>	-5.1%
Meeting Expenses				
Meetings	\$ 88,361	\$ 145,674	\$ (57,313)	
Travel	251,131	285,816	(34,685)	
Conference Calls	38,077	41,940	(3,863)	
Total Meeting Expenses	<u>\$ 377,569</u>	<u>\$ 473,430</u>	<u>\$ (95,861)</u>	-20.2%
Operating Expenses				
Consultants & Contracts	\$ 3,060,669	\$ 2,866,926	\$ 193,743	
Office Rent	482,257	482,402	(145)	
Office Costs	523,728	\$ 514,046	9,682	
Professional Services	440,636	275,999	164,637	
Miscellaneous	-	71,804	(71,804)	
Depreciation	175,487	317,211	(141,724)	
Total Operating Expenses	<u>\$ 4,682,777</u>	<u>\$ 4,528,388</u>	<u>\$ 154,389</u>	3.4%
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ 97,674</u>	<u>\$ -</u>	<u>\$ 97,674</u>	
Total Expenses	<u>\$ 10,994,219</u>	<u>\$ 11,151,443</u>	<u>\$ (157,224)</u>	-1.4%
Change in Assets	<u>\$ (453,294)</u>	<u>\$ (580,690)</u>	<u>\$ 127,396</u>	-21.9%
Fixed Asset Expenditures				
Depreciation	\$ (175,487)	\$ (317,211)	\$ 141,724	
Software CapEx	20,000	156,381	(136,381)	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	30,915	48,060	(17,145)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (124,572)</u>	<u>\$ (112,770)</u>	<u>\$ (11,802)</u>	10.5%
Total Cash Expenditures	<u>\$ 10,869,647</u>	<u>\$ 11,038,673</u>	<u>\$ (169,026)</u>	-1.5%
TOTAL NET FUNDING	<u>\$ (328,722)</u>	<u>\$ (467,920)</u>	<u>\$ 139,198</u>	-29.7%
FTEs	38.25	38.88	(0.63)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
TOTAL Statutory Only
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 4,967,059	\$ 4,967,060	\$ (1)	
Penalty Sanctions	50,000	50,000	-	
Total ERO Funding	<u>\$ 5,017,059</u>	<u>\$ 5,017,060</u>	<u>\$ (1)</u>	0.0%
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees	-	-	-	
Services & Software	20,160	24,200	(4,040)	
Workshops	73,780	79,430	(5,650)	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 5,110,999</u>	<u>\$ 5,120,690</u>	<u>\$ (9,691)</u>	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 2,839,487	\$ 3,151,751	\$ (312,264)	
Payroll Taxes	177,231	192,546	(15,315)	
Benefits	445,131	384,080	61,051	
Retirement Costs	399,407	456,201	(56,794)	
Total Personnel Expenses	<u>\$ 3,861,256</u>	<u>\$ 4,184,578</u>	<u>\$ (323,322)</u>	-7.7%
Meeting Expenses				
Meetings	\$ 68,828	\$ 97,972	\$ (29,144)	
Travel	203,640	219,986	(16,346)	
Conference Calls	14,385	20,745	(6,360)	
Total Meeting Expenses	<u>\$ 286,853</u>	<u>\$ 338,703</u>	<u>\$ (51,850)</u>	-15.3%
Operating Expenses				
Consultants & Contracts	\$ 216,247	\$ 202,110	\$ 14,137	
Office Rent	404,460	373,086	31,374	
Office Costs	125,683	131,001	(5,318)	
Professional Services	245,621	178,047	67,574	
Miscellaneous	-	-	-	
Depreciation	140,939	257,913	(116,974)	
Total Operating Expenses	<u>\$ 1,132,950</u>	<u>\$ 1,142,157</u>	<u>\$ (9,207)</u>	-0.8%
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 5,281,059</u>	<u>\$ 5,665,438</u>	<u>\$ (384,379)</u>	-6.8%
Change in Assets	<u>\$ (170,060)</u>	<u>\$ (544,748)</u>	<u>\$ 374,688</u>	-68.8%
Fixed Asset Expenditures				
Depreciation	\$ (140,939)	\$ (257,913)	\$ 116,974	
Software CapEx	20,000	156,381	(136,381)	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	16,900	24,704	(7,804)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (104,039)</u>	<u>\$ (76,828)</u>	<u>\$ (27,211)</u>	35.4%
Total Cash Expenditures	<u>\$ 5,177,020</u>	<u>\$ 5,588,610</u>	<u>\$ (411,590)</u>	-7.4%
TOTAL NET FUNDING	<u>\$ (66,021)</u>	<u>\$ (467,920)</u>	<u>\$ 401,899</u>	-85.9%
FTEs	25.48	26.45	(0.97)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
RELIABILITY STANDARDS
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 289,173	\$ 289,173	\$ -	
Penalty Sanctions	2,541	2,541	-	
Total ERO Funding	<u>\$ 291,714</u>	<u>\$ 291,714</u>	<u>\$ -</u>	0.0%
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 291,714</u>	<u>\$ 291,714</u>	<u>\$ -</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 179,101	\$ 137,033	\$ 42,068	
Payroll Taxes	11,130	8,372	2,758	
Benefits	26,121	22,316	3,805	
Retirement Costs	24,955	19,835	5,120	
Total Personnel Expenses	<u>\$ 241,307</u>	<u>\$ 187,556</u>	<u>\$ 53,751</u>	<u>28.7%</u>
Meeting Expenses				
Meetings	\$ 825	\$ 1,832	\$ (1,007)	
Travel	37,784	40,832	(3,048)	
Conference Calls	553	1,580	(1,027)	
Total Meeting Expenses	<u>\$ 39,162</u>	<u>\$ 44,244</u>	<u>\$ (5,082)</u>	<u>-11.5%</u>
Operating Expenses				
Consultants & Contracts	\$ 796	\$ 84	\$ 712	
Office Rent	9,465	10,116	(651)	
Office Costs	6,544	7,530	(986)	
Professional Services	17,827	7,741	10,086	
Miscellaneous	54,671	34,092	20,579	
Depreciation	2,893	4,858	(1,965)	
Total Operating Expenses	<u>\$ 92,196</u>	<u>\$ 64,421</u>	<u>\$ 27,775</u>	<u>43.1%</u>
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 372,665</u>	<u>\$ 296,221</u>	<u>\$ 76,444</u>	<u>25.8%</u>
Change in Assets	<u>\$ (80,951)</u>	<u>\$ (4,507)</u>	<u>\$ (76,444)</u>	<u>100.0%</u>
Fixed Asset Expenditures				
Depreciation	\$ (2,893)	\$ (4,858)	\$ 1,965	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	755	351	404	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	<u>\$ (2,138)</u>	<u>\$ (4,507)</u>	<u>\$ 2,369</u>	<u>-52.6%</u>
Total Cash Expenditures	<u>\$ 370,527</u>	<u>\$ 291,714</u>	<u>\$ 78,813</u>	<u>27.0%</u>
TOTAL NET FUNDING	<u>\$ (78,813)</u>	<u>\$ -</u>	<u>\$ (78,813)</u>	
FTEs	1.54	1.15	0.39	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
COMPLIANCE
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 3,910,561	\$ 3,910,561	\$ -	
Penalty Sanctions	36,655	36,655	-	
Total ERO Funding	<u>\$ 3,947,216</u>	<u>\$ 3,947,216</u>	<u>\$ -</u>	<u>0.0%</u>
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees	-	-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>\$ 3,947,216</u>	<u>\$ 3,947,216</u>	<u>\$ -</u>	<u>0.0%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 1,643,202	\$ 1,976,844	\$ (333,642)	
Payroll Taxes	102,638	120,769	(18,131)	
Benefits	271,532	256,740	14,792	
Retirement Costs	235,441	286,139	(50,698)	
Total Personnel Expenses	<u>\$ 2,252,813</u>	<u>\$ 2,640,492</u>	<u>\$ (387,679)</u>	<u>-14.7%</u>
Meeting Expenses				
Meetings	\$ 7,128	\$ 5,059	\$ 2,069	
Travel	119,555	131,418	(11,863)	
Conference Calls	7,951	8,128	(177)	
Total Meeting Expenses	<u>\$ 134,634</u>	<u>\$ 144,605</u>	<u>\$ (9,971)</u>	<u>-6.9%</u>
Operating Expenses				
Consultants & Contracts	\$ 61,534	\$ 23,214	\$ 38,320	
Office Rent	340,690	286,354	54,336	
Office Costs	69,984	74,790	(4,806)	
Professional Services	172,151	111,675	60,476	
Miscellaneous	498,267	491,807	6,460	
Depreciation	104,562	179,487	(74,925)	
Total Operating Expenses	<u>\$ 1,247,188</u>	<u>\$ 1,167,327</u>	<u>\$ 79,861</u>	<u>6.8%</u>
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 3,634,635</u>	<u>\$ 3,952,424</u>	<u>\$ (317,789)</u>	<u>-8.0%</u>
Change in Assets	<u>\$ 312,581</u>	<u>\$ (5,208)</u>	<u>\$ 317,789</u>	<u>100.0%</u>
Fixed Asset Expenditures				
Depreciation	\$ (104,562)	\$ (179,487)	\$ 74,925	
Software CapEx	20,000	156,381	(136,381)	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	12,173	17,898	(5,725)	
Leasehold Improvements	-		-	
Increase/(Decrease) in Fixed Assets	<u>\$ (72,389)</u>	<u>\$ (5,208)</u>	<u>\$ (67,181)</u>	<u>100.0%</u>
Total Cash Expenditures	<u>\$ 3,562,246</u>	<u>\$ 3,947,216</u>	<u>\$ (384,970)</u>	<u>-9.8%</u>
TOTAL NET FUNDING	<u>\$ 384,970</u>	<u>\$ -</u>	<u>\$ 384,970</u>	
FTEs	14.90	16.59	(1.69)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
RELIABILITY ASSESSMENT
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 963,442	\$ 963,442	\$ -	
Penalty Sanctions	8,330	8,330	-	
Total ERO Funding	<u>\$ 971,772</u>	<u>\$ 971,772</u>	<u>\$ -</u>	<u>0.0%</u>
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees		-	-	
Services & Software	20,160	24,200	(4,040)	
Workshops			-	
Interest		-	-	
Miscellaneous		-	-	
Total Funding	<u>\$ 991,932</u>	<u>\$ 995,972</u>	<u>\$ (4,040)</u>	<u>-0.4%</u>
Expenses				
Personnel Expenses				
Salaries	\$ 458,770	\$ 449,229	\$ 9,541	
Payroll Taxes	28,311	27,444	867	
Benefits	68,890	45,458	23,432	
Retirement Costs	62,874	65,024	(2,150)	
Total Personnel Expenses	<u>\$ 618,845</u>	<u>\$ 587,155</u>	<u>\$ 31,690</u>	<u>5.4%</u>
Meeting Expenses				
Meetings	\$ 4,476	\$ 5,542	\$ (1,066)	
Travel	42,238	32,965	9,273	
Conference Calls	4,098	10,300	(6,202)	
Total Meeting Expenses	<u>\$ 50,812</u>	<u>\$ 48,807</u>	<u>\$ 2,005</u>	<u>4.1%</u>
Operating Expenses				
Consultants & Contracts	\$ 130,538	\$ 168,450	\$ (37,912)	
Office Rent	24,700	33,162	(8,462)	
Office Costs	13,209	16,310	(3,101)	
Professional Services	48,663	25,378	23,285	
Miscellaneous	134,280	111,761	22,519	
Depreciation	8,993	56,430	(47,437)	
Total Operating Expenses	<u>\$ 360,383</u>	<u>\$ 411,491</u>	<u>\$ (51,108)</u>	<u>-12.4%</u>
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 1,030,040</u>	<u>\$ 1,047,453</u>	<u>\$ (17,413)</u>	<u>-1.7%</u>
Change in Assets	<u>\$ (38,108)</u>	<u>\$ (51,481)</u>	<u>\$ 13,373</u>	<u>-26.0%</u>
Fixed Asset Expenditures				
Depreciation	\$ (8,993)	\$ (56,430)	\$ 47,437	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	3,664	4,949	(1,285)	
Leasehold Improvements			-	
Increase/(Decrease) in Fixed Assets	<u>\$ (5,329)</u>	<u>\$ (51,481)</u>	<u>\$ 46,152</u>	<u>-89.6%</u>
Total Cash Expenditures	<u>\$ 1,024,711</u>	<u>\$ 995,972</u>	<u>\$ 28,739</u>	<u>2.9%</u>
TOTAL NET FUNDING	<u>\$ (32,779)</u>	<u>\$ -</u>	<u>\$ (32,779)</u>	
FTEs	4.12	3.77	0.35	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
TRAINING AND EDUCATION
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 204,062	\$ 204,062	\$ -	
Penalty Sanctions	1,944	1,944	-	
Total ERO Funding	\$ 206,006	\$ 206,006	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	73,780	79,430	(5,650)	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ 279,786	\$ 285,436	\$ (5,650)	-2.0%
Expenses				
Personnel Expenses				
Salaries	\$ 54,533	\$ 104,860	\$ (50,327)	
Payroll Taxes	3,393	6,406	(3,013)	
Benefits	6,852	10,611	(3,759)	
Retirement Costs	7,361	15,178	(7,817)	
Total Personnel Expenses	\$ 72,139	\$ 137,055	\$ (64,916)	-47.4%
Meeting Expenses				
Meetings	\$ 55,901	\$ 84,792	\$ (28,891)	
Travel	3,331	10,964	(7,633)	
Conference Calls	462	444	18	
Total Meeting Expenses	\$ 59,694	\$ 96,200	\$ (36,506)	-37.9%
Operating Expenses				
Consultants & Contracts	\$ 22,431	\$ 64	\$ 22,367	
Office Rent	2,690	7,741	(5,051)	
Office Costs	15,542	12,097	3,445	
Professional Services	1,706	5,924	(4,218)	
Miscellaneous	16,172	26,087	(9,915)	
Depreciation	1,632	1,086	546	
Total Operating Expenses	\$ 60,173	\$ 52,999	\$ 7,174	13.5%
Total Indirect Expenses				
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ 192,006	\$ 286,254	\$ (94,248)	-32.9%
Change in Assets	\$ 87,780	\$ (818)	\$ 88,598	100.0%
Fixed Asset Expenditures				
Depreciation	\$ (1,632)	\$ (1,086)	\$ (546)	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	271	268	3	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	\$ (1,361)	\$ (818)	\$ (543)	66.4%
Total Cash Expenditures	\$ 190,645	\$ 285,436	\$ (94,791)	-33.2%
TOTAL NET FUNDING	\$ 89,141	\$ -	\$ 89,141	
FTEs	0.45	0.88	(0.43)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
SITUATIONAL AWARENESS
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 67,741	\$ 67,742	\$ (1)	
Penalty Sanctions	530	530	-	
Total ERO Funding	<u>\$ 68,271</u>	<u>\$ 68,272</u>	<u>\$ (1)</u>	0.0%
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest		-	-	
Miscellaneous		-	-	
Total Funding	<u>\$ 68,271</u>	<u>\$ 68,272</u>	<u>\$ (1)</u>	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 14,888	\$ 28,598	\$ (13,710)	
Payroll Taxes	912	1,747	(835)	
Benefits	2,270	2,894	(624)	
Retirement Costs	2,003	4,139	(2,136)	
Total Personnel Expenses	<u>\$ 20,073</u>	<u>\$ 37,378</u>	<u>\$ (17,305)</u>	-46.3%
Meeting Expenses				
Meetings	\$ 27	\$ 44	\$ (17)	
Travel	712	1,552	(840)	
Conference Calls	41	17	24	
Total Meeting Expenses	<u>\$ 780</u>	<u>\$ 1,613</u>	<u>\$ (833)</u>	-51.6%
Operating Expenses				
Consultants & Contracts	\$ 40	\$ 10,018	\$ (9,978)	
Office Rent	835	2,111	(1,276)	
Office Costs	8,081	8,349	(268)	
Professional Services	1,713	1,615	98	
Miscellaneous	4,247	7,115	(2,868)	
Depreciation	15,944	15,819	125	
Total Operating Expenses	<u>\$ 30,860</u>	<u>\$ 45,027</u>	<u>\$ (14,167)</u>	-31.5%
Total Indirect Expenses				
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses	<u>\$ 51,713</u>	<u>\$ 84,018</u>	<u>\$ (32,305)</u>	-38.5%
Change in Assets	<u>\$ 16,558</u>	<u>\$ (15,746)</u>	<u>\$ 32,304</u>	100.0%
Fixed Asset Expenditures				
Depreciation	\$ (15,944)	\$ (15,819)	\$ (125)	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	37	73	(36)	
Leasehold Improvements	-		-	
Increase/(Decrease) in Fixed Assets	<u>\$ (15,907)</u>	<u>\$ (15,746)</u>	<u>\$ (161)</u>	1.0%
Total Cash Expenditures	<u>\$ 35,806</u>	<u>\$ 68,272</u>	<u>\$ (32,466)</u>	-47.6%
TOTAL NET FUNDING	<u>\$ 32,465</u>	<u>\$ -</u>	<u>\$ 32,465</u>	
FTEs	0.14	0.24	(0.10)	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
GENERAL ADMINISTRATIVE
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ (467,920)	\$ (467,920)	\$ -	
Penalty Sanctions		-	-	
Total ERO Funding	\$ (467,920)	\$ (467,920)	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	
Testing Fees	-	-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding	\$ (467,920)	\$ (467,920)	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 488,993	\$ 455,187	\$ 33,806	
Payroll Taxes	30,847	27,808	3,039	
Benefits	69,466	46,061	23,405	
Retirement Costs	66,773	65,886	887	
Total Personnel Expenses	\$ 656,079	\$ 594,942	\$ 61,137	10.3%
Meeting Expenses				
Meetings	\$ 471	\$ 703	\$ (232)	
Travel	20	2,255	(2,235)	
Conference Calls	1,280	276	1,004	
Total Meeting Expenses	\$ 1,771	\$ 3,234	\$ (1,463)	-45.2%
Operating Expenses				
Consultants & Contracts	\$ 908	\$ 280	\$ 628	
Office Rent	26,080	33,602	(7,522)	
Office Costs	12,323	11,925	398	
Professional Services	3,561	25,714	(22,153)	
Miscellaneous	(707,637)	(670,862)	(36,775)	
Depreciation	6,915	233	6,682	
Total Operating Expenses	\$ (657,850)	\$ (599,108)	\$ (58,742)	9.8%
Total Indirect Expenses				
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses	\$ -	\$ (932)	\$ 932	-100.0%
Change in Assets	\$ (467,920)	\$ (466,988)	\$ (932)	0.2%
Fixed Asset Expenditures				
Depreciation	\$ (6,915)	\$ (233)	\$ (6,682)	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx		1,165	(1,165)	
Leasehold Improvements	-		-	
Increase/(Decrease) in Fixed Assets	\$ (6,915)	\$ 932	\$ (7,847)	100.0%
Total Cash Expenditures	\$ (6,915)	\$ -	\$ (6,915)	
TOTAL NET FUNDING	\$ (461,005)	\$ (467,920)	\$ 6,915	-1%
FTEs	4.33	3.82	0.51	

See Independent Auditors' Report

Florida Reliability Coordinating Council, Inc.
Quarterly Statement of Activities - Total Actual To Total Budget
TOTAL MEMBER SERVICES - NON STATUTORY
December 31, 2011

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Membership Dues	\$ 5,212,063	\$ 5,212,063	\$ -	
Testing Fees	-	-	-	
Services & Software	249,620	234,000	15,620	
Workshops	-	4,000	(4,000)	
Interest	2,085	-	2,085	
Non Cash Postretirement	(33,842)	-	(33,842)	
Total Funding	\$ 5,429,926	\$ 5,450,063	\$ (20,137)	-0.4%
Expenses				
Personnel Expenses				
Salaries	\$ 1,432,088	\$ 1,480,849	\$ (48,761)	
Payroll Taxes	88,846	90,468	(1,622)	
Benefits	257,968	179,384	78,584	
Retirement Costs	196,041	214,346	(18,305)	
Total Personnel Expenses	\$ 1,974,943	\$ 1,965,047	\$ 9,896	0.5%
Meeting Expenses				
Meetings	\$ 19,533	\$ 47,702	\$ (28,169)	
Travel	47,491	65,830	(18,339)	
Conference Calls	23,692	21,195	2,497	
Total Meeting Expenses	\$ 90,716	\$ 134,727	\$ (44,011)	-32.7%
Operating Expenses				
Consultants & Contracts	\$ 2,844,422	\$ 2,664,816	\$ 179,606	
Office Rent	77,797	109,316	(31,519)	
Office Costs	398,045	383,045	15,000	
Professional Services	195,015	97,952	97,063	
Miscellaneous	-	71,804	(71,804)	
Depreciation	34,548	59,298	(24,750)	
Total Operating Expenses	\$ 3,549,827	\$ 3,386,231	\$ 163,596	4.8%
Total Indirect Expenses				
Other Non-Operating Expenses	\$ 97,674	\$ -	\$ 97,674	
Total Expenses	\$ 5,713,160	\$ 5,486,005	\$ 227,155	4.1%
Change in Assets	\$ (283,234)	\$ (35,942)	\$ (247,292)	100.0%
Fixed Asset Expenditures				
Depreciation	\$ (34,548)	\$ (59,298)	\$ 24,750	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	14,015	23,356	(9,341)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	\$ (20,533)	\$ (35,942)	\$ 15,409	-42.9%
Total Cash Expenditures	\$ 5,692,627	\$ 5,450,063	\$ 242,564	4.5%
TOTAL NET FUNDING	\$ (262,701)	\$ -	\$ (262,701)	
FTEs	12.77	12.43	0.34	

See Independent Auditors' Report

ATTACHMENT 3

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION



Sue Clarke, VP of Finance and Administration

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April 30, 2012

Mr. Michael Walker
Ms. Susan Turpen
North American Electric Reliability Corporation (NERC)

RE: 2011 Budget Variance Explanations Based on Audited Financials

Dear Mr. Walker and Ms. Turpen:

MRO staff reports the audited final numbers to be approximately 9% **under** budget (\$745k). The key contributors for this underage were in salaries, employee benefits, and travel. While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2011.

The following are the major areas of budget variances:

- (\$83,904) – Salaries
MRO was under budget on salaries due to timing of staff additions.
- (\$352,854) – Employee Benefits
MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
- (\$240,537) - Travel
MRO was under budget on Travel. Both staff and MRO representatives traveled less than expected in 2011. Part of reduced travel is due to staffing vacancies throughout the year; however, MRO was on-budget for employee at year-end.
- \$162,101– Consulting/Contracts
MRO exceeded the costs for consultants to cover the outstanding workload resulting from special projects such as the FAC alert, events, and staff vacancies.
- \$127,582 – Building Rent and Facility
MRO was able to terminate the facility lease from the original ending date of June 30, 2013 to April 30, 2012 for a one-time payment of \$165,000 without penalty and excluding future common area maintenance (CAM) operating costs.
- (\$114,072) – Professional Services
MRO anticipated more Rules of Procedures revisions and proposed standards than what was actually filed by NERC with regulators.





- \$281,893 – Depreciation

Depreciation expense was over budget. MRO was over budget in Depreciation Costs because the budget estimate was based on a timeline prior to the acquisition of a number of capital expenditures. The depreciation overage was further exacerbated by the early termination of the current facility lease and the leasehold improvements at the current address.

Change in Working Capital

Change in Working Capital was \$745,114 over budget for 2011.

Statutory Programs

Indirect program costs are allocated to the direct statutory programs based on FTE count to the direct statutory programs. MRO has no non-statutory activities in 2011, and therefore no statutory funding was used for non-statutory activities and no indirect costs were allocated from non-statutory to statutory.

Cash Reserves

No Cash Reserves were used in 2011 and no borrowing was needed. At year end, MRO met its reserve requirement of 45 days.

If you have any questions regarding this report, please contact me at 651-855-1707.

Thank you,

Sue Clarke

Sue Clarke

Cc: Daniel Skaar, MRO



Midwest Reliability Organization
 2011 Statement of Activities and Capital Expenditures
 01/01/2011 - 12/31/2011

Per Audit

Consolidated	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	8,260,503	8,260,503	-
Penalty Sanctions	137,009	137,000	9
Total ERO Funding	\$ 8,397,512	\$ 8,397,503	\$ 9
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total Funding (A)	\$ 8,397,512	\$ 8,397,503	\$ 9
Expenses			
Personnel Expenses			
Salaries	3,981,281	4,065,185	(83,904)
Payroll Taxes	264,749	305,215	(40,466)
Employee Benefits	279,647	632,491	(352,844)
Savings & Retirement	533,878	561,627	(27,749)
Total Personnel Expenses	5,059,556	5,564,518	(504,962)
Meeting Expenses			
Meetings	99,538	178,050	(78,512)
Travel	365,872	606,409	(240,537)
Conference Calls	24,693	41,680	(16,987)
Total Meeting Expenses	490,103	826,139	(336,036)
Operating Expenses			
Consultants & Contracts	719,881	557,780	162,101
Rent & Improvements	351,382	223,800	127,582
Office Costs	401,864	432,420	(30,556)
Professional Services	99,981	214,053	(114,072)
Miscellaneous	-	-	-
Depreciation	552,698	270,805	281,893
Total Operating Expenses	2,125,806	1,698,858	426,948
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	7,675,465	8,089,515	(414,050)
Change in Assets (A - B)	722,047	307,988	414,059
Fixed Assets			
Depreciation	(552,698)	(270,805)	(281,893)
Computer & Software CapEx	262,221	312,115	(49,894)
Furniture & Fixtures CapEx	733	-	733
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
Incr(Dec) in Fixed Assets	(289,744)	41,310	(331,054)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(289,745)	41,310	(331,055)
TOTAL BUDGET (B + C)	7,385,720	8,130,825	(745,105)
Change in Working Capital (A-B-C)	1,011,792	266,678	745,114
FTE's	33.0	34.5	(1.5)

Midwest Reliability Organization
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011
Per Audit

RELIABILITY STANDARDS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	565,887	565,887	-	0.00%	
Penalty Sanctions	10,422	10,419	3	0.03%	
Total ERO Funding	\$ 576,309	\$ 576,306	\$ 3	0.00%	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	576,309	576,306	3	0.00%	
Expenses					
Personnel Expenses					
Salaries	171,014	206,345	(35,331)	-17.12%	Actual time spent in the Standards area was less than budgeted for MRO staff resulting in reduced salary costs. MRO leverages experts from the industry which reduces the MRO staff requirements.
Payroll Taxes	10,956	15,596	(4,640)	-29.75%	
Employee Benefits	13,127	23,968	(10,841)	-45.23%	MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
Savings & Retirement	23,707	26,981	(3,274)	-12.13%	
Total Personnel Expenses	218,805	272,890	(54,085)	-19.82%	
Meeting Expenses					
Meetings	5,280	13,000	(7,720)	-59.38%	
Travel	24,252	42,000	(17,748)	-42.26%	Subject Matter Experts held frequent conference calls reducing the need for travel for face-to face-meetings.
Conference Calls	14,286	18,000	(3,714)	-20.63%	
Total Meeting Expenses	43,818	73,000	(29,182)	-39.97%	
Operating Expenses					
Consultants & Contracts	12,000	12,000	-	0.00%	
Rent & Improvements	-	-	-	-	
Office Costs	3,879	5,840	(1,961)	-33.58%	
Professional Services	-	-	-	-	
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	15,879	17,840	(1,961)	-10.99%	
Indirect Expenses	187,715	209,171	(21,456)	-10.26%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	466,217	572,901	(106,684)	-18.62%	
Change in Assets (A - B)	110,092	3,405	106,687	3133.24%	
Fixed Assets					
Depreciation	-	-	-	-	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	-	
Allocation of Fixed Assets	(16,781)	(3,405)	(13,376)	392.83%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	(16,781)	(3,405)	(13,376)	392.83%	
TOTAL BUDGET (B + C)	449,436	569,496	(120,060)	-21.08%	
Change in Working Capital (A-B-C)	126,873	6,810	120,063		
FTE's	1.5	2.1	(0.6)	-26.92%	

Midwest Reliability Organization
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011
Per Audit

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	5,031,458	5,031,458	-	0.00%	
Penalty Sanctions	87,510	87,510	-	0.00%	
Total ERO Funding	\$ 5,118,968	\$ 5,118,968	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	5,118,968	5,118,968	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	1,933,073	2,131,397	(198,324)	-9.30%	MRO staffing expenses were under budget due to the timing of staff additions; MRO began to conduct audits in a staggered fashion by starting the planning and initial sampling process 90-120 days prior to the commencement letter. This has resulted in some efficiencies in both staff and Registered Entity time.
Payroll Taxes	131,346	160,644	(29,298)	-18.24%	MRO staff was under budget on payroll tax due to timing of staff additions.
Employee Benefits	135,560	413,790	(278,230)	-67.24%	MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
Savings & Retirement	260,714	299,838	(39,124)	-13.05%	MRO staff was under budget on savings and retirement due to staff vacancies.
Total Personnel Expenses	2,460,693	3,005,669	(544,976)	-18.13%	
Meeting Expenses					
Meetings	5,111	5,900	(789)	-13.38%	
Travel	68,528	126,109	(57,581)	-45.66%	The use of conference calls in audit planning has helped reduce the time required on-site which reduced travel costs.
Conference Calls	5,910	1,580	4,330	274.05%	
Total Meeting Expenses	79,549	133,589	(54,040)	-40.45%	
Operating Expenses					
Consultants & Contracts	252,357	146,000	106,357	72.85%	MRO was over budget for consultants to cover the outstanding workload resulting from FAC alert, events, and staff vacancies.
Rent & Improvements	-	-	-		
Office Costs	99,705	48,278	51,427	106.52%	This was the first year that NERC required auditors training in the form of workshops and the dollars had not been budgeted. In 2012, MRO hopes to find more effective and efficient means with NERC as an alternative to workshops.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	352,062	194,278	157,784	81.22%	
Indirect Expenses	1,918,449	1,756,832	161,617	9.20%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	4,810,753	5,090,368	(279,615)	-5.49%	
Change in Assets (A - B)	308,215	28,600	279,615	977.68%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(171,500)	(28,600)	(142,900)	499.65%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	(171,500)	(28,600)	(142,900)	499.65%	
TOTAL BUDGET (B + C)	4,639,253	5,061,768	(422,515)	-8.35%	
Change in Working Capital (A-B-C)	479,715	57,200	422,515	738.66%	
FTE's	15.3	17.5	(2.1)	-12.19%	

Midwest Reliability Organization
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011
Per Audit

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	1,989,269	1,989,269	-	0.00%	
Penalty Sanctions	33,817	33,812	5	0.01%	
Total ERO Funding	\$ 2,023,086	\$ 2,023,081	\$ 5	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	2,023,086	2,023,081	10	0.00%	
Expenses					
Personnel Expenses					
Salaries	756,794	767,657	(10,863)	-1.42%	Actual FTEs ran very close to budget.
Payroll Taxes	49,360	57,732	(8,372)	-14.50%	
Employee Benefits	57,905	77,711	(19,806)	-25.49%	MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
Savings & Retirement	96,064	111,101	(15,037)	-13.53%	Savings and Retirement costs were slightly under budget since the FTE actual amount was close to budget.
Total Personnel Expenses	960,123	1,014,201	(54,078)	-5.33%	
Meeting Expenses					
Meetings	18,649	48,000	(29,351)	-61.15%	MRO was able to continue to negotiate favorable catering by working with one specific site.
Travel	80,681	103,000	(22,319)	-21.67%	Budget assumed 100% participation in our member reimbursement, which was not realized.
Conference Calls	3,734	6,000	(2,266)	-37.77%	
Total Meeting Expenses	103,064	157,000	(53,936)	-34.35%	
Operating Expenses					
Consultants & Contracts	142,404	125,780	16,624	13.22%	In 2010, MRO had anticipated that the Planning Coordinators would have assumed ownership of the UFLS programs in 2011 according to pending PRC-006-1 and appropriately did not include any budgeted dollars. However, this Standard is still awaiting FERC approval and therefore the Regional Entities still have ownership of the UFLS programs and 5 year reviews associated with them.
Rent & Improvements	-	-	-		
Office Costs	27,327	36,250	(8,923)	-24.62%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	169,731	162,030	7,701	4.75%	
Indirect Expenses	913,547	678,799	234,748	34.58%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	2,146,465	2,012,030	134,435	6.68%	
Change in Assets (A - B)	(123,379)	11,051	(134,425)	-1216.41%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(81,666)	(11,051)	(70,615)	638.99%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	(81,666)	(11,051)	(70,615)	638.99%	
TOTAL BUDGET (B + C)	2,064,799	2,000,979	63,820	3.19%	
Change in Working Capital (A-B-C)	(41,713)	22,102	(63,810)	-288.71%	
FTE's	7.3	6.8	0.6	8.44%	

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TRAINING, EDUCATION and OPERATOR CERTIFICATION	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	125,986	125,986	-	0.00%	
Penalty Sanctions	751	751	-	0.00%	
Total ERO Funding	\$ 126,737	\$ 126,737	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	126,737	126,737	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	72,928	23,749	49,179	207.08%	Higher than anticipated executive staff involvement in the workshops, newsletters and speaker engagements resulting in increased salary dollars being charged to this program. Application guides and the model controls and procedures developed by stakeholders incurred costs through the applicable committees.
Payroll Taxes	3,079	1,780	1,299	72.98%	
Employee Benefits	2,526	305	2,221	728.20%	
Savings & Retirement	11,856	4,073	7,783	191.09%	
Total Personnel Expenses	90,389	29,907	60,482	202.23%	
Meetings	37,615	47,500	(9,885)	-20.81%	
Travel	9,646	14,000	(4,354)	-31.10%	
Conference Calls	-	15,000	(15,000)	-100.00%	Although dollars were budgeted for the participants the ability to call in on the workshops, it was considered ineffective and therefore was not utilized. The workshops have become more "hands on".
Total Meeting Expenses	47,261	76,500	(29,239)	-38.22%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	184	5,000	(4,816)	-96.32%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	184	5,000	(4,816)	-96.32%	
Indirect Expenses	22,526	15,084	7,442	49.34%	
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	160,360	126,491	33,869	26.78%	
Change in Assets (A - B)	(33,623)	246	(33,869)	-13768.04%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-	-	
Allocation of Fixed Assets	(2,014)	(246)	(1,768)	718.70%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	(2,014)	(246)	(1,768)	718.70%	
TOTAL BUDGET (B + C)	158,346	126,245	32,101	25.43%	
Change in Working Capital (A-B-C)	(31,609)	492	(32,101)	-6524.67%	
FTE's	0.18	0.15	0.0	20.00%	

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SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Funding)	2011 Actual	2011 Budget	from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
ERO Funding					
Assessments	281,225	281,225	-	0.00%	
Penalty Sanctions	4,509	4,508	1	0.02%	
Total ERO Funding	\$ 285,734	\$ 285,733	\$ 1	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	285,734	285,733	2	0.00%	
Expenses					
Personnel Expenses					
Salaries	36,209	102,680	(66,471)	-64.74%	MRO staff has been recording time spent on these activities in other program areas. Going forward in 2012 staff has instructions to track within the Situation Awareness and Infrastructure Security Program.
Payroll Taxes	2,625	7,674	(5,049)	-65.79%	
Employee Benefits	1,376	13,771	(12,395)	-90.01%	MRO staff has been recording time spent on these activities in other program areas causing personnel costs to decrease in this program. In addition MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
Savings & Retirement	6,752	18,278	(11,526)	-63.06%	MRO staff has been recording time spent on these activities in other program areas causing personnel costs to decrease in this program
Total Personnel Expenses	46,962	142,403	(95,441)	-67.02%	
Meeting Expenses					
Meetings	-	26,150	(26,150)	-100.00%	Staff planned on participating in the development of the Situation Awareness tools as well as the CIP Working Group. MRO's participation did not include sponsoring any meetings.
Travel	-	19,200	(19,200)	-100.00%	Staff planned on participating in the development of the Situation Awareness tools as well as the CIP Working Group. MRO's participation did not include any travel.
Conference Calls	-	-	-		
Total Meeting Expenses	-	45,350	(45,350)	-100.00%	
Operating Expenses					
Consultants & Contracts	194	-	194		
Rent & Improvements	-	-	-		
Office Costs	5,078	6,000	(922)	-15.37%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	15,658	3,465	12,193		The Situation Room was written off before the end of their depreciable lives due to the office move.
Total Operating Expenses	20,930	9,465	11,465	121.13%	
Indirect Expenses	23,777	90,507	(66,730)	-73.73%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	91,669	287,725	(196,056)	-68.14%	
Change in Assets (A - B)	194,065	(1,992)	196,058	-9842.27%	
Fixed Assets					
Depreciation	(15,658)	(3,465)	(12,193)	351.89%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	(15,658)	(3,465)	(12,193)		
Allocation of Fixed Assets	(2,126)	(1,473)	(653)	44.33%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	(17,784)	(4,938)	(12,846)	260.15%	
TOTAL BUDGET (B + C)	73,885	282,787	(208,902)	-73.87%	
Change in Working Capital (A-B-C)	211,849	2,946	208,904	7091.11%	
FTE's	0.19	0.90	(0.7)	-78.89%	

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MEMBER FORUMS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	187,022	84,646	102,376	120.95%	Higher participation of the MRO staff on the NERC committees, Task forces, BOT and MRC meetings increasing actual salary dollars higher than budgeted.
Payroll Taxes	10,823	6,272	4,551	72.56%	
Employee Benefits	10,138	8,515	1,623	19.06%	
Savings & Retirement	30,170	14,450	15,720	108.79%	Higher participation of the MRO staff on the NERC committees, Task forces, BOT and MRC meetings increasing actual savings and retirement dollars higher than budgeted.
Total Personnel Expenses	238,153	113,883	124,270	109.12%	
Meeting Expenses					
Meetings	203	-	203		
Travel	134,006	206,100	(72,094)	-34.98%	Budget assumed 100% participation in our member reimbursement, which was not realized.
Conference Calls	-	-	-		
Total Meeting Expenses	134,209	206,100	(71,891)	-34.88%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	-	-	-		
Indirect Expenses	(372,362)	(319,983)	(52,379)	16.37%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	-	-	-		
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	-		
FTE's	1.3	0.7	0.6	98.46%	

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GENERAL and ADMINISTRATIVE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	266,678	266,678	-	0.00%	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ 266,678	\$ 266,678	\$ -	0.00%	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	266,678	266,678	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	194,923	188,293	6,630	3.52%	
Payroll Taxes	10,493	13,783	(3,290)	-23.87%	
Employee Benefits	11,282	15,525	(4,243)	-27.33%	
Savings & Retirement	29,087	22,791	6,296	27.62%	
Total Personnel Expenses	245,785	240,392	5,393	2.24%	
Meeting Expenses					
Meetings	32,604	35,000	(2,396)	-6.85%	
Travel	48,392	85,000	(36,608)	-43.07%	Budget assumed 100% participation in our member reimbursement, which was not realized.
Conference Calls	411	500	(89)	-17.80%	
Total Meeting Expenses	81,407	120,500	(39,093)	-32.44%	
Operating Expenses					
Consultants & Contracts	28,227	60,000	(31,773)	-52.96%	Media training for the MRO Communication Crisis Team was budgeted but not used in 2011. It has been rescheduled and budgeted for in 2012. This was largely due to working on other priorities.
Rent & Improvements	-	-	-	-	
Office Costs	51,860	70,852	(18,992)	-26.81%	Budget assumed higher Professional Dues which was not realized.
Professional Services	-	-	-	-	
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	80,087	130,852	(50,765)	-38.80%	
Indirect Expenses	(407,279)	(491,744)	84,465	-17.18%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-	-	
Total Expenses (B)	-	-	-	-	
Change in Assets (A - B)	266,678	266,678	-	0.00%	
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)	266,678	266,678	-	0.00%	
FTE's	1.2	1.4	(0.1)	-8.89%	

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LEGAL and REGULATORY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments					
Penalty Sanctions					
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	147,642	152,088	(4,446)	-2.92%	
Payroll Taxes	10,152	11,607	(1,455)	-12.54%	
Employee Benefits	1,726	7,475	(5,749)	-76.91%	
Savings & Retirement	15,846	6,039	9,807	162.39%	
Total Personnel Expenses	175,366	177,209	(1,843)	-1.04%	
Meeting Expenses					
Meetings	-	2,500	(2,500)	-100.00%	
Travel	-	6,000	(6,000)	-100.00%	
Conference Calls	-	600	(600)	-100.00%	
Total Meeting Expenses	-	9,100	(9,100)	-100.00%	
Operating Expenses					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	1,118	-	1,118		
Professional Services	64,642	175,000	(110,358)	-63.06%	MRO anticipated more Rules of Procedures revision and proposed standards than what was actually experienced.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	65,760	175,000	(109,240)	-62.42%	
Indirect Expenses	(241,126)	(361,309)	120,183	-33.26%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	-	-	-		
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	-		
FTE's	0.5	0.7	(0.1)	-20.00%	

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INFORMATION TECHNOLOGY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments			-		
Penalty Sanctions			-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	210,082	212,173	(2,091)	-0.99%	
Payroll Taxes	17,061	15,674	1,387	8.85%	
Employee Benefits	20,528	41,931	(21,403)	-51.04%	MRO staff successfully negotiated rates with a new provider to receive a substantial reduction in rates rather than the budgeted 13.00 % increase.
Savings & Retirement	24,983	31,457	(6,474)	-20.58%	
Total Personnel Expenses	272,654	301,235	(28,581)	-9.49%	
Meeting Expenses					
Meetings	4	-	4		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	4	-	4		
Operating Expenses					
Consultants & Contracts	162,364	157,800	4,564	2.89%	
Rent & Improvements	-	-	-		
Office Costs	139,698	194,700	(55,002)	-28.25%	Not all the training dollars that were budgeted were used. Alternative and less costly training was pursued in this area as well as time was not available for staff to attend training due to work demands.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	537,040	267,340	269,700		Budgeted depreciation was estimated based on a timeline prior to the acquisition of a number of capital expenditures. The depreciation overage was further exacerbated by the early termination of the current facility lease and the leasehold improvements at the current address
Total Operating Expenses	839,102	619,840	219,262	35.37%	
Indirect Expenses	(1,111,760)	(921,075)	(190,685)	20.70%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	(537,040.00)	(267,340.00)	(269,700)	100.88%	Budgeted depreciation was estimated based on the status of currently existing fixed assets prior to the acquisition of a number of capital expenditures later in the year. The depreciation overage was further exacerbated by the early termination of the current facility lease which required the acceleration of leasehold improvements to the end of the new lease expiration date.
Computer & Software CapEx	262,221	312,115	(49,894)	-15.99%	Not all the replacement laptops that were budgeted for were purchased in 2011. Some had been required to be replaced in 2010, also purchasing of the ipads for some of the staff replaced the need for a traveling laptop. MRO is always evaluating tools to increase productivity.
Furniture & Fixtures CapEx	733	-	733		All projects were completed, however, some were implemented more efficiently to attain some savings.
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	(274,086)	(44,775)	(318,861)		
Allocation of Fixed Assets	274,086	44,775	229,311	512.14%	The allocation of fixed assets was based upon FTEs and expenditures in the overhead functions, was proportionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets ©	-	-	(89,550)		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	89,550		
FTE's	2.5	2.4	0.1	3.75%	

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HUMAN RESOURCES	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and \$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	Human Resources costs are included under the Finance and Accounting program.
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	-	-	-	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	-	-	-	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	

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HUMAN RESOURCES and ACCOUNTING and FINANCE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and \$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	-	-	-		
Expenses					
Personnel Expenses					
Salaries	271,594	196,157	75,437	38.46%	MRO staff had more hours charged to the Finance / HR program area than what was budgeted. Part of the additional staff came from a part-time staff becoming full time. MRO's Overall FTE Trend has increased from 20 in 2007 to a possible 38 in the 2013 Budget. This is the first increase in the FTE in AR/Finance going from staff of 2 to 3.
Payroll Taxes	18,854	14,453	4,401	30.45%	
Employee Benefits	25,479	29,500	(4,021)	-13.63%	
Savings & Retirement	34,699	26,619	8,080	30.35%	
Total Personnel Expenses	350,626	266,729	83,897	31.45%	
Meeting Expenses					
Meetings	72	-	72		
Travel	367	5,000	(4,633)	-92.66%	
Conference Calls	352	-	352		
Total Meeting Expenses	791	5,000	(4,209)	-84.18%	
Operating Expenses					
Consultants & Contracts	122,335	56,200	66,135	117.68%	2011 actual new hire costs were higher than budgeted because of the use of recruiters.
Rent & Improvements	351,382	223,800	127,582	57.01%	MRO staff was able to advance th termination of the facility lease from the original end date.
Office Costs	73,015	65,500	7,515	11.47%	
Professional Services	35,339	39,053	(3,714)	-9.51%	
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	582,071	384,553	197,518	51.36%	
Indirect Expenses	(933,488)	(656,282)	(277,206)	42.24%	Indirect expenses calculated based upon FTEs and expenditures in the overhead functions, was propotionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Other Non-Operating Expenses	-	-	-		
Total Expenses (B)	-	-	-		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	-	-	-		The allocation of fixed assests was based upon FTEs and expenditures in the overhead functions, was propotionately allocated to the direct statutory programs based upon FTEs in the statutory programs.
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	-	-	-		
Change in Working Capital (A-B-C)	-	-	-		
FTE's	3.0	2.1	0.9	40.48%	

MIDWEST RELIABILITY ORGANIZATION

Roseville, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and For the Years Ended December 31, 2011 and 2010

MIDWEST RELIABILITY ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members
Midwest Reliability Organization
Roseville, Minnesota

We have audited the accompanying statements of financial position of Midwest Reliability Organization as of December 31, 2011 and 2010, and the related statements of operations and members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Midwest Reliability Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwest Reliability Organization as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Minneapolis, Minnesota
March 29, 2012

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2011 and 2010

	ASSETS	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,042,970	\$ 2,178,789
Restricted cash	418,545	137,020
Prepaid expenses	130,899	308,494
Total Current Assets	<u>3,592,414</u>	<u>2,624,303</u>
PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET	487,495	772,076
OTHER ASSETS		
Restricted cash - non-current	10,000	216,500
Security Deposit - non-current	39,858	-
Capitalized software costs, net of accumulated amortization of \$276,045 and \$187,642, respectively	<u>167,659</u>	<u>172,819</u>
TOTAL ASSETS	<u>\$ 4,297,426</u>	<u>\$ 3,785,698</u>
	LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 300,108	\$ 634,850
Accrued liabilities	493,521	385,033
Retirement plan contribution	309,364	280,000
Deferred assessments	418,544	137,020
Deferred rent	47,744	47,733
Total Current Liabilities	<u>1,569,281</u>	<u>1,484,636</u>
OTHER LIABILITIES		
Postretirement medical benefit obligation	188,064	220,902
Deferred assessments - non-current	10,000	216,500
Deferred rent - non-current	-	55,631
Total Liabilities	<u>1,767,345</u>	<u>1,977,669</u>
MEMBERS' EQUITY	<u>2,530,081</u>	<u>1,808,029</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 4,297,426</u>	<u>\$ 3,785,698</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUE		
Assessments	\$ 8,260,503	\$ 7,503,747
Penalty sanctions	<u>137,017</u>	<u>75,486</u>
Total Revenue	<u>8,397,520</u>	<u>7,579,233</u>
EXPENSES		
Personnel expenses		
Salaries	3,981,281	3,502,761
Payroll taxes	264,751	229,270
Employee benefits	279,647	422,620
Retirement benefits	<u>551,930</u>	<u>586,680</u>
Total personnel expenses	5,077,609	4,741,331
Meeting expenses		
Conference calls	24,692	27,183
Meetings	99,539	83,054
Travel	<u>367,700</u>	<u>428,129</u>
Total meeting expenses	491,931	538,366
Operating expenses		
Building rent and facilities	351,382	204,225
Consulting	718,055	589,236
Office costs	954,561	725,996
Professional services	<u>99,981</u>	<u>279,762</u>
Total operating expenses	<u>2,123,979</u>	<u>1,799,219</u>
Total Expenses	<u>7,693,519</u>	<u>7,078,916</u>
POSTRETIREMENT-RELATED CHANGES		
Postretirement medical benefit obligation changes other than net periodic cost	<u>(18,051)</u>	<u>13,416</u>
CHANGE IN MEMBERS' EQUITY	722,052	486,901
MEMBERS' EQUITY - Beginning of Year	<u>1,808,029</u>	<u>1,321,128</u>
MEMBERS' EQUITY - END OF YEAR	<u>\$ 2,530,081</u>	<u>\$ 1,808,029</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in members' equity	\$ 722,052	\$ 486,901
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and software amortization	552,698	388,496
Amortization of deferred rent	(55,620)	(34,212)
Postretirement benefit obligation	(32,838)	90,736
Change in assets and liabilities:		
Prepaid expenses	177,595	(242,832)
Security deposit	(39,858)	-
Accounts payable - trade	(334,742)	162,062
Accrued liabilities	108,488	229,603
Retirement plan contribution	29,364	24,754
Deferred assessments	<u>75,024</u>	<u>218,032</u>
Change from Operating Activities	<u>1,202,163</u>	<u>1,323,540</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(75,025)	(218,032)
Purchases of property, improvements and equipment and software	<u>(262,957)</u>	<u>(414,868)</u>
Change from Investing Activities	<u>(337,982)</u>	<u>(632,900)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	-	-
Payments on debt	-	-
Withdrawal on long-term deferred rent	<u>-</u>	<u>-</u>
Change from Financing Activities	<u>-</u>	<u>-</u>
 Net Change in Cash and Cash Equivalents	 864,181	 690,640
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>2,178,789</u>	 <u>1,488,149</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 3,042,970</u>	 <u>\$ 2,178,789</u>
 Supplemental cash flow disclosure		
Equipment and software additions included in accounts payable	\$ -	\$ 154,706

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Services

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

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.

Receivables

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

Property, Improvements and Equipment

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding \$2,000 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 five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts, and the resulting gain or loss is included in operations.

Capitalized Software Costs

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled \$276,045 and \$187,642 for the years ended December 31, 2011 and 2010, respectively.

Deferred Assessments

Deferred assessments represents penalty assessments paid by load-serving entities, which will be used to offset budget allocations received from NERC.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Status

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. They are also exempt from state income taxes. 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, 2011 and 2010. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2008 through 2010 are open to examination by federal and state authorities.

Revenue and Assessments

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

Use of Estimates

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

Subsequent Events

The Organization has evaluated subsequent events through March 29, 2012, which is the date that the financial statements were approved and available to be issued.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 2 - NERC TRANSACTIONS

On October 30, 2007 the Organization entered into a delegation agreement with the North American Electric Reliability Corporation ("NERC") with an executed version dated April 5, 2008 to enforce the Reliability Standards as set by NERC within a designated region. The delegation agreement, which was set to expire in May 2010, has been approved for extension by FERC through May 2, 2011. The Organization and NERC completed work on a five-year delegation agreement which was executed and approved by FERC effective January 1, 2011. In connection with the current delegation agreement, the Organization has the ability to propose Reliability Standards and Regional Variances. The Organization has the authority to enforce the Reliability Standards as set by NERC and approved by regulatory authorities within the geographic boundaries. The Organization is subject to oversight from NERC and applicable regulations in the United States, Manitoba, and Saskatchewan.

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with an annual operating budget on or before April 30 of each year. Budgeted revenues from NERC were \$8,260,503 and \$7,503,746 for the years ended December 31, 2011 and 2010, respectively, which agree with the amounts received.

NOTE 3 - LEASE COMMITMENTS

On January 1, 2007, MRO assumed an operating lease for rental of the office space located in Roseville, Minnesota. The assumed lease agreement is between Minnesota Industrial Properties Limited Partnership and MAPPCOR. Rent expense was \$308,168 in 2011 and \$155,941 in 2010. The Organization terminated this existing lease on November 7, 2011 eliminating all future costs beyond May 1, 2012 in exchange for a payment of \$165,000, which is included in rent expense in 2011. Future remaining minimum lease payments under the assigned lease as of December 31, 2011 are \$45,631 through April 30, 2012.

The Organization executed an operating lease for new office space in St Paul, Minnesota on December 30, 2011 after negotiations beginning in October.

Future expected minimum lease payments under the new lease as of December 31, 2011 are as follows:

Years Ending December 31	
2012	\$ 31,703
2013	52,332
2014	91,507
2015	258,414
2016	266,193
Thereafter	<u>1,720,298</u>
	<u>\$ 2,420,447</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 4 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Equipment	\$ 1,137,157	\$ 955,323
Furniture	156,538	158,660
Leasehold improvements	<u>629,710</u>	<u>629,710</u>
	1,923,405	1,743,693
Less: Accumulated depreciation	<u>(1,435,910)</u>	<u>(971,617)</u>
Net Property, Improvements and Equipment	<u>\$ 487,495</u>	<u>\$ 772,076</u>

As described in Note 1, leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. As a result, the early termination of the lease for the Roseville office space resulted in acceleration of the leasehold improvements amortization expense. The leasehold improvements, net of accumulated depreciation for this lease will be \$0 on the Organization's April 30, 2012 financial statements.

NOTE 5 - LINE OF CREDIT

The Organization obtained a revolving line of credit from National Cooperative Service Corporation (NCSC) in February 2008. The line of credit has a credit limit of \$2,000,000 and an interest rate 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 it expired February 26, 2011. In January, 2011, the MRO Board of Directors signed a Resolution approving and authorizing the execution of a corporate line of credit which has no changes from the previous revolving line of credit. The new line of credit will expire February 26, 2013. There were no outstanding balances at December 31, 2011 or 2010, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - RETIREMENT PLANS

Postretirement Health Plan

The Organization has a defined benefit postretirement health plan available to eligible current and future retirees. Information regarding the plan as of December 31 was as follows:

	2011	2010
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 589,666	\$ 468,424
Service cost	117,868	99,653
Interest cost	32,937	28,482
Plan changes	-	-
Actuarial loss	(74,529)	(6,893)
Benefits paid	(2,997)	-
Benefit obligation at end of year	662,945	589,666
Change in plan assets		
Fair value of plan assets at beginning of year	368,764	338,258
Actual return on plan assets	2,836	30,506
Employer contribution	106,278	-
Benefits paid	(2,997)	-
Fair value of plan assets at end of year	474,881	368,764
Unfunded status recognized as a noncurrent liability	\$ (188,064)	\$ (220,902)
Weighted average assumptions used to calculate the benefit obligation-discount rate	4.48%	5.60%

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

	2011	2010
Components of net periodic benefit cost		
Service cost	\$ 117,868	\$ 99,653
Interest cost	32,937	28,482
Expected return on plan assets	(33,509)	(26,941)
Amortization of prior service cost	(38,601)	(38,601)
Amortization of actuarial loss	12,796	14,727
Net periodic benefit cost	\$ 91,491	\$ 77,320
Weighted-average assumptions used to calculate the net periodic benefit cost		
Discount rate	5.60%	6.10%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increases	N/A	N/A

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 returns.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - RETIREMENT PLANS (Continued)

Assumed health care cost trend rates at December 31 consist of the following:

Health care cost trend rate assumed for next year	11.0%	11.3%
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	2030

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	\$ 38,632	\$ (29,415)
Effect on postretirement benefit obligation	155,313	(119,886)

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

	2011	2010
Actuarial (gain) loss arising during the year	\$ (56,652)	\$ (25,185)
Amortization of prior year service cost	38,601	38,601
	\$ (18,051)	\$ 13,416

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.

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

Asset category	2011	2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash equivalents	\$ 13,954	\$ 10,104
Mutual funds-bonds	235,073	262,946
Mutual funds-equities	225,854	95,714
	\$ 474,881	\$ 368,764

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2011 and 2010

NOTE 6 - RETIREMENT PLANS (Continued)

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.

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, 2011 are as follows:

Years Ending December 31	
2012	\$ 3,022
2013	3,317
2014	5,738
2015	7,313
2016	8,552
2017 - 2021	170,107

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 \$55,185 to the plan in 2012.

Defined Contribution Pension Plan

In 2009, the Organization established 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 \$186,669 and \$164,395 of employee deferrals as of December 31, 2011 and 2010, respectively. In addition, the Organization elected to make an employer contribution in the amount of \$321,437 and \$287,252 for the years ended December 31, 2011 and 2010, respectively.

The Organization also established a 457B plan in 2010. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were \$12,833 and \$33,114, respectively, for the years ended December 31, 2011 and 2010. The Organization matched \$6,417 and \$19,936, respectively, of employee deferrals for the years ended December 31, 2011 and 2010.

ATTACHMENT 4

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 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

April 30, 2012

North American Electric Reliability Corporation
3343 Peachtree Road, NE
Fourth Floor East Tower – Suite 400
Atlanta, Georgia 30326
Attention: Mr. Michael Walker

Subject: NPCC 2011 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2011 Financial Statements

Dear Michael:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2011 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on April 26, 2012 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 division. The establishment of Regionally-specific criteria, and monitoring and enforcement of compliance with such criteria are provided through the criteria services 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 92/8 split for 2011 based upon total corporate FTEs of 29.84 in the RE division and 2.58 in the CS division. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses for NPCC's RE division for 2011 were \$11,750,005 which is \$1,042,125 or 8% under the 2011 operating budget of \$12,792,130. Actual total expenses for NPCC's CS division for 2011 were \$973,590 which is \$46,883 or approximately 5% under the 2011 operating budget of \$1,020,473. In the aggregate, actual total expenses for the NPCC RE and CS divisions were \$12,723,595 which is \$1,089,008 or nearly 8% under the 2011 total corporate budget of \$13,812,603. Indirect expenses are allocated to the direct statutory programs based on FTE ratio. NPCC did not use operating cash reserves to fund any activities or services in 2011.

Significant aggregate expense variations for the Regional Entity division are explained on the following page:

Personnel Expenses

(Actual variance of \$468k or 6% under budget at year end)

Recruiting knowledge-based professionals continues to be challenging. NPCC experienced two vacancies during the year from staff departures. Additionally, two positions budgeted for the full year in 2011 were not filled until late in the year. As a part of NPCC's succession initiative strategy associated with aging workforce realities, several of the 2011 new hires have been less tenured than budgeted for, which also yielded some budget underspend. Despite not being at a full staff complement for much of the year due to a combination of staff departures and recruiting challenges, NPCC leveraged industry expertise, the extensive volunteerism within Northeastern North America, subject matter expert independent contractors, and its dedicated and innovative staff to perform all of its 2011 delegated responsibilities as well as its goals and objectives. Where possible, NPCC introduced increased efficiencies such as extensive use of teleconferences to as many program areas as was pragmatic. NPCC's expanded and enhanced website has made the dissemination and application of best practices, training materials and examples of excellence a lower cost initiative. In 2011 NPCC contained the time required of an audit team to be on-site in order to complete an audit by refining the process, by making well in advance, iterative information requests prior to arriving on-site. The new process was implemented by NPCC staff and independent, exclusive contract auditors and, therefore, both were able to complete audits more cost-efficiently.

NPCC expects to continue to face staffing challenges for the foreseeable future and aging workforce issues but is confident that its dedicated staff will continue to provide all functions and services consistent with the Regional Delegation Agreement.

The at risk compensation component is based upon overall corporate goal attainment, which is reviewed initially by the Management Development and Compensation Committee.

Recommendations in the aggregate were brought before the Board of Directors. It is typical that actual variance from budget may differ for each individual.

In the benefits area, a significant number of professionals retained over the past four years continue to waive health insurance coverage, keeping superior coverage available to them from a prior employer. NPCC continued to budget for its full staff's health insurance coverage in 2011. Based upon actuarial review at year end, a \$572,094 increase in NPCC's liability related to the defined benefit pension plan was recorded to the balance sheet. Accordingly, this amount was also recorded as a non-operating expense on the statement of activities.

Meeting and Travel Expenses

(Actual variance of \$237k or 23% over budget at year end)

Meeting expenses were over budget due to increased participation and meeting volume. Travel expenses exceeded budget primarily due to increased travel associated with on-site Technical Feasibility Exception (TFE) reviews, which were not included in the 2011 budget due to uncertainty with regard to the amount and timing of TFEs at the time that the budget was approved by the Board of Directors.

Operating Expenses

(Actual variance of \$812k or 18% under budget at year end)

Operating Expenses were less than budgeted due to several drivers including staff development of a methodology to process Technical Feasibility Exceptions. NPCC's approach eliminated expenditures that could have been necessary in both the contracts and consultants subaccounts.

Efficiencies in the compliance audit process, including two rounds of information requests prior to onsite audits, significantly reduced contract auditor time and expense.

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

Significant variances by program area are provided on a line-item basis using the template provided by NERC which presents actual and budgeted costs on program-by-program format. Should you have any questions please do not hesitate to contact me via email at jhala@npcc.org or via telephone at (212) 840-1070.

Sincerely,

Jessica Hala

Jessica Hala
Senior Financial Analyst

JH: jh
Enclosures

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

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	12,652,609	12,652,609	-
Penalty Sanctions	308,499	308,499	-
Total ERO Funding	12,961,108	12,961,108	-
Federal Grants	-	-	-
Non-Statutory Assessments	349,600	349,600	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	92,200	120,000	(27,800)
Interest	22,994	-	22,994
Miscellaneous	-	-	-
Total Funding (A)	13,425,902	13,430,708	(4,806)
Expenses			
Personnel Expenses			
Salaries	4,737,667	5,404,143	(666,476)
Payroll Taxes	300,654	313,731	(13,077)
Employee Benefits	1,048,131	1,246,706	(198,575)
Savings & Retirement	894,758	969,733	(74,975)
Total Personnel Expenses	6,981,210	7,934,313	(953,103)
Meeting Expenses			
Meetings	369,760	278,600	91,160
Travel	912,685	737,000	175,685
Conference Calls	56,070	105,701	(49,631)
Total Meeting Expenses	1,338,515	1,121,301	217,214
Operating Expenses			
Consultants & Contracts	1,570,706	2,380,388	(809,682)
Rent & Improvements	680,511	677,499	3,012
Office Costs	384,832	523,100	(138,268)
Professional Services	955,996	966,001	(10,005)
Miscellaneous	39,117	60,000	(20,883)
Depreciation	200,614	150,001	50,613
Total Operating Expenses	3,831,776	4,756,989	(925,213)
Indirect Expenses	-	-	-
Other Non-Operating Expenses	572,094	-	572,095
Total Expenses (B)	12,723,595	13,812,603	(1,089,007)
Change in Assets (A - B)	702,307	(381,895)	1,084,201
Fixed Assets			
Depreciation	(200,614)	(150,001)	(50,613)
Computer & Software CapEx	178,768	-	178,768
Furniture & Fixtures CapEx	-	22,599	(22,599)
Equipment CapEx	20,180	30,900	(10,720)
Leasehold Improvements	-	15,000	(15,000)
Incr(Dec) in Fixed Assets	(1,666)	(81,502)	79,836
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(1,665)	(81,505)	79,840
TOTAL BUDGET (B + C)	12,721,930	13,731,098	(1,009,167)
Change in Working Capital (A-B-C)	703,972	(300,390)	1,004,361
FTE's	32.42	34.00	(1.58)

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary
Criteria Services Division

NON-STATUTORY	2011	2011	2011 Variance	
	Actual	Budget	from Budget	
			Over(Under)	
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	349,600	349,600	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	2,299	-	2,299	
Miscellaneous	-	-	-	
Total Funding (A)	351,899	349,600	2,299	0.66%
Expenses				
Personnel Expenses				
Salaries	369,995	349,073	20,922	5.99%
Payroll Taxes	22,813	22,224	589	2.65%
Employee Benefits	74,293	111,788	(37,495)	-33.54%
Savings & Retirement	137,547	144,431	(6,884)	-4.77%
Total Personnel Expenses	604,648	627,516	(22,868)	-3.64%
Meeting Expenses				
Meetings	23,372	9,275	14,097	151.99%
Travel	39,588	69,000	(29,412)	-42.63%
Conference Calls	4,342	9,130	(4,788)	-52.44%
Total Meeting Expenses	67,302	87,405	(20,103)	-23.00%
Operating Expenses				
Consultants & Contracts	61,965	125,340	(63,375)	-50.56%
Rent & Improvements	53,833	51,373	2,460	4.79%
Office Costs	29,485	39,666	(10,181)	-25.67%
Professional Services	25,031	73,249	(48,218)	-65.83%
Miscellaneous	2,043	4,550	(2,507)	-55.10%
Depreciation	19,813	11,374	8,439	74.20%
Total Operating Expenses	192,170	305,552	(113,382)	-37.11%
Indirect Expenses				
	-	-	-	
Other Non-Operating Expenses				
	109,470	-	109,470	
Total Expenses (B)	973,590	1,020,473	(46,883)	-4.59%
Change in Assets (A - B)	(621,691)	(670,873)	49,182	-7.33%
Fixed Assets				
Depreciation	(19,813)	(11,374)	(8,439)	74.20%
Computer & Software CapEx	11,944	-	11,944	
Furniture & Fixtures CapEx	-	1,714	(1,714)	-100.00%
Equipment CapEx	1,632	2,343	(711)	-30.34%
Leasehold Improvements	-	1,137	(1,137)	-100.00%
Incr(Dec) in Fixed Assets	(6,237)	(6,180)	(57)	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	(6,237)	(6,180)	(57)	0.92%
TOTAL BUDGET (B + C)	967,353	1,014,293	(46,940)	-4.63%
Change in Working Capital (A-B-C)	(615,454)	(664,693)	49,239	-7.41%
FTE's	2.58	2.58	-	0.00%

Northeast Power Coordination Council, Inc.
2011 Statement of Activities Summary
Regional Entity Division

TOTAL STATUTORY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	12,652,609	12,652,609	-	0.00%
Penalty Sanctions	308,499	308,499	-	0.00%
Total ERO Funding	<u>12,961,108</u>	<u>12,961,108</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	92,200	120,000	(27,800)	-23.17% Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	20,695	-	20,695	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
Total Funding (A)	<u>13,074,003</u>	<u>13,081,108</u>	<u>(7,105)</u>	<u>-0.05%</u>
Expenses				
Personnel Expenses				
Salaries	4,367,672	5,055,070	(687,398)	-13.60% Salaries were under budget due to staff vacancies throughout the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	277,841	291,507	(13,666)	-4.69%
Employee Benefits	973,838	1,134,918	(161,080)	-14.19% Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage, as well as staff vacancies throughout the year.
Savings & Retirement	757,211	825,302	(68,091)	-8.25%
Total Personnel Expenses	<u>6,376,562</u>	<u>7,306,797</u>	<u>(930,235)</u>	<u>-12.73%</u>
Meeting Expenses				
Meetings	346,388	269,325	77,063	28.61% Meeting expenses were over budget due to increased meeting participation and meeting volume.
Travel	873,097	668,000	205,097	30.70% Travel expenses exceeded budget primarily due to travel associated with compliance audits and on-site Technical Feasibility Exception reviews.
Conference Calls	51,728	96,571	(44,843)	-46.44% Continued efforts to hold more meetings onsite or via webinars have kept conference call expenses under budget.
Total Meeting Expenses	<u>1,271,213</u>	<u>1,033,896</u>	<u>237,317</u>	<u>22.95%</u>
Operating Expenses				
Consultants & Contracts	1,508,741	2,255,048	(746,307)	-33.09% Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	626,678	626,126	552	0.09%
Office Costs	355,347	483,434	(128,087)	-26.50% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	930,965	892,752	38,213	4.28%
Miscellaneous	37,074	55,450	(18,376)	-33.14%
Depreciation	180,801	138,627	42,174	30.42% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	<u>3,639,606</u>	<u>4,451,437</u>	<u>(811,831)</u>	<u>-18.24%</u>
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	462,624	-	462,625	Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>11,750,005</u>	<u>12,792,130</u>	<u>(1,042,124)</u>	<u>-8.15%</u>
Change in Assets (A - B)	<u>1,323,998</u>	<u>288,978</u>	<u>1,035,019</u>	<u>358.17%</u>
Fixed Assets				
Depreciation	(180,801)	(138,627)	(42,174)	30.42% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	166,824	-	166,824	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	20,885	(20,885)	-100.00% No Furniture & Fixture acquisitions in 2011.
Equipment CapEx	18,548	28,557	(10,009)	-35.05% New equipment related to staff additions was under budget due to staff vacancies.
Leasehold Improvements	-	13,863	(13,863)	-100.00% No L.I. acquisitions in 2011.
Incr(Dec) in Fixed Assets	<u>4,571</u>	<u>(75,322)</u>	<u>79,893</u>	
Allocation of Fixed Assets	-	-	-	
Total Incr(Dec) in Fixed Assets (C)	<u>4,572</u>	<u>(75,325)</u>	<u>79,897</u>	<u>-106.07%</u>
TOTAL BUDGET (B + C)	<u>11,754,577</u>	<u>12,716,805</u>	<u>(962,227)</u>	<u>-7.57%</u>
Change in Working Capital (A-B-C)	<u>1,319,426</u>	<u>364,303</u>	<u>955,122</u>	<u>262.18%</u>
FTE's	<u>29.84</u>	<u>31.42</u>	<u>(1.58)</u>	<u>-5.04%</u>

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

RELIABILITY STANDARDS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	1,040,006	1,040,006	-	0.00%	
Penalty Sanctions	25,708	25,708	-	0.00%	
Total ERO Funding	<u>1,065,714</u>	<u>1,065,714</u>	<u>-</u>	<u>0.00%</u>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,387	-	1,387		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
Total Funding (A)	<u>1,067,101</u>	<u>1,065,714</u>	<u>1,387</u>	<u>0.13%</u>	
Expenses					
Personnel Expenses					
Salaries	305,529	390,341	(84,812)	-21.73%	Salaries were under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	19,331	21,117	(1,786)	-8.46%	
Employee Benefits	71,826	92,864	(21,038)	-22.65%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage.
Savings & Retirement	61,877	67,694	(5,817)	-8.59%	
Total Personnel Expenses	<u>458,563</u>	<u>572,016</u>	<u>(113,453)</u>	<u>-19.83%</u>	
Meeting Expenses					
Meetings	12,473	27,000	(14,527)	-53.80%	Meeting expenses were under budget due to more meetings held at NPCC offices or via webinar.
Travel	65,068	120,000	(54,932)	-45.78%	Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	3,935	20,100	(16,165)	-80.42%	Conference call expenses were under budget due to more meetings held at NPCC offices or via webinar.
Total Meeting Expenses	<u>81,476</u>	<u>167,100</u>	<u>(85,624)</u>	<u>-51.24%</u>	
Operating Expenses					
Consultants & Contracts	38,722	35,143	3,579	10.18%	Consultant & Contract expenses were over budget due to increased Standards activity.
Rent & Improvements	41,692	39,853	1,839	4.61%	
Office Costs	23,127	30,771	(7,644)	-24.84%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	19,389	13,294	6,095	45.85%	Due to increased Standards activity.
Miscellaneous	1,738	3,529	(1,791)	-50.75%	
Depreciation	12,120	8,824	3,296	37.35%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	<u>136,788</u>	<u>131,414</u>	<u>5,374</u>	<u>4.09%</u>	
Indirect Expenses	<u>215,933</u>	<u>201,462</u>	<u>14,471</u>	<u>7.18%</u>	
Other Non-Operating Expenses	<u>41,925</u>	<u>-</u>	<u>41,925</u>		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>934,685</u>	<u>1,071,992</u>	<u>(137,307)</u>	<u>-12.81%</u>	
Change in Assets (A - B)	<u>132,416</u>	<u>(6,278)</u>	<u>138,694</u>	<u>-2209.21%</u>	
Fixed Assets					
Depreciation	(12,120)	(8,824)	(3,296)	37.35%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	11,183	-	11,183		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,329	(1,329)	-100.00%	
Equipment CapEx	1,243	1,818	(575)	-31.63%	
Leasehold Improvements	-	882	(882)	-100.00%	
Incr(Dec) in Fixed Assets	<u>306</u>	<u>(4,795)</u>	<u>5,101</u>		
Allocation of Fixed Assets	90	(1,483)	1,573	-106.07%	
Total Inc(Dec) in Fixed Assets (C)	<u>396</u>	<u>(6,278)</u>	<u>6,674</u>	<u>-106.31%</u>	
TOTAL BUDGET (B + C)	<u>935,081</u>	<u>1,065,714</u>	<u>(130,633)</u>	<u>-12.26%</u>	
Change in Working Capital (A-B-C)	<u>132,020</u>	<u>-</u>	<u>132,020</u>		
FTE's	<u>2.00</u>	<u>2.00</u>	<u>-</u>	<u>0.00%</u>	

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	7,199,018	7,199,018	-	0.00%	
Penalty Sanctions	179,958	179,958	-	0.00%	
Total ERO Funding	7,378,976	7,378,976	-	0.00%	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	9,768	-	9,768		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
Total Funding (A)	7,388,744	7,378,976	9,768	0.13%	
Expenses					
Personnel Expenses					
Salaries	2,166,373	2,369,244	(202,871)	-8.56%	Salaries were under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	125,358	137,610	(12,252)	-8.90%	Payroll Taxes were under budget due to FTE allocation ratio; NPCC allocates total organizational tax costs rather than individual payroll taxes.
Employee Benefits	433,125	535,522	(102,397)	-19.12%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage.
Savings & Retirement	226,389	294,210	(67,821)	-23.05%	Under budget due to all employees not contributing the maximum allowable.
Total Personnel Expenses	2,951,245	3,336,586	(385,341)	-11.55%	
Meeting Expenses					
Meetings	68,222	26,600	41,622	156.47%	Meeting expenses were over budget due to increased meeting volume.
Travel	455,464	260,000	195,464	75.18%	Travel expenses exceeded budget primarily due to travel associated with compliance audits and on-site Technical Feasibility Exception reviews.
Conference Calls	19,035	11,600	7,435	64.09%	
Total Meeting Expenses	542,721	298,200	244,521	82.00%	
Operating Expenses					
Consultants & Contracts	1,053,515	1,704,000	(650,485)	-38.17%	Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	286,737	278,971	7,766	2.78%	
Office Costs	159,808	215,395	(55,587)	-25.81%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	128,601	93,059	35,542	38.19%	Professional Services were over budget due to activities associated with the Bulk Electric System Definition and associated filings.
Miscellaneous	15,698	24,706	(9,008)	-36.46%	
Depreciation	85,340	61,765	23,575	38.17%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	1,729,699	2,377,896	(648,197)	-27.26%	
Indirect Expenses	1,520,495	1,410,233	110,262	7.82%	
Other Non-Operating Expenses	94,683	-	94,683		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	6,838,843	7,422,915	(584,072)	-7.87%	
Change in Assets (A - B)	549,901	(43,939)	593,840	-1351.51%	
Fixed Assets					
Depreciation	(85,340)	(61,765)	(23,575)	38.17%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	78,743	-	78,743		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	9,306	(9,306)	-100.00%	
Equipment CapEx	8,755	12,724	(3,969)	-31.19%	
Leasehold Improvements	-	6,176	(6,176)	-100.00%	
Incr(Dec) in Fixed Assets	2,158	(33,559)	35,717		
Allocation of Fixed Assets	632	(10,380)	11,012	-106.09%	
Total Inc(Dec) in Fixed Assets (C)	2,790	(43,939)	46,729	-106.35%	
TOTAL BUDGET (B + C)	6,841,633	7,378,976	(537,343)	-7.28%	
Change in Working Capital (A-B-C)	547,111	-	547,111		
FTE's	14.08	14.00	0.08	0.59%	

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	2,541,245	2,541,245	-	0.00%	
Penalty Sanctions	62,985	62,985	-	0.00%	
Total ERO Funding	2,604,230	2,604,230	-	0.00%	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	3,399	-	3,399		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
Total Funding (A)	2,607,629	2,604,230	3,399	0.13%	
Expenses					
Personnel Expenses					
Salaries	791,984	919,883	(127,899)	-13.90%	Salaries were under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	49,432	51,133	(1,701)	-3.33%	
Employee Benefits	195,238	188,208	7,030	3.74%	
Savings & Retirement	195,850	193,695	2,155	1.11%	
Total Personnel Expenses	1,232,504	1,352,919	(120,415)	-8.90%	
Meeting Expenses					
Meetings	49,632	25,000	24,632	98.53%	Meeting expenses were over budget due to increased meeting participation and meeting volume.
Travel	164,276	120,000	44,276	36.90%	Travel expenses exceeded budget due to travel associated with Bulk Electric System definition related meetings.
Conference Calls	16,551	40,245	(23,694)	-58.87%	Continued efforts to hold more meetings onsite or via webinars have kept conference call expenses under budget.
Total Meeting Expenses	230,459	185,245	45,214	24.41%	
Operating Expenses					
Consultants & Contracts	254,232	352,000	(97,768)	-27.78%	Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	109,167	97,640	11,527	11.81%	Over budget due to actual FTE allocation ratio varying from budget FTE ratio.
Office Costs	62,550	75,388	(12,838)	-17.03%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	53,267	32,571	20,696	63.54%	Professional Services were over budget due to activities associated with the Bulk Electric System Definition and associated filings.
Miscellaneous	5,161	8,647	(3,486)	-40.31%	
Depreciation	29,693	21,618	8,075	37.35%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	514,070	587,864	(73,794)	-12.55%	
Indirect Expenses	529,037	493,582	35,455	7.18%	
Other Non-Operating Expenses	142,560	-	142,560		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	2,648,630	2,619,610	29,020	1.11%	
Change in Assets (A - B)	(41,001)	(15,380)	(25,621)	166.59%	
Fixed Assets					
Depreciation	(29,693)	(21,618)	(8,075)	37.35%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	27,398	-	27,398		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	3,257	(3,257)	-100.00%	
Equipment CapEx	3,046	4,453	(1,407)	-31.60%	
Leasehold Improvements	-	2,162	(2,162)	-100.00%	
Incr(Dec) in Fixed Assets	751	(11,746)	12,497		
Allocation of Fixed Assets	220	(3,634)	3,854	-106.05%	
Total Inc(Dec) in Fixed Assets (C)	971	(15,380)	16,351	-106.31%	
TOTAL BUDGET (B + C)	2,649,601	2,604,230	45,371	1.74%	
Change in Working Capital (A-B-C)	(41,972)	-	(41,972)		
FTE's	4.90	4.90	-	0.00%	

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

**TRAINING, EDUCATION and OPERATOR
CERTIFICATION**

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	77,265	77,265	-	0.00%	
Penalty Sanctions	1,285	1,285	-	0.00%	
Total ERO Funding	78,550	78,550	-	0.00%	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	92,200	120,000	(27,800)	-23.17%	Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	69	-	69		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
Total Funding (A)	170,819	198,550	(27,731)	-13.97%	
Expenses					
Personnel Expenses					
Salaries	15,255	19,134	(3,879)	-20.27%	
Payroll Taxes	959	1,049	(90)	-8.58%	
Employee Benefits	5,339	5,157	182	3.53%	
Savings & Retirement	4,586	4,451	135	3.03%	
Total Personnel Expenses	26,139	29,791	(3,652)	-12.26%	
Meeting Expenses					
Meetings	157,761	149,725	8,036	5.37%	
Travel	17,076	3,000	14,076	469.20%	Greater travel related to training seminars was required than originally budgeted.
Conference Calls	158	1,005	(847)	-84.28%	
Total Meeting Expenses	174,995	153,730	21,265	13.83%	
Operating Expenses					
Consultants & Contracts	1,685	457	1,228	268.71%	
Rent & Improvements	2,084	1,993	91	4.57%	
Office Costs	1,264	1,539	(275)	-17.87%	
Professional Services	969	665	304	45.71%	
Miscellaneous	1,133	176	957	543.75%	
Depreciation	606	441	165	37.41%	
Total Operating Expenses	7,741	5,271	2,470	46.86%	
Indirect Expenses	10,797	10,073	724	7.19%	
Other Non-Operating Expenses	3,514	-	3,514		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	223,186	198,865	24,321	12.23%	
Change in Assets (A - B)	(52,367)	(315)	(52,052)	16524.44%	
Fixed Assets					
Depreciation	(606)	(441)	(165)	37.41%	
Computer & Software CapEx	559	-	559		
Furniture & Fixtures CapEx	-	66	(66)	-100.00%	
Equipment CapEx	62	91	(29)	-31.87%	
Leasehold Improvements	-	44	(44)	-100.00%	
Incr(Dec) in Fixed Assets	15	(240)	255		
Allocation of Fixed Assets	4	(75)	79	-105.33%	
Total Inc(Dec) in Fixed Assets (C)	19	(315)	334	-106.03%	
TOTAL BUDGET (B + C)	223,205	198,550	24,655	12.42%	
Change in Working Capital (A-B-C)	(52,386)	-	(52,386)		
FTE's	0.10	0.10	-	0.00%	

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	1,430,773	1,430,773	-	0.00%
Penalty Sanctions	38,563	38,563	-	0.00%
Total ERO Funding	1,469,336	1,469,336	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	1,387	-	1,387	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
Total Funding (A)	1,470,723	1,469,336	1,387	0.09%
Expenses				
Personnel Expenses				
Salaries	305,706	561,174	(255,468)	-45.52% Salaries were under budget due to staff vacancies throughout the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	19,386	31,145	(11,759)	-37.76% Payroll taxes were under budget primarily due to staff vacancies.
Employee Benefits	44,038	91,221	(47,183)	-51.72% Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage, as well as staff vacancies throughout the year.
Savings & Retirement	97,478	109,368	(11,890)	-10.87% Under budget due to all employees not contributing the maximum allowable.
Total Personnel Expenses	466,608	792,908	(326,300)	-41.15%
Meeting Expenses				
Meetings	44,158	26,000	18,158	69.84% Meeting expenses were over budget due to increased meeting volume.
Travel	88,384	70,000	18,384	26.26% Travel expenses exceeded budget due to travel associated with unanticipated meetings.
Conference Calls	2,599	9,100	(6,501)	-71.44%
Total Meeting Expenses	135,141	105,100	30,041	28.58%
Operating Expenses				
Consultants & Contracts	92,652	134,143	(41,491)	-30.93% Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	48,080	59,779	(11,699)	-19.57% Under budget due to difference in FTE allocation ratio due to staff vacancy.
Office Costs	29,342	46,155	(16,813)	-36.43% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	19,389	19,941	(552)	-2.77%
Miscellaneous	4,842	5,294	(452)	-8.54% Employees training and education expenses were less than budgeted due to scheduling conflicts resulting from workload requirements.
Depreciation	12,120	13,235	(1,115)	-8.42% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	206,425	278,547	(72,122)	-25.89%
Indirect Expenses	215,933	302,193	(86,260)	-28.54%
Other Non-Operating Expenses	75,870	-	75,870	Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	1,099,977	1,478,748	(378,771)	-25.61%
Change in Assets (A - B)	370,746	(9,412)	380,158	-4039.08%
Fixed Assets				
Depreciation	(12,120)	(13,235)	1,115	-8.42% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	11,183	-	11,183	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,994	(1,994)	-100.00%
Equipment CapEx	1,243	2,726	(1,483)	-54.40%
Leasehold Improvements	-	1,324	(1,324)	-100.00%
Incr(Dec) in Fixed Assets	306	(7,191)	7,497	
Allocation of Fixed Assets	90	(2,222)	2,312	-104.05%
Total Inc(Dec) in Fixed Assets (C)	396	(9,413)	9,809	-104.21%
TOTAL BUDGET (B + C)	1,100,373	1,469,335	(368,962)	-25.11%
Change in Working Capital (A-B-C)	370,350	-	370,349	
FTE's	2.00	3.00	(1.00)	-33.33%

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

MEMBER FORUMS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	-	-	-		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	347	-	347		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
Total Funding (A)	347	-	347		
Expenses					
Personnel Expenses					
Salaries	76,436	46,772	29,664	63.42%	Over budget due to variance in FTE ratio - Administrative Services salaries are allocated based on FTE ratio.
Payroll Taxes	4,351	3,037	1,314	43.27%	
Employee Benefits	18,930	16,462	2,468	14.99%	
Savings & Retirement	13,502	11,137	2,365	21.24%	
Total Personnel Expenses	113,219	77,408	35,811	46.26%	
Meeting Expenses					
Meetings	737	3,000	(2,263)	-75.43%	
Travel	1,877	5,000	(3,123)	-62.46%	
Conference Calls	540	225	315	140.00%	
Total Meeting Expenses	3,154	8,225	(5,071)	-61.65%	
Operating Expenses					
Consultants & Contracts	2,986	2,286	700	30.62%	
Rent & Improvements	10,422	9,963	459	4.61%	
Office Costs	5,447	7,692	(2,245)	-29.19%	
Professional Services	4,848	3,324	1,524	45.85%	
Miscellaneous	378	882	(504)	-57.14%	
Depreciation	3,030	2,206	824	37.35%	
Total Operating Expenses	27,111	26,353	758	2.88%	
Indirect Expenses	(151,746)	(111,986)	(39,760)	35.50%	
Other Non-Operating Expenses	8,609	-	8,609		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	347	-	347		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	(3,030)	(2,206)	(824)	37.35%	
Computer & Software CapEx	2,796	-	2,796		
Furniture & Fixtures CapEx	-	332	(332)	-100.00%	
Equipment CapEx	311	454	(143)	-31.50%	
Leasehold Improvements	-	221	(221)	-100.00%	
Incr(Dec) in Fixed Assets	77	(1,199)	1,276		
Allocation of Fixed Assets	(77)	1,199	(1,276)	-106.42%	
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	347	-	347		
Change in Working Capital (A-B-C)	-	-	-		
FTE's	0.50	0.50	-	0.00%	

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

GENERAL and ADMINISTRATIVE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	364,302	364,302	-	0.00%
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>364,302</u>	<u>364,302</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	1,332	-	1,332	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
Total Funding (A)	<u>365,634</u>	<u>364,302</u>	<u>1,332</u>	<u>0.37%</u>
Expenses				
Personnel Expenses				
Salaries	41,473	47,904	(6,431)	-13.42%
				Under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	21,702	1,515	20,187	1332.48%
				Payroll Taxes were over budget due to FTE allocation ratio; NPCC allocates total organizational tax costs rather than individual payroll taxes.
Employee Benefits	28,330	9,347	18,983	203.09%
				Over budget due to allocation of training expense based on FTE ratio - actual FTE ratios varied slightly from budgeted FTE ratios.
Savings & Retirement	25,397	11,491	13,906	121.02%
				Participation was greater than budgeted.
Total Personnel Expenses	<u>116,902</u>	<u>70,257</u>	<u>46,645</u>	<u>66.39%</u>
Meeting Expenses				
Meetings	2,812	5,000	(2,188)	-43.76%
Travel	49,842	10,000	39,842	398.42%
				Some travel expenses budgeted under Human Resources program were incurred under the G&A program.
Conference Calls	2,070	2,096	(26)	-1.24%
Total Meeting Expenses	<u>54,724</u>	<u>17,096</u>	<u>37,628</u>	<u>220.10%</u>
Operating Expenses				
Consultants & Contracts	11,455	8,732	2,723	31.18%
Rent & Improvements	39,971	38,296	1,675	4.37%
Office Costs	23,812	29,569	(5,757)	-19.47%
				Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	18,593	12,775	5,818	45.54%
Miscellaneous	3,334	3,392	(58)	-1.71%
Depreciation	11,635	8,479	3,156	37.22%
				Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	<u>108,800</u>	<u>101,243</u>	<u>7,557</u>	<u>7.46%</u>
Indirect Expenses	<u>(286,946)</u>	<u>(188,596)</u>	<u>(98,350)</u>	<u>52.15%</u>
Other Non-Operating Expenses	<u>7,852</u>	<u>-</u>	<u>7,852</u>	<u>-</u>
				Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	<u>1,332</u>	<u>-</u>	<u>1,332</u>	
Change in Assets (A - B)	<u>364,302</u>	<u>364,302</u>	<u>-</u>	<u>0.00%</u>
Fixed Assets				
Depreciation	(11,635)	(8,479)	(3,156)	37.22%
				Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	10,735	-	10,735	-
				Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,277	(1,277)	-100.00%
Equipment CapEx	1,194	1,747	(553)	-31.65%
Leasehold Improvements	-	848	(848)	-100.00%
Incr(Dec) in Fixed Assets	<u>294</u>	<u>(4,607)</u>	<u>4,901</u>	
Allocation of Fixed Assets	(294)	4,607	(4,901)	-106.38%
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B + C)	<u>1,332</u>	<u>-</u>	<u>1,332</u>	
Change in Working Capital (A-B-C)	<u>364,302</u>	<u>364,302</u>	<u>-</u>	<u>0.00%</u>
FTE's	<u>1.92</u>	<u>1.92</u>	<u>-</u>	<u>0.00%</u>

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

LEGAL and REGULATORY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
				Only legal fees were budgeted and recorded under the Legal program as there were no FTE's in the Legal program in 2011.
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	-	-	-	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	-	-	-	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	363,313	462,086	(98,773)	-21.38% Under budget as a result of judicious use of outside counsel.
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	363,313	462,086	(98,773)	-21.38%
Indirect Expenses	(363,313)	(462,086)	98,773	-21.38%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	Only legal fees were budgeted and recorded under the Legal program as there were no FTE's in the Legal program in 2011.

Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary

INFORMATION TECHNOLOGY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)	
Funding					
ERO Funding					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
Total ERO Funding	-	-	-		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,618	-	1,618	Interest income, while not budgeted, was allocated by FTE ratio.	
Miscellaneous	-	-	-		
Total Funding (A)	1,618	-	1,618		
Expenses					
Personnel Expenses					
Salaries	358,429	475,858	(117,429)	-24.68%	Salaries were under budget due to staff vacancies throughout the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	19,538	29,962	(10,424)	-34.79%	Payroll taxes were under budget primarily due to staff vacancies.
Employee Benefits	100,454	126,109	(25,655)	-20.34%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage, as well as staff vacancies throughout the year.
Savings & Retirement	87,167	91,938	(4,771)	-5.19%	
Total Personnel Expenses	565,588	723,867	(158,279)	-21.87%	
Meeting Expenses					
Meetings	4,928	2,000	2,928	146.40%	
Travel	23,155	30,000	(6,845)	-22.82%	
Conference Calls	4,504	5,100	(596)	-11.69%	
Total Meeting Expenses	32,587	37,100	(4,513)	-12.16%	
Operating Expenses					
Consultants & Contracts	25,898	9,143	16,755	183.25%	Over budget due to website development expenses.
Rent & Improvements	46,835	59,779	(12,944)	-21.65%	Under budget due to difference in FTE allocation ratio due to staff vacancy.
Office Costs	27,518	46,155	(18,637)	-40.38%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	20,696	19,941	755	3.79%	
Miscellaneous	1,931	5,294	(3,363)	-63.52%	
Depreciation	14,137	13,235	902	6.82%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	137,015	153,547	(16,532)	-10.77%	
Indirect Expenses	(795,394)	(914,514)	119,120	-13.03%	
Other Non-Operating Expenses	61,822	-	61,822		Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	1,618	-	1,618		
Change in Assets (A - B)	-	-	-		
Fixed Assets					
Depreciation	(14,137)	(13,235)	(902)	6.82%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	13,045	-	13,045		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,994	(1,994)	-100.00%	
Equipment CapEx	1,450	2,726	(1,276)	-46.81%	
Leasehold Improvements	-	1,324	(1,324)	-100.00%	
Incr(Dec) in Fixed Assets	358	(7,191)	7,549		
Allocation of Fixed Assets	(358)	7,191	(7,549)	-104.98%	
Total Inc(Dec) in Fixed Assets (C)	-	-	-		
TOTAL BUDGET (B + C)	1,618	-	1,618		
Change in Working Capital (A-B-C)	-	-	-		
FTE's	2.33	3.00	(0.67)	-22.23%	

Northeast Power Coordinating Council, Inc.
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HUMAN RESOURCES	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	694	-	694	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
Total Funding (A)	694	-	694	
Expenses				
Personnel Expenses				
Salaries	153,356	117,006	36,350	31.07% Over budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	8,960	7,999	961	12.01%
Employee Benefits	40,394	37,276	3,118	8.36%
Savings & Retirement	31,721	27,839	3,882	13.94%
Total Personnel Expenses	234,431	190,120	44,311	23.31%
Meeting Expenses				
Meetings	4,026	4,000	26	0.65%
Travel	5,535	45,000	(39,465)	-87.70% Majority of travel expenses budgeted under Human Resources program were incurred under the G&A program.
Conference Calls	1,258	1,050	208	19.81%
Total Meeting Expenses	10,819	50,050	(39,231)	-78.38%
Operating Expenses				
Consultants & Contracts	5,973	4,572	1,401	30.64%
Rent & Improvements	20,845	19,926	919	4.61%
Office Costs	11,533	15,385	(3,852)	-25.04% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	9,695	6,647	3,048	45.86%
Miscellaneous	2,102	1,765	337	19.09%
Depreciation	6,060	4,412	1,648	37.35% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	56,208	52,707	3,501	6.64%
Indirect Expenses	(322,467)	(292,877)	(29,590)	10.10%
Other Non-Operating Expenses	21,703	-	21,703	Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	694	-	694	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	(6,060)	(4,412)	(1,648)	37.35% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	5,591	-	5,591	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	665	(665)	-100.00%
Equipment CapEx	622	909	(287)	-31.57%
Leasehold Improvements	-	441	(441)	-100.00%
Incr(Dec) in Fixed Assets	153	(2,397)	2,550	
Allocation of Fixed Assets	(153)	2,397	(2,550)	-106.38%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	694	-	694	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	1.00	1.00	-	0.00%

**Northeast Power Coordinating Council, Inc.
2011 Statement of Activities Summary**

ACCOUNTING and FINANCE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	694	-	694	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
Total Funding (A)	694	-	694	
Expenses				
Personnel Expenses				
Salaries	153,131	107,754	45,377	42.11% Salaries were over budget due to an unanticipated staffing change during the year.
Payroll Taxes	8,824	6,940	1,884	27.15%
Employee Benefits	36,164	32,752	3,412	10.42%
Savings & Retirement	13,244	13,479	(235)	-1.74%
Total Personnel Expenses	211,363	160,925	50,438	31.34%
Meeting Expenses				
Meetings	1,639	1,000	639	63.90%
Travel	2,420	5,000	(2,580)	-51.60%
Conference Calls	1,078	6,050	(4,972)	-82.18%
Total Meeting Expenses	5,137	12,050	(6,913)	-57.37%
Operating Expenses				
Consultants & Contracts	21,623	4,572	17,051	372.94% Contractor and consultant services were higher than anticipated due to additional consulting related to change in staffing.
Rent & Improvements	20,845	19,926	919	4.61%
Office Costs	10,946	15,385	(4,439)	-28.85% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	292,205	228,449	63,756	27.91% Over budget due to higher than anticipated accounting and audit fees; some of which was due to additional work done by the accounting firm related to staffing change.
Miscellaneous	757	1,765	(1,008)	-57.11%
Depreciation	6,060	4,412	1,648	37.35% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Total Operating Expenses	352,436	274,509	77,927	28.39%
Indirect Expenses	(572,328)	(447,484)	(124,844)	27.90%
Other Non-Operating Expenses	4,086	-	4,086	Increase in NPCC's pension liability based on actuarial review at year end.
Total Expenses (B)	694	-	694	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	(6,060)	(4,412)	(1,648)	37.35% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	5,591	-	5,591	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	665	(665)	-100.00%
Equipment CapEx	622	909	(287)	-31.57%
Leasehold Improvements	-	441	(441)	-100.00%
Incr(Dec) in Fixed Assets	153	(2,397)	2,550	
Allocation of Fixed Assets	(153)	2,397	(2,550)	-106.38%
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	694	-	694	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	1.00	1.00	-	0.00%

Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2011 and 2010

Northeast Power Coordinating Council, Inc.
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December 31, 2011 and 2010

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Report of Independent Auditors

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

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. (the "Company") at December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 26, 2012

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 5,264,257	\$ 3,319,034
Restricted cash	1,337,795	1,318,083
Investments	2,210,864	2,210,830
Prepaid expenses	205,725	180,383
Other assets	68,076	27,305
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$563,742 and \$365,179, respectively	<u>1,264,083</u>	<u>1,263,698</u>
Total assets	<u>\$ 10,350,800</u>	<u>\$ 8,319,333</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 1,196,905	\$ 926,730
Accrued liability for pension	2,656,750	2,084,658
Deferred revenue	465,523	-
Deferred rent	<u>761,477</u>	<u>755,086</u>
Total liabilities	<u>5,080,655</u>	<u>3,766,474</u>
Net assets		
Unrestricted net assets	<u>5,270,145</u>	<u>4,552,859</u>
Total net assets	<u>5,270,145</u>	<u>4,552,859</u>
Total liabilities and net assets	<u>\$ 10,350,800</u>	<u>\$ 8,319,333</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2011 and 2010

	2011	2010
Revenue		
Assessments	\$ 349,600	\$ 1,145,460
Regional entity ERO funding	12,652,610	11,500,439
Penalty sanctions	323,500	811,000
Workshops	67,200	-
Interest income	22,993	22,488
Total revenue	13,415,903	13,479,387
Operating expenses		
Salaries and employee benefits	6,726,974	6,027,231
Administrative and consultant fees	1,858,234	1,672,873
Professional fees	645,823	528,970
Meetings and travel	1,257,475	874,796
Telephone and telecommunications	221,694	208,478
Office supplies and expense	164,986	171,382
Equipment leases	106,354	114,426
Rent expense	628,383	632,276
Insurance expense	27,743	26,402
Miscellaneous	39,116	67,423
Depreciation and amortization	200,612	172,784
Total operating expenses	11,877,394	10,497,041
Change in net assets before nonoperating expenses	1,538,509	2,982,346
Nonoperating (expenses) income		
Pension change other than net periodic pension cost	(821,223)	321,795
Increase in net assets	717,286	3,304,141
Net assets		
Beginning of year	4,552,859	1,248,718
End of year	\$ 5,270,145	\$ 4,552,859

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

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 717,286	\$ 3,304,141
Depreciation and amortization	200,612	172,784
Increase in prepaid expenses	(25,342)	(13,233)
(Increase) decrease in other assets	(42,820)	10,355
Increase in accrued expenses and other liabilities	270,175	201,661
Increase (decrease) in accrued liability for pension	572,092	(573,822)
Increase (decrease) in deferred revenue	465,523	(326,771)
Increase in deferred rent	6,391	108,449
Net cash provided by operating activities	<u>2,163,917</u>	<u>2,883,564</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(198,948)	(132,577)
Purchases of investments	(34)	-
Restricted cash	(19,712)	(774,151)
Net cash (used for) investing activities	<u>(218,694)</u>	<u>(906,728)</u>
Net increase in cash	1,945,223	1,976,836
Cash and cash equivalents		
Beginning of year	<u>3,319,034</u>	<u>1,342,198</u>
End of year	<u>\$ 5,264,257</u>	<u>\$ 3,319,034</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

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 and operates on assessments to and funded from these entities based upon a "Net Energy for Load" formula.

2. Summary of Significant Accounting Policies

Basis of Accounting

For the years ended December 31, 2011 and 2010, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash

The Company's cash balance consists of its operating checking account, as well as a savings account. At times, cash balances may be in excess of depository insurance limits.

Restricted Cash

Restricted cash represents amounts in deposit accounts funded with penalties levied and received for noncompliance within NPCC U.S., and amounts in deposit accounts for collateralizing a letter of credit as security for NPCC's office lease. At times, cash balances may be in excess of depository insurance limits.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation of furniture and computer equipment is computed on the straight-line basis over the estimated useful lives of the applicable assets. Amortization of leasehold improvements is computed on the straight-line basis over the estimated useful lives of the applicable assets, or over the term of the related lease, whichever is less.

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

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. Assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. For the regional entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Assessments received are recorded as income in the year to which the Business Plan and Budget applies irrespective of when billed or collected. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

Rent Expense

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2011 is approximately \$444,000.

Income Taxes

The Company has been classified as exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code.

Use of Estimates

The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

3. Investments

The Company's primary banking relationship is with JP Morgan Chase. Prior to 2009, both regional entity (ERO funded) and criteria services (Regional Independent System Operators/Balancing Authority Areas – ISO/BAAAs) revenues were invested in a JPMorgan 100% U.S. Treasury Security Money Market Fund (the "Fund"). The Fund aims to provide the highest possible level of current income while still maintaining liquidity and providing maximum safety of principal. The Fund is a money market fund managed to meet the requirements of Rule 2a-7 under the Investment Company Act of 1940. The Fund is not insured or guaranteed by the FDIC or any other government agency. In late 2008, the Fund was closed to additional investments. Subsequent excess cash is being deposited into a savings account with JP Morgan Chase.

The Fund invests solely in debt securities of the U.S. Treasury, including Treasury bills, bonds and notes. These investments carry different interest rates, maturities and issue dates. The National Association of Insurance Commissioner ("NAIC"), Moody's, Fitch IBCA and S&P ratings signify that the Fund has historically had a superior capacity to maintain a net asset value of \$1.00 per share. The ratings do not eliminate the risks associated with investing in the Fund. The NAIC "approved" status indicates that the Fund meets certain pricing and quality guidelines. Management has

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

determined that the likelihood of sustaining losses from money market funds to be remote based on the marketability of the underlying investment of the funds.

At December 31, 2011 and 2010, the Company owned 2,210,864 and 2,210,830 units of \$1 par value per unit, respectively. In 2011 and 2010, the funds earned average yields of 0% and 0.01%, 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, 2011 and 2010 consists of the following:

	Depreciable Life	\$	2011	\$	2010
Furniture	10 years	\$	201,518	\$	201,518
Computer equipment	3 years		356,849		336,668
Website	3 years		232,000		-
Software	3 years		16,767		-
Leasehold improvements	15 years (see note 2)		974,691		974,691
			<u>1,781,825</u>		<u>1,512,877</u>
Less: Accumulated depreciation and amortization			(563,742)		(365,179)
			<u>1,218,083</u>		<u>1,147,698</u>
Assets not yet in service			46,000		116,000
			<u>\$ 1,264,083</u>		<u>\$ 1,263,698</u>

In 2011 and 2010, depreciation and amortization expense totaled \$200,612 and \$172,784, respectively.

5. Pension Plan

The Company has a trustee, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. The Company's plan contributions were \$600,000 and \$700,000 for 2011 and 2010, respectively.

The following tables provide information with respect to the defined benefit plan as of and for the years ended December 31, 2011 and 2010:

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

	2011	2010
Components of net periodic benefit cost		
Service cost	\$ 246,339	\$ 236,054
Interest cost	453,237	433,409
Expected return on plan assets	(480,344)	(371,694)
Amortization of prior service cost	20,532	20,532
Recognized actuarial loss	111,104	150,205
Net periodic benefit cost	<u>\$ 350,868</u>	<u>\$ 468,506</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 8,062,852	\$ 7,226,423
Service cost	246,339	236,054
Interest cost	453,237	433,409
Amendments	-	242,279
Actuarial loss	297,030	26,679
Benefits paid	(101,992)	(101,992)
Benefit obligation at end of year	<u>8,957,466</u>	<u>8,062,852</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	5,978,193	4,567,943
Actual return on plan assets	(175,485)	812,242
Company contribution	600,000	700,000
Benefits paid	(101,992)	(101,992)
Fair value of plan assets at end of year	<u>6,300,716</u>	<u>5,978,193</u>
Funded status at end of year	<u>\$ (2,656,750)</u>	<u>\$ (2,084,659)</u>
Amounts recognized in unrestricted net assets consist of		
Loss	\$ (2,971,777)	\$ (2,130,022)
Prior service cost	\$ (201,215)	(221,747)
	<u>\$ (3,172,992)</u>	<u>\$ (2,351,769)</u>
Changes in unrestricted assets recognized in nonoperating expenses		
Net (gain)/loss	\$ 952,859	\$ (413,869)
Prior service cost	-	242,279
Amortization of prior service cost	(20,532)	-
Amortization of net gain/(loss)	(111,104)	(150,205)
	<u>\$ 821,223</u>	<u>\$ (321,795)</u>
Amounts of unrestricted net assets expected to be recognized in net periodic benefit cost in 2012		
Amortization of loss	\$ 121,103	

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

**Weighted-average assumptions as of December 31
used for obligation**

Discount rate	4.75 %	5.75 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	3.00 %	4.00 %

**Weighted-average assumptions as of December 31
used for net periodic benefit cost**

Discount rate	4.75 %	6.00 %
Expected return on plan assets	7.50 %	7.50 %
Rate of compensation increase	3.00 %	4.25 %

The accumulated benefit obligation at December 31, 2011 and 2010 was \$6,714,082 and \$5,769,210, respectively.

The Company determines its expected return on plan assets assumption by evaluating both historical returns of major asset classes and current market factors. Current market factors include inflation and interest rates, as well as asset diversification.

The Company's defined benefit plan weighted average asset allocation at December 31, 2011 and 2010 by asset category is as follows:

	Allocation Percentage	
	2011	2010
Equity securities	68.2 %	68.3 %
Debt securities	29.6 %	30.8 %
Cash	2.2 %	0.9 %
	<u>100.0 %</u>	<u>100.0 %</u>

The Company's defined benefit plan invests primarily in equity and debt securities that are based upon levels of risk and provide for necessary liquidity requirements. The long-term objective is to limit the variability of its pension funding. The Company's plan assets are measured against benchmarks established by the Pension Committee, which has the authority to recommend changes as deemed appropriate.

Investments in actively traded equity and debt securities are valued using market prices in active markets. Their valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. There were no securities for which the fair value was based on other observable or unobservable inputs. At December 31, 2011, the plan assets consisted of \$139,764 of cash and cash equivalents, \$3,010,712 of domestic equities, \$971,257 of international equities, \$1,867,028 of corporate bonds, and \$212,986 of commodity funds and \$98,969 of public real estate investment trust investments.

At December 31, 2011, the Company's target allocation percentages for plan assets were approximately 63% equity securities, 33% debt securities and 4% other securities. The targets may be adjusted periodically to reflect current market conditions and trends as well as inflation levels, interest rates and trends thereof.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Expected employer contribution for the year ended December 31, 2012 is \$600,000.

Benefits expected to be paid in cash in subsequent years ending December 31 are as follows:

2012	\$ 110,500
2013	221,001
2014	185,002
2015	158,124
2016	262,199
2017-2021	1,399,267

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan for which all employees are immediately eligible upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Additionally, for those employees joining the Company after February 6, 2007, and upon completion of a full calendar year of service, such employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2011 and 2010 was 6% of base compensation and totaled \$116,028 for 2011 and \$63,408 for 2010. Company contributions to the 401(k) plan were \$150,040 and \$133,094 for 2011 and 2010, respectively. During 2010, the Company adopted a supplemental plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS compensation limits. The Company contributed \$21,100 and \$19,900 to this supplemental plan for 2011 and 2010, respectively.

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC executed office and equipment leases with effective rental dates starting in 2009 coordinated with its relocation of offices within New York City. NPCC's office lease provides for additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$500,000 at lease inception and reduced amounts in future years. NPCC executed computer and equipment leases effective March, 2009 with expiration dates through November, 2014. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$734,737 and \$746,702 for 2011 and 2010, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2011 are as follows:

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

	Office Space	Other Leases	Total
Year ending December 31			
2012	\$ 612,357	\$ 48,059	\$ 660,416
2013	612,357	21,660	634,017
2014	652,380	19,855	672,235
2015	672,392	-	672,392
2016	672,392	-	672,392
Thereafter	5,170,875	-	5,170,875
	<u>\$ 8,392,753</u>	<u>\$ 89,574</u>	<u>\$ 8,482,327</u>

8. Functional Expenses

During 2011 and 2010 salaries and employee benefits consist of the following:

	2011	2010
President, COO and technical staff	\$ 4,574,651	\$ 4,069,565
Administrative support	163,015	157,100
Payroll taxes, insurance, pension and educational assistance	1,989,308	1,800,566
Total salaries and employee benefits	<u>\$ 6,726,974</u>	<u>\$ 6,027,231</u>

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,358,127 and \$2,201,843 in 2011 and 2010, respectively, and consist of the following:

	2011	2010
Consultants	\$ 1,161,365	\$ 1,073,228
Accounting, legal and other services	1,337,592	1,120,240
Pension administration	5,100	8,375
Total administrative, consultant and professional fees	<u>\$ 2,504,057</u>	<u>\$ 2,201,843</u>

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

10. Related Party Transactions

The NERC, through agreements with the FERC in the U.S. and Canadian Provincial regulatory and/or governmental agreements within Canada, delegates enforcement authority to eight Regional Entities. NPCC is the cross-border regional entity for Northeastern North America. NERC was certified as the "Electric Reliability Organization" by the FERC on July 20, 2006. As of

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

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 assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2011 and 2010, total assessments billed amounted to \$349,600 and \$1,145,460, respectively.

Description	2011		2010	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	28.62%	\$ 100,056	28.54 %	\$ 326,919
Independent Electricity System Operator	21.98%	76,849	22.47 %	257,443
ISO-New England, Inc.	20.14%	70,414	19.92 %	228,133
New Brunswick System Operator	2.17%	7,588	2.14 %	24,482
New York Independent System Operator	25.24%	88,234	25.03 %	286,771
Nova Scotia Power Inc.	1.85%	6,459	1.90 %	21,712
Total assessments	100.00%	\$ 349,600	100.00 %	\$ 1,145,460

11. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through April 26, 2012, the date the financial statements were available to be issued.

ATTACHMENT 5

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

RELIABILITYFIRST CORPORATION



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May 18, 2012

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

Subject: 2011 ReliabilityFirst True-up Filing

Mr. Michael Walker:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year audited 2011 True-up Filing (attached). Significant variances are explained below, while more detailed variances are provided in the summary document presented by program area.

The explanations of variance are provided based on the following criteria:

1. Variances equal to or greater than +/- 10% of budget, and
2. Variances greater than \$10,000, or
3. Variances that are considered significant.

Summary

For the year ending December 31, 2011, ReliabilityFirst Corporation was \$95K (0.62%) under budget. ReliabilityFirst completed all planned CIP and 693 audits; assessments and studies for the year; and identified 564 violations and completed enforcement actions on 546 violations, well above the 320 violation level used for the 2011 budget. Clearly, ReliabilityFirst completed its intended objectives for 2011. Although the overall variance was under 1%, ReliabilityFirst experienced variances in various categories.

Funding

- **Investment Income:** \$124K (311%)
Investment income was over budget due to a larger than expected balance in our investment account as a result of penalties collected.

Expenses

- **Personnel Expenses**
 - **Salaries:** (227K) (3%)
Salaries were over budget due to additional salary expense required to hire and retain qualified staff along with unbudgeted banked vacation.
 - **Payroll Taxes:** (50K) (9%)
Payroll Taxes were under budget due to the delay in planned hiring and employee turnover.

- **Employee Benefits: \$239K (19%)**
Employee Benefits were under budget as a result of variances in Medical Benefits and Education Reimbursement. **Medical Benefits** were under budget due to the increase in medical premiums being lower than expected. **Education Reimbursement Benefits** were under budget due to staff not taking advantage of opportunities available as planned.
- **Savings & Retirement: (101K) (8%)**
Savings & Retirement expenses were under budget due to the delay in planned hiring and employee turnover.
- **Meeting Expenses**
 - **Meetings: \$54K (32%)**
Meetings expenses were under budget due to the reduction in the number of expected meetings, along with the use of ReliabilityFirst's virtual meeting capabilities instead of face-to-face meetings.
 - **Travel: (6%)**
Travel expenses were under budget due to utilization of ReliabilityFirst's virtual meeting capabilities instead of traveling whenever practical, the decreased participation in the Compliance User Group, and the decreased travel associated with planned personnel education opportunities.
- **Operating Expenses**
 - **Contracts & Consultants: \$272K (39%)**
Contracts & Consultants were over budget as a result of the use of contractors to help support the performance of compliance audits, due to the program area operating below budgeted staffing levels. In addition, there was an unbudgeted expenditure to replace the current inefficient and unsecure compliance portal.
 - **Office Costs: \$65K (8%)**
Office Costs were under budget due to a reduced dependence on outside vendor support for software customization and maintenance for the compliance portal that was replaced.
 - **Professional Services: \$177K (22%)**
Professional Services were under budget due to the use of in-house counsel versus more costly outside legal support.
 - **Miscellaneous: \$19K (200%)**
Miscellaneous expenses were over budget due to higher than expected office costs and various unbudgeted wellness and team building activities.

Fixed Assets

- **Computer & Software:** \$125K (53%)
Computer & Software was over budget due to unanticipated need to purchase printers and phone equipment.
- **Furniture & Fixtures:** \$12K (100%)
Furniture & Fixtures was under budget due to postponing furniture purchases until needed by new hires.

Cash Reserves

ReliabilityFirst's desired Working Capital Reserve of \$1,000,000 was never utilized.

Statutory Programs

ReliabilityFirst performed only statutory activities in 2011.

Cost Allocation

ReliabilityFirst records all direct costs to the appropriate program areas. Costs related to the indirect programs are allocated proportionately based on FTE count to the direct programs.

- Direct Programs include:
 - Standards
 - Compliance
 - Reliability Assessment
 - Training & Education
 - Situation Awareness
- Indirect Programs include:
 - Member Forums
 - General & Administrative
 - Legal & Regulatory
 - Information Technology
 - Human Resource
 - Finance & Accounting

For more information, please contact me at 330.456.2488 or jack.istvan@rfirst.org.

Sincerely,



Jack A. Istvan
Chief Financial Officer and Treasurer

Statement of Activities, Fixed Assets and Change in Working Capital
Summary

01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance
Funding			
ERO Funding			
ERO Assessments	\$ 12,803,844	\$ 12,803,844	\$ -
Penalty Sanctions	878,900	878,900	-
Total ERO Funding	\$ 13,682,744	\$ 13,682,744	\$ -
Other Funding			
Membership Fees & Non-Stat Assessments	\$ 250	\$ -	\$ 250
Testing Fees	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Investment Income	164,259	40,000	124,259
Miscellaneous	13	-	13
Total Other Funding	\$ 164,522	\$ 40,000	\$ 124,522
Total Funding	\$ 13,847,266	\$ 13,722,744	\$ 124,522
Expenses			
Direct Expenses			
Personnel Expenses			
Salaries	\$ 8,535,007	\$ 8,307,760	\$ 227,247
Payroll Taxes	510,065	560,486	(50,421)
Employee Benefits	999,043	1,237,909	(238,866)
Savings & Retirement	1,107,493	1,207,997	(100,504)
Total Personnel Expenses	\$ 11,151,608	\$ 11,314,152	\$ (162,544)
Meeting Expenses			
Meetings	\$ 117,657	\$ 171,800	\$ (54,143)
Travel	681,586	728,200	(46,614)
Conference Calls	10,436	6,300	4,136
Total Meeting Expenses	\$ 809,679	\$ 906,300	\$ (96,621)
Operating Expenses			
Consultants & Contracts	\$ 967,254	\$ 695,000	\$ 272,254
Office Rent	401,086	392,392	8,694
Office Costs	798,767	863,987	(65,220)
Professional Services	615,391	792,018	(176,627)
Miscellaneous	27,902	9,300	18,602
Proceeds/Loss on Disposal of Assets	24,681	-	24,681
Depreciation	434,052	442,702	(8,650)
Total Operating Expenses	\$ 3,269,133	\$ 3,195,399	\$ 73,734
Total Direct Expenses	\$ 15,230,420	\$ 15,415,851	\$ (185,431)
Indirect Expenses	\$ -	\$ -	\$ (0)
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	\$ 15,230,420	\$ 15,415,851	\$ (185,431)
Net Change in Assets	\$ (1,383,154)	\$ (1,693,107)	\$ 309,953
Fixed Assets			
Depreciation	\$ (434,052)	\$ (442,702)	\$ 8,650
Computer & Software CapEx	359,862	235,000	124,862
Furniture & Fixtures CapEx	-	11,500	(11,500)
Equipment CapEx	-	-	-
Leasehold Improvements	2,056	-	2,056
Increase/(Decrease) Fixed Assets	\$ (72,134)	\$ (196,202)	\$ 124,068
Allocation of Fixed Assets	\$ -	\$ -	\$ -
Increase/(Decrease) Total Fixed Assets	\$ (72,134)	\$ (196,202)	\$ 124,068
Total Budget	\$ 15,158,286	\$ 15,219,649	\$ (61,363)
Change in Working Capital	\$ (1,311,020)	\$ (1,496,905)	\$ 185,885
FTEs	62.05	68.00	-5.95
- All amounts are based on audited financials			
- All amounts are in whole dollars			
- All functions are Statutory			

01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 305,644	\$ 305,644	\$ -	0%	
Penalty Sanctions	15,708	15,708	-	0%	
Total ERO Funding	\$ 321,352	\$ 321,352	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ 321,352	\$ 321,352	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 188,109	\$ 160,722	\$ 27,387	17%	Salaries were over budget due to the additional salary expense required to retain experienced and qualified staff.
Payroll Taxes	9,402	9,901	(499)	-5%	
Employee Benefits	20,435	23,896	(3,461)	-14%	
Savings & Retirement	25,082	33,469	(8,387)	-25%	
Total Personnel Expenses	\$ 243,028	\$ 227,988	\$ 15,040	7%	
Meeting Expenses					
Meetings	\$ 2,077	\$ 10,000	\$ (7,923)	-79%	
Travel	11,593	14,000	(2,407)	-17%	
Conference Calls	410	1,080	(670)	-62%	
Total Meeting Expenses	\$ 14,080	\$ 25,080	\$ (11,000)	-44%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	2,824	1,916	908	47%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 2,824	\$ 1,916	\$ 908	47%	
Total Direct Expenses	\$ 259,932	\$ 254,984	\$ 4,948	2%	
Indirect Expenses	\$ 92,246	\$ 68,615	\$ 23,631	34%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher indirect program expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 352,178	\$ 323,599	\$ 28,579	9%	
Net Change in Assets	\$ (30,826)	\$ (2,247)	\$ (28,579)	1272%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 3,106	\$ (2,247)	\$ 5,353	-238%	
Increase/(Decrease) Total Fixed Assets	\$ 3,106	\$ (2,247)	\$ 5,353	-238%	
Total Budget	\$ 355,284	\$ 321,352	\$ 33,932	11%	
Change in Working Capital	\$ (33,932)	\$ -	\$ (33,932)		
FTEs	1.00	1.00	0.00	0%	

Statement of Activities, Fixed Assets and Change in Working Capital
Compliance
01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 10,705,048	\$ 10,705,048	\$ -	0%	
Penalty Sanctions	671,546	671,546	-	0%	
Total ERO Funding	\$ 11,376,594	\$ 11,376,594	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ 11,376,594	\$ 11,376,594	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 4,362,846	\$ 4,980,247	\$ (617,401)	-12%	Salaries were under budget as a result of the delay in planned hiring along with the reallocation of two FTEs to the General & Administrative Program and .75 FTE to the Legal and Regulatory Program.
Payroll Taxes	303,336	357,152	(53,816)	-15%	Payroll Taxes were under budget as a result of the delay in planned hiring along with the reallocation of two FTEs to the General & Administrative Program and .75 FTE to the Legal and Regulatory Program.
Employee Benefits	601,270	828,564	(227,294)	-27%	Employee Benefits were under budget as a result of variances in Medical and Education Reimbursement Benefits. Medical Benefits were under budget due to the increase in medical premiums being lower than expected. Education Reimbursement benefits were under budget due to staff not taking advantage of education opportunities.
Savings & Retirement	637,138	741,199	(104,061)	-14%	Savings & Retirement expenses were under budget as a result of the delay in planned hiring along with the reallocation of two FTEs to the General & Administrative Program and .75 FTE to the Legal and Regulatory Program.
Total Personnel Expenses	\$ 5,904,590	\$ 6,907,162	\$ (1,002,572)	-15%	
Meeting Expenses					
Meetings	\$ 6,401	\$ 19,100	\$ (12,699)	-66%	Meeting expenses were under budget due to the reduction in the number of expected meetings, along with the use of ReliabilityFirst's virtual meeting capabilities instead of costly face-to-face meetings.
Travel	455,081	500,000	(44,919)	-9%	
Conference Calls	6,318	2,400	3,918	163%	
Total Meeting Expenses	\$ 467,800	\$ 521,500	\$ (53,700)	-10%	
Operating Expenses					
Consultants & Contracts	\$ 710,012	\$ 380,000	\$ 330,012	87%	Consultants & Contracts were over budget as a result of the use of contractors to help support the performance of audits, due to the program area operating below budgeted staffing levels. In addition, there was an unbudgeted expenditure to replace the current inefficient and unsecure compliance portal.
Office Rent	-	-	-	-	
Office Costs	98,950	236,086	(137,136)	-58%	Office costs were under budget as a result of variances in Computer Software and Computer Service & Maintenance. Both of these variances were due to a reduced dependence on outside vendor support for software customization and maintenance for the compliance portal that was replaced.
Professional Services	169,227	331,000	(161,773)	-49%	Professional Services were under budget due to Legal Fees that were budgeted to support potential compliance violation hearings and settlements. Although one hearing did occur, it was settled prior to completion and the total costs were much less than budgeted.
Miscellaneous	1,586	-	1,586	-	
Proceeds/Loss on Disposal of Assets	-	-	-	-	
Depreciation	222,601	236,884	(14,283)	-6%	
Total Operating Expenses	\$ 1,202,376	\$ 1,183,970	\$ 18,406	2%	
Total Direct Expenses	\$ 7,574,766	\$ 8,612,632	\$ (1,037,866)	-12%	
Indirect Expenses	\$ 3,171,413	\$ 2,933,312	\$ 238,101	8%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ 10,746,179	\$ 11,545,944	\$ (799,765)	-7%	
Net Change in Assets	\$ 630,415	\$ (169,350)	\$ 799,765	-472%	
Fixed Assets					
Depreciation	\$ (222,601)	\$ (236,884)	\$ 14,283	-6%	
Computer & Software CapEx	-	160,000	(160,000)	-100%	Computer & Software Capex were under budget due to a reduced dependence on an external vendor to support the current compliance portal that was in process of being replaced. This unused amount was taken into consideration when needing funds to help offset the expenses associated with the implementation of the new OATI compliance portal, that were recorded in the Consultants & Contracts account.
Furniture & Fixtures CapEx	-	3,600	(3,600)	-100%	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Increase/(Decrease) Fixed Assets	\$ (222,601)	\$ (73,284)	\$ (149,317)	204%	
Allocation of Fixed Assets	\$ 106,787	\$ (96,066)	\$ 202,853	-211%	Allocation of Fixed Assets are fixed asset costs related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher fixed asset expenditures being allocated
Increase/(Decrease) Total Fixed Assets	\$ (115,815)	\$ (169,350)	\$ 53,535	-32%	
Total Budget	\$ 10,630,365	\$ 11,376,594	\$ (746,229)	-7%	
Change in Working Capital	\$ 746,229	\$ -	\$ 746,229		
FTEs	34.94	42.75	-7.81	-18%	

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 2,216,426	\$ 2,216,426	\$ -	0%	
Penalty Sanctions	133,524	133,524	-	0%	
Total ERO Funding	\$ 2,349,950	\$ 2,349,950	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ 2,349,950	\$ 2,349,950	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 1,232,960	\$ 1,099,949	\$ 133,011	12%	Salaries were over budget as a result of the postponement of retirement of one FTE.
Payroll Taxes	79,102	72,714	6,388	9%	
Employee Benefits	124,296	126,811	(2,515)	-2%	Employee Benefits were under budget as a result of a variance in Education Reimbursement benefits. Education Reimbursement benefits were under budget due to staff not taking advantage of education opportunities.
Savings & Retirement	185,393	155,845	29,548	19%	Savings & Retirement expenses were over budget as a result of the postponement of retirement of one FTE.
Total Personnel Expenses	\$ 1,621,751	\$ 1,455,319	\$ 166,432	11%	
Meeting Expenses					
Meetings	\$ 9,318	\$ 28,000	\$ (18,682)	-67%	Meeting expenses were under budget due to the reduction in the number of meetings compared to budget, along with the use of Reliability First's virtual meeting capabilities instead of costly face-to-face meetings.
Travel	96,812	90,000	6,812	8%	
Conference Calls	2,741	2,400	341	14%	
Total Meeting Expenses	\$ 108,871	\$ 120,400	\$ (11,529)	-10%	
Operating Expenses					
Consultants & Contracts	\$ 93,312	\$ 175,000	\$ (81,688)	-47%	Contract & Consultants were under budget as a result of lower than anticipated expenses related to the Multiregional Modeling Working Group and Eastern Interconnection Reliability Assessment Group power flow and dynamic base case studies.
Office Rent	-	-	-		
Office Costs	61,324	35,000	26,324	75%	Office costs were over budget as a result of variances in Telephone and Computer Service & Maintenance. Telephone expenses were over budget due to a miscalculation in the budget amount. Computer Service & Maintenance expenses were over budget due to the maintenance of assessment study software costing more than budgeted.
Professional Services	-	-	-		
Miscellaneous	34	100	(66)	-66%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 154,670	\$ 210,100	\$ (55,430)	-26%	
Total Direct Expenses	\$ 1,885,292	\$ 1,785,819	\$ 99,473	6%	
Indirect Expenses	\$ 876,336	\$ 583,232	\$ 293,104	50%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher indirect program expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 2,761,628	\$ 2,369,051	\$ 392,577	17%	
Net Change in Assets	\$ (411,678)	\$ (19,101)	\$ (392,577)	2055%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 29,508	\$ (19,101)	\$ 48,609	-254%	Allocation of Fixed Assets are fixed asset costs related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher fixed asset expenditures being allocated
Increase/(Decrease) Total Fixed Assets	\$ 29,508	\$ (19,101)	\$ 48,609	-254%	
Total Budget	\$ 2,791,135	\$ 2,349,950	\$ 441,185	19%	
Change in Working Capital	\$ (441,185)	\$ -	\$ (441,185)		
FTEs	9.50	8.50	1.00	12%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Training & Education
 01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 771,816	\$ 771,816	\$ -	0%	
Penalty Sanctions	48,697	48,697	-	0%	
Total ERO Funding	\$ 820,513	\$ 820,513	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ 820,513	\$ 820,513	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 412,435	\$ 417,327	\$ (4,892)	-1%	
Payroll Taxes	23,334	23,543	(209)	-1%	
Employee Benefits	51,195	39,982	11,213	28%	Medical Benefits were over budget due to an existing employee electing medical coverage that was not budgeted.
Savings & Retirement	49,372	58,919	(9,547)	-16%	
Total Personnel Expenses	\$ 536,336	\$ 539,771	\$ (3,435)	-1%	
Meeting Expenses					
Meetings	\$ 48,765	\$ 50,000	\$ (1,235)	-2%	
Travel	3,389	25,000	(21,611)	-86%	Travel expenses were under budget as a result of providing additional assistance and special training to the entities by conference call instead of traveling to the entities.
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 52,154	\$ 75,000	\$ (22,846)	-30%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
Total Direct Expenses	\$ 588,490	\$ 614,771	\$ (26,281)	-4%	
Indirect Expenses	\$ 285,962	\$ 212,708	\$ 73,254	34%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher indirect program expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 874,452	\$ 827,479	\$ 46,973	6%	
Net Change in Assets	\$ (53,939)	\$ (6,966)	\$ (46,973)	674%	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ 9,629	\$ (6,966)	\$ 16,595	-238%	Allocation of Fixed Assets are fixed asset costs related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher fixed asset expenditures being allocated
Increase/(Decrease) Total Fixed Assets	\$ 9,629	\$ (6,966)	\$ 16,595	-238%	
Total Budget	\$ 884,081	\$ 820,513	\$ 63,568	8%	
Change in Working Capital	\$ (63,568)	\$ -	\$ (63,568)		
FTEs	2.73	3.10	-0.37	-12%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Situation Awareness
 01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ 301,815	\$ 301,815	\$ -	0%	
Penalty Sanctions	9,425	9,425	-	0%	
Total ERO Funding	\$ 311,240	\$ 311,240	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ 311,240	\$ 311,240	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 123,367	\$ 108,886	\$ 14,481	13%	Salaries were over budget due to an error in the actual short term incentive calculation.
Payroll Taxes	6,081	5,691	390	7%	
Employee Benefits	4,686	9,790	(5,104)	-52%	
Savings & Retirement	15,351	14,891	460	3%	
Total Personnel Expenses	\$ 149,485	\$ 139,258	\$ 10,227	7%	
Meeting Expenses					
Meetings	\$ -	\$ 10,000	\$ (10,000)	-100%	Meeting expenses were under budget as a result of all Reliability First CIPC meetings being hosted by member companies instead of at more expensive third party facilities.
Travel	24,181	31,200	(7,019)	-22%	
Conference Calls	67	144	(77)	-53%	
Total Meeting Expenses	\$ 24,248	\$ 41,344	\$ (17,096)	-41%	
Operating Expenses					
Consultants & Contracts	\$ 98,326	\$ 80,000	\$ 18,326	23%	Consultants & Contracts were over budget as a result of the vulnerability testing of our electronic infrastructure costing more than originally anticipated.
Office Rent	-	-	-		
Office Costs	2,791	1,800	991	55%	
Professional Services	-	-	-		
Miscellaneous	838	1,364	(526)	-39%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	425	589	(164)	-28%	
Total Operating Expenses	\$ 102,380	\$ 83,753	\$ 18,627	22%	
Total Direct Expenses	\$ 276,113	\$ 264,355	\$ 11,758	4%	
Indirect Expenses	\$ 55,348	\$ 45,423	\$ 9,925	22%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 331,461	\$ 309,778	\$ 21,683	7%	
Net Change in Assets	\$ (20,221)	\$ 1,462	\$ (21,683)	-1483%	
Fixed Assets					
Depreciation	\$ (425)	\$ (589)	\$ 164	-28%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	3,400	(3,400)	-100%	
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ (425)	\$ 2,811	\$ (3,236)	-115%	
Allocation of Fixed Assets	\$ 1,864	\$ (1,348)	\$ 3,212	-238%	
Increase/(Decrease) Total Fixed Assets	\$ 1,439	\$ 1,463	\$ (24)	-2%	
Total Budget	\$ 332,899	\$ 311,241	\$ 21,658	7%	
Change in Working Capital	\$ (21,659)	\$ (1)	\$ (21,658)	2165816%	
FTEs	0.60	0.60	0.00	0%	



Statement of Activities, Fixed Assets and Change in Working Capital

Member Forums

01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		The ReliabilityFirst technical committees and subcommittees work exclusively on reliability assessment and performance analysis activities, and therefore, the allocated budget and associated costs, were included totally within the Reliability Assessment and Performance Analysis Program.
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	\$ -	\$ -	\$ -		
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	\$ -	\$ -	\$ -		
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
Total Direct Expenses	\$ -	\$ -	\$ -		
Indirect Expenses	\$ -	\$ -	\$ -		
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ -	\$ -		
Net Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ -	\$ -		
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ -		
Change in Working Capital	\$ -	\$ -	\$ -		
FTEs	0.00	0.00	0.00		

Statement of Activities, Fixed Assets and Change in Working Capital
 General & Administrative
 01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,00
Funding					
ERO Funding					
ERO Assessments	\$ (1,496,905)	\$ (1,496,905)	\$ -	0%	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ (1,496,905)	\$ (1,496,905)	\$ -	0%	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ 250	\$ -	\$ 250		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	164,259	40,000	124,259	311%	
Miscellaneous	13	-	13		
Total Other Funding	\$ 164,522	\$ 40,000	\$ 124,522	311%	
Total Funding	\$ (1,332,383)	\$ (1,456,905)	\$ 124,522		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 1,145,083	\$ 589,540	\$ 555,543	94%	Salaries were over budget as a result of the reallocation of two FTEs from the Compliance Program, salaries to retain qualified staff, and unbudgeted banked vacation.
Payroll Taxes	21,655	19,904	1,751	9%	
Employee Benefits	58,810	31,208	27,602	88%	Employee Benefits were over budget as a result of a variance in Medical Benefits. Medical Benefits were over budget as a result of the reallocation of two FTEs from the Compliance Program.
Savings & Retirement	44,004	67,043	(23,039)	-34%	Savings & Retirement costs were under budget as a result of an accounting entry to reduce the liability balance relating employees who reached their IRS 401(k) limits in prior years.
Total Personnel Expenses	\$ 1,269,552	\$ 707,695	\$ 561,857	79%	
Meeting Expenses					
Meetings	\$ 48,277	\$ 54,000	\$ (5,723)	-11%	
Travel	57,205	40,000	17,205	43%	Travel expenses were over budget as a result of the travel expenses related to one of the FTEs that was reallocated from the Compliance Program.
Conference Calls	900	276	624	226%	
Total Meeting Expenses	\$ 106,382	\$ 94,276	\$ 12,106	13%	
Operating Expenses					
Consultants & Contracts	\$ 6,862	\$ -	\$ 6,862		
Office Rent	401,086	392,392	8,694	2%	
Office Costs	35,391	35,495	(104)	0%	
Professional Services	304,092	297,950	6,142	2%	
Miscellaneous	19,860	4,336	15,524	358%	Miscellaneous expenses were over budget due to higher than expected office costs, and various unbudgeted employee wellness and team building activities.
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	45,718	24,575	21,143	86%	Depreciation was over budget due to the unplanned fixed asset purchases in 2010 that were not included in the totals used to calculate depreciation.
Total Operating Expenses	\$ 813,009	\$ 754,748	\$ 58,261	8%	
Total Direct Expenses	\$ 2,188,943	\$ 1,556,719	\$ 632,224	41%	
Indirect Expenses	\$ (2,024,421)	\$ (1,516,719)	\$ (507,702)	33%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher General & Administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ 164,522	\$ 40,000	\$ 124,522	311%	
Net Change in Assets	\$ (1,496,905)	\$ (1,496,905)	\$ -	0%	
Fixed Assets					
Depreciation	\$ (45,718)	\$ (24,575)	\$ (21,143)	86%	Depreciation was over budget due to the unplanned fixed asset purchases in 2010 that were not included in the totals used to calculate the budgeted depreciation.
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	4,500	(4,500)	-100%	
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ (45,718)	\$ (20,075)	\$ (25,643)	128%	
Allocation of Fixed Assets	\$ 45,718	\$ 20,075	\$ 25,643	128%	Allocation of Fixed Assets are fixed asset costs related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in an increase primarily due to higher depreciation expense being allocated
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ 164,522	\$ 40,000	\$ 124,522	311%	
Change in Working Capital	\$ (1,496,905)	\$ (1,496,905)	\$ -	0%	
FTEs	4.05	2.30	1.75	76%	

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 213,651	\$ 47,424	\$ 166,227	351%	Salaries were over budget as a result of the reallocation of an additional .75 FTE from the Compliance Program, salaries to retain qualified staff, and unbudgeted bank vacation.
Payroll Taxes	6,136	2,402	3,734	155%	
Employee Benefits	3,180	514	2,666	519%	
Savings & Retirement	23,538	6,656	16,882	254%	Savings & Retirement expenses were over budget as a result fo the reallocation of an additional .75 FTE from the Compliance Program.
Total Personnel Expenses	\$ 246,505	\$ 56,996	\$ 189,509	332%	
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	-	
Travel	19,278	-	19,278		Travel expenses were over budget as a result of the travel expenses related to the .75 FTE that was reallocated from the Compliance Program.
Conference Calls	-	-	-	-	
Total Meeting Expenses	\$ 19,278	\$ -	\$ 19,278		
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	-	
Office Rent	-	-	-	-	
Office Costs	1,847	-	1,847		
Professional Services	69,298	84,000	(14,702)	-18%	Professional Services were under budget as a result of a variance in Legal Fees. Legal fees were under budget as a result of utilizing the on staff attorneys to handle corporate legal matters that were previously handled by outside counsel.
Miscellaneous	-	-	-	-	
Proceeds/Loss on Disposal of Assets	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	\$ 71,145	\$ 84,000	\$ (12,855)	-15%	
Total Direct Expenses	\$ 336,928	\$ 140,996	\$ 195,932	139%	
Indirect Expenses	\$ (336,928)	\$ (140,996)	\$ (195,932)	139%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs.
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ -	\$ -	\$ -	-	
Net Change in Assets	\$ -	\$ -	\$ -	-	
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	-	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Increase/(Decrease) Fixed Assets	\$ -	\$ -	\$ -	-	
Allocation of Fixed Assets	\$ -	\$ -	\$ -	-	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -	-	
Total Budget	\$ -	\$ -	\$ -	-	
Change in Working Capital	\$ -	\$ -	\$ -	-	
FTEs	0.81	0.25	0.56	224%	

Statement of Activities, Fixed Assets and Change in Working Capital
 Information Technology
 01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 479,981	\$ 524,766	\$ (44,785)	-9%	Salaries were under budget due to employee turnover of three FTEs.
Payroll Taxes	35,469	38,687	(3,218)	-8%	
Employee Benefits	74,410	97,686	(23,276)	-24%	Employee Benefits were under budget as a result of a variance in Education Reimbursement. Education Reimbursement benefits were under budget due to staff not taking advantage of education opportunities.
Savings & Retirement	72,537	75,833	(3,296)	-4%	
Total Personnel Expenses	\$ 662,397	\$ 736,972	\$ (74,575)	-10%	
Meeting Expenses					
Meetings	\$ 1,845	\$ 700	\$ 1,145	164%	
Travel	4,632	22,000	(17,368)	-79%	Travel expenses were under budget as a result of the decreased participation in the Compliance User Group.
Conference Calls	-	-	-	-	
Total Meeting Expenses	\$ 6,477	\$ 22,700	\$ (16,223)	-71%	
Operating Expenses					
Consultants & Contracts	\$ 48,681	\$ 50,000	\$ (1,319)	-3%	
Office Rent	-	-	-	-	
Office Costs	586,479	548,490	37,989	7%	
Professional Services	-	-	-	-	
Miscellaneous	84	-	84		
Proceeds/Loss on Disposal of Assets	24,681	-	24,681		The variance in Proceeds/Loss on Disposal of Assets is due to the loss on disposal of servers and other computer hardware.
Depreciation	160,218	173,883	(13,665)	-8%	
Total Operating Expenses	\$ 820,143	\$ 772,373	\$ 47,770	6%	
Total Direct Expenses	\$ 1,489,017	\$ 1,532,045	\$ (43,028)	-3%	
Indirect Expenses	\$ (1,489,017)	\$ (1,532,045)	\$ 43,028	-3%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ -	\$ -	\$ (0)		
Net Change in Assets	\$ -	\$ -	\$ 0		
Fixed Assets					
Depreciation	\$ (160,218)	\$ (173,883)	\$ 13,665	-8%	
Computer & Software CapEx	355,867	70,000	285,867	408%	Computer & Software Capex were over budget due to the unanticipated need to acquire equipment for the new phone system, along with the replacement of the office copiers/printers.
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	2,056	-	2,056		
Increase/(Decrease) Fixed Assets	\$ 197,705	\$ (103,883)	\$ 301,588	-290%	
Allocation of Fixed Assets	\$ (197,705)	\$ 103,883	\$ (301,588)	-290%	Allocation of Fixed Assets are fixed asset costs related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs. This method of accounting results in a decrease primarily due to higher fixed asset expenditures being allocated
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ (0)		
Change in Working Capital	\$ -	\$ -	\$ 0		
FTEs	4.50	5.20	-0.70	-13%	

Statement of Activities, Fixed Assets and Change in Working Capital
Human Resource
01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 164,784	\$ 213,934	\$ (49,150)	-23%	Salaries were under budget due to the reallocation of .40 FTE to the Information Technology and Finance & Accounting Program.
Payroll Taxes	13,335	17,639	(4,304)	-24%	
Employee Benefits	31,149	46,175	(15,026)	-33%	Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to the increase in medical premiums being lower than expected.
Savings & Retirement	25,881	30,665	(4,784)	-16%	
Total Personnel Expenses	\$ 235,149	\$ 308,413	\$ (73,264)	-24%	
Meeting Expenses					
Meetings	\$ 786	\$ -	\$ 786		
Travel	4,248	-	4,248		
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 5,034	\$ -	\$ 5,034		
Operating Expenses					
Consultants & Contracts	\$ 10,061	\$ -	\$ 10,061		The variance in Consultants & Contracts is due to the use of external recruitment services.
Office Rent	-	-	-		
Office Costs	5,690	1,400	4,290	306%	
Professional Services	35,713	39,168	(3,455)	-9%	
Miscellaneous	5,500	3,500	2,000	57%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	599	500	99	20%	
Total Operating Expenses	\$ 57,563	\$ 44,568	\$ 12,995	29%	
Total Direct Expenses	\$ 297,746	\$ 352,981	\$ (55,235)	-16%	
Indirect Expenses	\$ (297,746)	\$ (352,981)	\$ 55,235	-16%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses	\$ -	\$ -	\$ -		
Net Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	\$ (599)	\$ (500)	\$ (99)	20%	
Computer & Software CapEx	3,995	5,000	(1,005)	-20%	
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Increase/(Decrease) Fixed Assets	\$ 3,396	\$ 4,500	\$ (1,104)	-25%	
Allocation of Fixed Assets	\$ (3,396)	\$ (4,500)	\$ 1,104	-25%	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ -		
Change in Working Capital	\$ -	\$ -	\$ -		
FTEs	1.79	2.40	-0.61	-25%	

Statement of Activities, Fixed Assets and Change in Working Capital
Finance & Accounting
01/01/2011 - 12/31/2011

	2011 Actual	2011 Budget	2011 Variance	%	Explanation of variances that are +/- 10% and are greater than \$10,000
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Other Funding					
Membership Fees & Non-Stat Assessments	\$ -	\$ -	\$ -	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Investment Income	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Other Funding	\$ -	\$ -	\$ -	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 211,791	\$ 164,965	\$ 46,826	28%	Salaries were over budget due to the additional hours worked by the part-time accountant, the reallocation of .10 FTE from the Human Resource Program, and an error in the actual short term incentive calculation.
Payroll Taxes	12,215	12,853	(638)	-5%	Payroll taxes were under budget due to an error in the budgeted FICA calculation.
Employee Benefits	29,612	33,283	(3,671)	-11%	Employee Benefits were under budget as a result of variances in Medical and Education Reimbursement Benefits. Medical Benefits were under budget due to the increase in medical premiums being lower than expected. Education Reimbursement benefits were under budget due to staff not taking advantage of education opportunities.
Savings & Retirement	29,197	23,477	5,720	24%	
Total Personnel Expenses	\$ 282,815	\$ 234,578	\$ 48,237	21%	
Meeting Expenses					
Meetings	\$ 188	\$ -	\$ 188		
Travel	5,167	6,000	(833)	-14%	
Conference Calls	-	-	-	-	
Total Meeting Expenses	\$ 5,355	\$ 6,000	\$ (645)	-11%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ 10,000	\$ (10,000)	-100%	Contracts & Consultants were under budget as a result of the postponement of the implementation of an automated expense report system.
Office Rent	-	-	-	-	
Office Costs	3,471	3,800	(329)	-9%	
Professional Services	37,061	39,900	(2,839)	-7%	
Miscellaneous	-	-	-	-	
Proceeds/Loss on Disposal of Assets	-	-	-	-	
Depreciation	4,490	6,271	(1,781)	-28%	
Total Operating Expenses	\$ 45,022	\$ 59,971	\$ (14,949)	-25%	
Total Direct Expenses	\$ 333,192	\$ 300,549	\$ 32,643	11%	
Indirect Expenses	\$ (333,192)	\$ (300,549)	\$ (32,643)	11%	Indirect Expenses are expenses related to the indirect programs that have been allocated proportionately based on FTE count to the direct programs.
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	
Total Expenses	\$ -	\$ -	\$ (0)		
Net Change in Assets	\$ -	\$ -	\$ 0		
Fixed Assets					
Depreciation	\$ (4,490)	\$ (6,271)	\$ 1,781	-28%	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
Increase/(Decrease) Fixed Assets	\$ (4,490)	\$ (6,271)	\$ 1,781	-28%	
Allocation of Fixed Assets	\$ 4,490	\$ 6,271	\$ (1,781)	-28%	
Increase/(Decrease) Total Fixed Assets	\$ -	\$ -	\$ -		
Total Budget	\$ -	\$ -	\$ (0)		
Change in Working Capital	\$ -	\$ -	\$ 0		
FTEs	2.13	1.90	0.23	12%	

Reliability*First* Corporation

Financial Report
December 31, 2011

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Independent Auditor's Report

To the Board of Directors
ReliabilityFirst Corporation
Akron, Ohio

We have audited the accompanying statements of financial position of ReliabilityFirst Corporation as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
February 23, 2012

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	\$ 4,448,310	\$ 3,533,177
Investments	4,701,194	4,536,935
Accounts receivable	456,385	74,247
Prepaid expenses	246,552	283,318
Total current assets	9,852,441	8,427,677
Fixed assets		
Furniture and equipment	124,711	124,711
Leasehold improvements	308,814	306,758
Computer software and hardware	2,118,774	1,928,799
	2,552,299	2,360,268
Less accumulated depreciation and amortization	1,239,864	883,289
	1,312,435	1,476,979
Total assets	\$ 11,164,876	\$ 9,904,656
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 100,851	\$ 47,599
Accrued expenses (current portion)	3,015,427	2,393,306
Total current liabilities	3,116,278	2,440,905
Accrued Expenses (net of current portion)	176,345	190,046
Net Assets		
Unrestricted:		
Undesignated	3,700,653	5,083,805
Designated for reserve fund	1,000,000	1,000,000
Temporarily restricted	3,171,600	1,189,900
Total net assets	7,872,253	7,273,705
Total liabilities and net assets	\$ 11,164,876	\$ 9,904,656

See Notes to Financial Statements.

ReliabilityFirst Corporation

**Statements of Activities
Years Ended December 31, 2011 and 2010**

	2011	2010
Unrestricted Net Assets		
Revenues:		
Quarterly assessments	\$ 12,803,844	\$ 14,345,192
Investment income	164,259	81,406
Penalty sanctions released from restriction	878,900	180,000
Miscellaneous	263	-
	<u>13,847,266</u>	<u>14,606,598</u>
Expenses:		
Program:		
Standards	259,932	250,062
Compliance	7,352,164	6,037,110
Assessment	1,885,292	1,674,810
Training and education	588,490	71,318
Situational awareness	275,688	162,371
Forums	-	18,225
General and administrative	2,143,225	1,721,107
Legal and regulatory	336,928	-
Information technology	1,304,118	1,189,362
Human resources	297,146	233,753
Finance	328,702	274,107
	<u>14,771,685</u>	<u>11,632,225</u>
General:		
Depreciation and amortization	434,052	410,856
Loss on disposal of assets	24,681	186
	<u>458,733</u>	<u>411,042</u>
	<u>15,230,418</u>	<u>12,043,267</u>
	<u>(1,383,152)</u>	<u>2,563,331</u>
Temporarily Restricted Net Assets		
Penalty sanctions	2,860,600	829,000
Penalty sanctions released from restriction	(878,900)	(180,000)
	<u>1,981,700</u>	<u>649,000</u>
	<u>598,548</u>	<u>3,212,331</u>
Net assets at beginning of year	<u>7,273,705</u>	<u>4,061,374</u>
Net assets at end of year	<u>\$ 7,872,253</u>	<u>\$ 7,273,705</u>

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	\$ 598,548	\$ 3,212,331
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	434,052	410,856
Loss on disposal of equipment	24,681	186
Unrealized gain on investments	(48,891)	(19,369)
Changes in assets and liabilities:		
Accounts receivable	(382,138)	(52,671)
Prepaid expenses	36,766	(131,955)
Accounts payable	53,252	(3,237)
Accrued expenses	608,420	373,073
Net cash provided by operating activities	1,324,690	3,789,214
Cash Flows from Investing Activities		
Purchase of investments	(115,368)	(1,062,037)
Additions to fixed assets	(294,189)	(263,906)
Proceeds from sale of fixed assets	-	9,002
Net cash used in investing activities	(409,557)	(1,316,941)
Net increase in cash	915,133	2,472,273
Cash at beginning of year	3,533,177	1,060,904
Cash at end of year	\$ 4,448,310	\$ 3,533,177

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 electric service reliability and security for the interconnected electric systems within its territory. The Corporation was approved by the North American Electric Reliability Corporation (NERC) to become one of eight Regional Entities of NERC. The Corporation conducts its activities from leased offices in Akron, 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:

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Corporation currently derives its revenues primarily from quarterly assessments. Revenues from such assessments are recognized as unrestricted revenues at the time services are performed and the cost of these services is recognized when incurred. Penalty sanctions are recognized after the entire appeals process has been exhausted and a Federal Electric Regulatory Commission (FERC) order has been issued and are non-appealable. Penalty sanctions received on or prior to June 30 of each year shall be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty sanctions received after June 30 of each year shall be applied as a general offset to budget requirements for the next subsequent fiscal year.

Cash: The Corporation maintains its cash in non-interest-bearing bank deposit accounts. Management believes it is not exposed to any significant credit risk on cash.

Accounts receivable: Accounts receivable are carried at actual billed amounts. There was no allowance for doubtful accounts recorded in 2011 or 2010.

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

The Corporation invests in fixed income mutual funds. Such investments 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. 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.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Income taxes: The Corporation is exempt from federal income taxes under Section 501(c)(6) 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 (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities during the periods covered by these financial statements.

The Corporation files forms 990 in the U.S. federal jurisdiction and the State of Ohio. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2008.

Net assets: Of the unrestricted net asset balance, \$1,000,000 has been designated by the Board of Directors for its reserve fund at December 31, 2011 and 2010.

Temporarily restricted net assets result from the receipt of penalty sanctions which are restricted until budgeted as described above in the Corporation's revenue recognition policy. Temporary restricted net assets at December 31, 2011 and 2010, were \$3,171,600 and \$1,189,900, respectively.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through February 23, 2012, the date the financial statements were available to be issued.

Note 2. Investments

The Corporation maintains an investment portfolio which consists of fixed income securities. The fair values of the investments at December 31, 2011 and 2010, were \$4,701,194 and \$4,536,935, respectively. The composition of investment income is as follows at December 31:

	2011	2010
Interest/dividends	\$ 115,368	\$ 62,037
Unrealized gains	48,891	19,369
	<u>\$ 164,259</u>	<u>\$ 81,406</u>

Note 3. Fair Value

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.
- 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.

As of December 31, 2011 and 2010, the Corporation's investments are fixed income class A mutual funds, which are classified as Level 1.

Note 4. Line of Credit

The Corporation has a \$1,000,000 line of credit due on July 11, 2012. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 2.751 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2011 or 2010. The Corporation intends to renew the line when it becomes due on July 11, 2012.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 5. Operating Leases

The Corporation leases its office and additional storage space from unrelated third parties. The leases expire in December 2019 and June 2017, respectively. Rental expense for operating leases amounted to \$346,873 for the years ended December 31, 2011 and 2010. The future minimum lease payments as of December 31, 2011, on a straight-line basis are as follows:

2012	\$	346,873
2013		346,873
2014		346,873
2015		346,873
2016		346,873
Thereafter		1,031,725
	\$	<u>2,766,090</u>

Of the above amount, \$91,912 and \$72,623 has been accrued at December 31, 2011 and 2010, respectively.

Note 6. Note 6.Employee Retirement Plan

The Corporation has a salary deferral plan under Section 401(k) of the Internal Revenue Code. All employees are eligible for 100 percent match of their first 6 percent of voluntary salary deferral savings and the 3 percent Safe Harbor provision of the Plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the Plan (7 percent in 2011 and 2010). Therefore, under this Plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2011 and 2010. The Corporation's contributions to the Plan for 2011 and 2010 were approximately \$1,107,000 and \$939,000, respectively.



Independent Auditor's Report on the Supplementary Information

To the Board of Directors of
ReliabilityFirst Corporation
Akron, Ohio

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program expenses 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McGladrey & Pullen, LLP

Chicago, Illinois
February 23, 2012

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2011

	Standards	Compliance	Assessment	Training and Education	Situational Awareness	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Finance	Total
Personnel Expenses											
Salaries	\$ 188,109	\$ 4,362,846	\$ 1,232,960	\$ 412,435	\$ 123,367	\$ 1,145,083	\$ 213,651	\$ 479,981	\$ 164,784	\$ 211,791	\$ 8,535,007
Payroll taxes	9,402	303,336	79,102	23,334	6,081	21,655	6,136	35,469	13,335	12,215	510,065
Employee benefits	20,435	601,270	124,296	51,195	4,686	58,810	3,180	74,410	31,149	29,612	999,043
Savings and retirement	25,082	637,138	185,393	49,372	15,351	44,004	23,538	72,537	25,881	29,197	1,107,493
Total personnel expenses	243,028	5,904,590	1,621,751	536,336	149,485	1,269,552	246,505	662,397	235,149	282,815	11,151,608
Meeting Expenses											
Meetings	2,077	6,401	9,318	48,765	-	48,277	-	1,845	786	188	117,657
Travel	11,593	455,081	96,812	3,389	24,181	57,205	19,278	4,632	4,248	5,167	681,586
Conference calls	410	6,318	2,741	-	67	900	-	-	-	-	10,436
Total meeting expenses	14,080	467,800	108,871	52,154	24,248	106,382	19,278	6,477	5,034	5,355	809,679
Operating Expenses											
Rent and improvements	-	-	-	-	-	401,086	-	-	-	-	401,086
Contracts	-	710,012	93,312	-	98,326	6,862	-	48,681	10,061	-	967,254
Office costs	2,824	93,817	14,195	-	2,791	35,391	1,847	319,722	2,264	294	473,145
Professional services	-	169,227	-	-	-	304,092	69,298	-	35,713	37,061	615,391
Computer purchase and maintenance	-	1,373	44,844	-	-	-	-	266,757	2,961	3,177	319,112
Furniture and equipment	-	3,759	2,285	-	-	-	-	-	464	-	6,508
Miscellaneous	-	1,586	34	-	838	19,860	-	84	5,500	-	27,902
Total operating expenses	2,824	979,774	154,670	-	101,955	767,291	71,145	635,244	56,963	40,532	2,810,398
Subtotal	\$ 259,932	\$ 7,352,164	\$ 1,885,292	\$ 588,490	\$ 275,688	\$ 2,143,225	\$ 336,928	\$ 1,304,118	\$ 297,146	\$ 328,702	14,771,685
								Depreciation and amortization			434,052
								Loss on disposal of assets			24,681
								Total expenses			<u>\$ 15,230,418</u>

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2010

	Standards	Compliance	Assessment	Training and Education	Situational Awareness	Forums	General and Administrative	Information Technology	Human Resources	Finance	Total
Personnel Expenses											
Salaries	\$ 176,438	\$ 4,028,871	\$ 1,181,148	\$ 17,608	\$ 104,149	\$ 5,610	\$ 604,960	\$ 510,319	\$ 140,890	\$ 138,054	\$ 6,908,047
Payroll taxes	11,309	250,781	71,303	683	7,575	2,395	19,883	35,950	9,054	8,718	417,651
Employee benefits	18,604	427,816	110,651	726	5,075	1,516	24,205	74,911	18,858	19,764	702,126
Savings and retirement	28,900	553,780	169,715	2,772	15,159	4,221	49,032	72,798	22,685	20,114	939,176
Total personnel expenses	<u>235,251</u>	<u>5,261,248</u>	<u>1,532,817</u>	<u>21,789</u>	<u>131,958</u>	<u>13,742</u>	<u>698,080</u>	<u>693,978</u>	<u>191,487</u>	<u>186,650</u>	<u>8,967,000</u>
Meeting Expenses											
Meetings	1,944	8,363	24,554	49,529	1,288	-	52,645	576	-	41	138,940
Travel	9,585	337,513	57,797	-	25,114	4,292	26,464	7,017	-	6,820	474,602
Conference calls	545	4,950	2,825	-	143	191	369	-	-	-	9,023
Total meeting expenses	<u>12,074</u>	<u>350,826</u>	<u>85,176</u>	<u>49,529</u>	<u>26,545</u>	<u>4,483</u>	<u>79,478</u>	<u>7,593</u>	<u>-</u>	<u>6,861</u>	<u>622,565</u>
Operating Expenses											
Rent and improvements	-	-	-	-	-	-	405,505	-	-	-	405,505
Contracts	-	335,931	5,532	-	-	-	46,813	24,846	4,000	35,331	452,453
Office costs	2,737	55,650	10,272	-	2,365	-	27,267	256,649	1,097	259	356,296
Professional services	-	8,621	-	-	-	-	414,218	-	30,915	41,788	495,542
Computer purchase and maintenance	-	22,796	40,979	-	-	-	-	205,438	-	3,148	272,361
Furniture and equipment	-	-	-	-	753	-	25,116	-	-	-	25,869
Miscellaneous	-	2,038	34	-	750	-	24,630	858	6,254	70	34,634
Total operating expenses	<u>2,737</u>	<u>425,036</u>	<u>56,817</u>	<u>-</u>	<u>3,868</u>	<u>-</u>	<u>943,549</u>	<u>487,791</u>	<u>42,266</u>	<u>80,596</u>	<u>2,042,660</u>
Subtotal	<u>\$ 250,062</u>	<u>\$ 6,037,110</u>	<u>\$ 1,674,810</u>	<u>\$ 71,318</u>	<u>\$ 162,371</u>	<u>\$ 18,225</u>	<u>\$ 1,721,107</u>	<u>\$ 1,189,362</u>	<u>\$ 233,753</u>	<u>\$ 274,107</u>	<u>11,632,225</u>
								Depreciation and amortization			410,856
								Loss on disposal of assets			186
								Total expenses			<u>\$ 12,043,267</u>

ATTACHMENT 6

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



SERC Reliability Corporation
2815 Coliseum Centre Drive | Suite 500
Charlotte, NC 28217
704.357.7372 | Fax 704.357.7914 | www.serc1.org

May 17, 2012

Mike Walker
Chief Financial Officer
North American Electric Reliability Corporation

SERC 2011 Budget vs. Actual Variance Analysis

Enclosed is SERC's response to your request for information on variances between the 2011 SERC budget and year-end financials.

Overall, SERC under ran 2011 budgeted revenues by \$21,478 and under spent its 2011 budgeted expenses of \$11,865,916 by \$458,340. The net impact was a \$317,096 positive variance on SERC's cash position for the year.

During 2011, SERC executed all of the audits and spot checks that were expected to be conducted, with the exception of 2 that were rescheduled at the request of the entity to be completed in early 2012. SERC completed 185 determinations; 107 mitigation plans were reviewed and accepted, including 14 dismissals; 133 mitigation plans were reviewed and revisions were requested, including 18 dismissals; and 94 mitigation plans were validated. All assessments and studies for the year were completed.

There are several mitigating circumstances, as explained below:

- During 2011, total personnel costs were lower than budget due to several factors. When preparing the budget, SERC budgeted payroll taxes based on historical data, which ended up being higher than the actual rate charged, causing an under run. Additionally, due to the large premium increases being presented to SERC, SERC changed the insurance plan offered to staff to a high deductible plan, partially funded by SERC. This plan kept the premiums flat as compared to the budgeted increase in premiums causing the under run.
- During 2011, SERC's Board of Directors and its Executive Committee authorized the advanced hiring of 13 of the 20 budgeted 2012 positions.
- Due to the strains on the economy, SERC has emphasized the use of conference calls and Webex capabilities to reduce the number of face to face meetings, which reduced travel and meeting costs. Additionally, SERC has emphasized the need to only send required staff to meetings and placed a high focus on efficient travel.
- Costs for various projects were significantly lower than budgeted due to timing, and only minimal portal development projects were required causing the under run in Consultants and Contracts.
- The over run in office costs includes one-time costs for the purchase of office furniture and equipment to furnish the new office space of approximately \$191,000. Individually, all items were below SERC's capitalization policy and were therefore expensed.



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

All personnel costs for the other administrative functions, including Information Technology, Legal, Finance, and Human Resources, are recorded within General and Administrative to protect the confidentiality of individual compensation information of employees in these programs.

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

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

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

Yours truly,

A handwritten signature in black ink, appearing to read 'J. Kelly', with a long horizontal stroke extending to the right.

Jennifer Kelly

cc: R. Scott Henry

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011

Total Statutory	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	10,671,508	10,671,508	-
Penalty Sanctions	919,000	919,000	-
Total ERO Funding	\$ 11,590,508	\$ 11,590,508	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	260,365	280,500	(20,135)
Interest	8,105	10,000	(1,895)
Miscellaneous	40,552	40,000	552
Total Funding (A)	\$ 11,899,530	\$ 11,921,008	\$ (21,478)
Expenses			
Personnel Expenses			
Salaries	6,838,779	6,720,718	118,061
Payroll Taxes	485,897	739,279	(253,382)
Employee Benefits	684,606	723,655	(39,049)
Savings & Retirement	589,666	584,444	5,222
Total Personnel Expenses	8,598,948	8,768,096	(169,148)
Meeting Expenses			
Meetings	332,060	458,258	(126,198)
Travel	503,586	652,158	(148,572)
Conference Calls	51,125	66,000	(14,875)
Total Meeting Expenses	886,771	1,176,416	(289,645)
Operating Expenses			
Consultants & Contracts	882,724	1,150,081	(267,357)
Rent & Improvements	317,309	295,692	21,617
Office Costs	484,849	297,822	187,027
Professional Services	103,689	65,200	38,489
Miscellaneous	5,631	-	5,631
Depreciation	127,655	112,609	15,046
Total Operating Expenses	1,921,857	1,921,404	453
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	11,407,576	11,865,916	(458,340)
Change in Assets (A - B)	491,954	55,092	436,862
Fixed Assets			
Depreciation	(127,655)	(112,609)	(15,046)
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	158,145	23,333	134,812
Leasehold Improvements	-	-	-
Incr(Dec) in Fixed Assets	(30,490)	89,276	(119,766)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(30,490)	89,276	(119,766)
TOTAL BUDGET (B - C)	11,438,066	11,776,640	(338,574)
Change in Working Capital (A-B+C)	461,464	144,368	317,096
FTE's	56.70	53.50	3.20

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011
Per Audit

RELIABILITY STANDARDS	2011 Variance			
	2011	2011	from Budget	
Funding	Actual	Budget	Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
ERO Funding				
Assessments	532,975	532,975	-	0.00%
Penalty Sanctions	42,174	42,174	-	0.00%
Total ERO Funding	<u>\$ 575,149</u>	<u>\$ 575,149</u>	<u>\$ -</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>575,149</u>	<u>575,149</u>	<u>-</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	235,787	248,272	(12,485)	-5.03%
Payroll Taxes	14,718	27,310	(12,592)	-46.11%
Employee Benefits	18,902	26,281	(7,379)	-28.08%
Savings & Retirement	23,549	23,961	(412)	-1.72%
Total Personnel Expenses	<u>292,956</u>	<u>325,824</u>	<u>(32,868)</u>	<u>-10.09%</u>
Meeting Expenses				
Meetings	2,150	46,720	(44,570)	-95.40%
Travel	8,525	26,764	(18,239)	-68.15%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>10,675</u>	<u>73,484</u>	<u>(62,809)</u>	<u>-85.47%</u>
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	330	-	330	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>330</u>	<u>-</u>	<u>330</u>	
Indirect Expenses	<u>169,322</u>	<u>179,771</u>	<u>(10,449)</u>	<u>-5.81%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>473,283</u>	<u>579,079</u>	<u>(105,796)</u>	<u>-18.27%</u>
Change in Assets (A - B)	<u>101,866</u>	<u>(3,930)</u>	<u>105,796</u>	<u>-2692.01%</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	(1,214)	3,930	(5,144)	-130.89%
Total Inc(Dec) in Fixed Assets (C)	<u>(1,214)</u>	<u>3,930</u>	<u>(5,144)</u>	<u>-130.89%</u>
TOTAL BUDGET (B - C)	<u>474,497</u>	<u>575,149</u>	<u>(100,652)</u>	<u>-17.50%</u>
Change in Working Capital (A-B+C)	<u>100,652</u>	<u>-</u>	<u>100,652</u>	
FTE's	<u>1.75</u>	<u>1.75</u>	<u>-</u>	<u>0.00%</u>

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COMPLIANCE OPERATIONS, ENFORCEMENT and
ORGANIZATION REGISTRATION

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	7,215,911	7,215,911	-	0.00%	
Penalty Sanctions	634,625	634,625	-	0.00%	
Total ERO Funding	<u>\$ 7,850,536</u>	<u>\$ 7,850,536</u>	<u>\$ -</u>	<u>0.00%</u>	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding (A)	<u>7,850,536</u>	<u>7,850,536</u>	<u>-</u>	<u>0.00%</u>	
Expenses					
Personnel Expenses					
Salaries	3,296,263	3,319,925	(23,662)	-0.71%	
Payroll Taxes	249,506	368,162	(118,656)	-32.23%	For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	313,462	396,309	(82,847)	-20.90%	SERC reduced its benefit costs premiums by changing the benefit care provider and plan type. Additionally, less employees elected to participate in SERC's benefits than budgeted.
Savings & Retirement	276,611	291,778	(15,167)	-5.20%	
Total Personnel Expenses	<u>4,135,842</u>	<u>4,376,174</u>	<u>(240,332)</u>	<u>-5.49%</u>	
Meeting Expenses					
Meetings	13,201	15,375	(2,174)	-14.14%	
Travel	323,079	367,810	(44,731)	-12.16%	SERC continues to emphasize the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased.
Conference Calls	-	-	-	-	
Total Meeting Expenses	<u>336,280</u>	<u>383,185</u>	<u>(46,905)</u>	<u>-12.24%</u>	
Operating Expenses					
Consultants & Contracts	46,049	253,286	(207,237)	-81.82%	SERC is under budget due to contractor delays on various compliance projects and did not incur significant costs related to contractor support.
Rent & Improvements	-	-	-	-	
Office Costs	9,464	7,440	2,024	27.20%	
Professional Services	12,721	20,000	(7,279)	-36.40%	
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
Total Operating Expenses	<u>68,234</u>	<u>280,726</u>	<u>(212,492)</u>	<u>-75.69%</u>	
Indirect Expenses	<u>2,900,311</u>	<u>2,873,338</u>	<u>26,973</u>	<u>0.94%</u>	
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>7,440,667</u>	<u>7,913,423</u>	<u>(472,756)</u>	<u>-5.97%</u>	
Change in Assets (A - B)	<u>409,869</u>	<u>(62,887)</u>	<u>472,756</u>	<u>-751.75%</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	(20,813)	62,887	(83,700)	-133.10%	
Total Inc(Dec) in Fixed Assets (C)	<u>(20,813)</u>	<u>62,887</u>	<u>(83,700)</u>	<u>-133.10%</u>	
TOTAL BUDGET (B - C)	<u>7,461,480</u>	<u>7,850,536</u>	<u>(389,056)</u>	<u>-4.96%</u>	
Change in Working Capital (A-B+C)	<u>389,056</u>	<u>-</u>	<u>389,056</u>	<u>-</u>	
FTE's	<u>30.00</u>	<u>28.00</u>	<u>2.00</u>	<u>7.14%</u>	

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COMPLIANCE ENFORCEMENT ACTIVITY	2011	2011	2011 Variance	
	Actual	Budget	from Budget	Over(Under)
Funding	Comments (Explain variances < +/- 10%)			
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	32,047	40,000	(7,953)	-19.88%
	The income recorded in Miscellaneous represents the revenues from the cross regional monitoring activities for FRCC and SPP, which are fully reimbursed.			
Total Funding (A)	<u>32,047</u>	<u>40,000</u>	<u>(7,953)</u>	<u>-19.88%</u>
Expenses				
Personnel Expenses				
Salaries	17,929	27,000	(9,071)	-33.60%
	Amount represents the total personnel expenses. Due to timing and to accommodate FRCC, the audits of FRCC were rescheduled to be performed during 2012.			
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>17,929</u>	<u>27,000</u>	<u>(9,071)</u>	<u>-33.60%</u>
Meeting Expenses				
Meetings	-	-	-	
Travel	11,759	10,000	1,759	17.59%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>11,759</u>	<u>10,000</u>	<u>1,759</u>	<u>17.59%</u>
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Indirect Expenses	<u>2,359</u>	<u>3,000</u>	<u>(641)</u>	<u>-21.37%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>32,047</u>	<u>40,000</u>	<u>(7,953)</u>	<u>-19.88%</u>
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>32,047</u>	<u>40,000</u>	<u>(7,953)</u>	<u>-19.88%</u>
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

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RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	1,202,185	1,202,185	-	0.00%	
Penalty Sanctions	109,653	109,653	-	0.00%	
Total ERO Funding	\$ 1,311,838	\$ 1,311,838	\$ -	0.00%	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding (A)	1,311,838	1,311,838	-	0.00%	
Expenses					
Personnel Expenses					
Salaries	498,774	474,380	24,394	5.14%	
Payroll Taxes	37,858	52,182	(14,324)	-27.45%	For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	55,708	52,060	3,648	7.01%	
Savings & Retirement	52,109	40,927	11,182	27.32%	During 2011, the Board of Directors and its Executive Committee authorized SERC to advance the hiring of 13 of the 2012 budgeted positions. SERC hired a Reliability Assessment Analyst, who is eligible for the 401k benefits, causing the overrun.
Total Personnel Expenses	644,449	619,549	24,900	4.02%	
Meeting Expenses					
Meetings	24,471	42,050	(17,579)	-41.80%	SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, a greater emphasis on the use of technology by hosting Webex meetings has lowered meeting costs.
Travel	34,993	29,277	5,716	19.52%	
Conference Calls	-	-	-		
Total Meeting Expenses	59,464	71,327	(11,863)	-16.63%	
Operating Expenses					
Consultants & Contracts	180,042	149,000	31,042	20.83%	SERC used a consultant to perform the resource adequacy study at a cost greater than budget. At the time the budget was prepared, the full scope of the project was unknown.
Rent & Improvements	-	-	-		
Office Costs	3,683	19,800	(16,117)	-81.40%	SERC did not incur costs associated with the purchase of computer equipment to perform power system simulation electric studies.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	183,725	168,800	14,925	8.84%	
Indirect Expenses					
	551,507	462,269	89,238	19.30%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs. Due to the increase in FTEs in the RAPA program area, the indirect expenses increased over budget.
Other Non-Operating Expenses					
	-	-	-		
Total Expenses (B)	1,439,145	1,321,945	117,200	8.87%	
Change in Assets (A - B)	(127,307)	(10,107)	(117,200)	1159.59%	
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Incr(Dec) in Fixed Assets	-	-	-		
Allocation of Fixed Assets	(3,954)	10,107	(14,061)	-139.12%	
Total Inc(Dec) in Fixed Assets (C)	(3,954)	10,107	(14,061)	-139.12%	
TOTAL BUDGET (B - C)	1,443,099	1,311,838	131,261	10.01%	
Change in Working Capital (A-B+C)	(131,261)	-	(131,261)		
FTE's	5.70	4.50	1.20	26.67%	

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TRAINING, EDUCATION and OPERATOR CERTIFICATION	2011 Variance from			
	2011	2011	Budget	
	Actual	Budget	Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	440,259	440,259	-	0.00%
Penalty Sanctions	42,174	42,174	-	0.00%
Total ERO Funding	\$ 482,433	\$ 482,433	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	260,365	280,500	(20,135)	-7.18%
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	742,798	762,933	(20,135)	-2.64%
Expenses				
Personnel Expenses				
Salaries	224,610	237,095	(12,485)	-5.27%
Payroll Taxes	14,533	26,080	(11,547)	-44.28%
				For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	17,138	21,033	(3,895)	-18.52%
Savings & Retirement	22,443	22,863	(420)	-1.84%
Total Personnel Expenses	278,724	307,071	(28,347)	-9.23%
Meeting Expenses				
Meetings	172,863	207,360	(34,497)	-16.64%
				The spring Standing Committee meetings were budgeted to be held off-site; however, they were held in the SERC office. SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, a greater emphasis on the use of technology by hosting Webex meetings has lowered meeting costs.
Travel	7,536	37,661	(30,125)	-79.99%
				SERC continues to emphasize the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased.
Conference Calls	-	-	-	
Total Meeting Expenses	180,399	245,021	(64,622)	-26.37%
Operating Expenses				
Consultants & Contracts	65,765	35,000	30,765	87.90%
				SERC has facilitated and conducted system-wide restoration drills involving system operating personnel from multiple operating entities throughout the region using realistic operating scenarios. During 2011, this is an unbudgeted item, but deemed necessary causing SERC to be over budget
Rent & Improvements	-	-	-	
Office Costs	792	-	792	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	66,557	35,000	31,557	90.16%
Indirect Expenses	169,322	179,771	(10,449)	-5.81%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	695,002	766,863	(71,861)	-9.37%
Change in Assets (A - B)	47,796	(3,930)	51,726	-1316.18%
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	(1,214)	3,930	(5,144)	-130.89%
Total Inc(Dec) in Fixed Assets (C)	(1,214)	3,930	(5,144)	-130.89%
TOTAL BUDGET (B - C)	696,216	762,933	(66,717)	-8.74%
Change in Working Capital (A-B+C)	46,582	-	46,582	
FTE's	1.75	1.75	-	0.00%

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SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection) Funding	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
ERO Funding				
Assessments	1,135,810	1,135,810	-	0.00%
Penalty Sanctions	90,374	90,374	-	0.00%
Total ERO Funding	<u>\$ 1,226,184</u>	<u>\$ 1,226,184</u>	<u>\$ -</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>1,226,184</u>	<u>1,226,184</u>	<u>-</u>	<u>0.00%</u>
Expenses				
Personnel Expenses				
Salaries	581,897	528,538	53,359	10.10% During 2011, the Board of Directors and its Executive Committee authorized SERC to advance the hiring of 13 of the 2012 budgeted positions. SERC hired a Reliability Specialist causing the overrun.
Payroll Taxes	43,595	58,139	(14,544)	-25.02% For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	54,217	56,874	(2,657)	-4.67%
Savings & Retirement	40,377	46,886	(6,509)	-13.88%
Total Personnel Expenses	<u>720,086</u>	<u>690,437</u>	<u>29,649</u>	<u>4.29%</u>
Meeting Expenses				
Meetings	5,650	21,375	(15,725)	-73.57% SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, a greater emphasis on the use of technology by hosting Webex meetings has lowered meeting costs.
Travel	41,685	57,570	(15,885)	-27.59% SERC continues to emphasize the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased.
Conference Calls	-	-	-	
Total Meeting Expenses	<u>47,335</u>	<u>78,945</u>	<u>(31,610)</u>	<u>-40.04%</u>
Operating Expenses				
Consultants & Contracts	100,262	80,000	20,262	25.33% SERC used a consultant to assist with a transmission right of way alert. This unbudgeted expense was necessary to meet NERC's expectations and caused SERC to be over budget
Rent & Improvements	-	-	-	
Office Costs	160	-	160	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>100,422</u>	<u>80,000</u>	<u>20,422</u>	<u>25.53%</u>
Indirect Expenses	459,589	385,224	74,365	19.30% Expenses related to indirect programs have been allocated proportionately to the direct programs for 2013 based on the number of FTEs in those programs. Due to the increase in FTEs in the SAIS program area, the indirect expenses increased over budget.
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	<u>1,327,432</u>	<u>1,234,606</u>	<u>92,826</u>	<u>7.52%</u>
Change in Assets (A - B)	<u>(101,248)</u>	<u>(8,422)</u>	<u>(92,826)</u>	<u>1102.18%</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	(3,295)	8,422	(11,717)	-139.12%
Total Inc(Dec) in Fixed Assets (C)	<u>(3,295)</u>	<u>8,422</u>	<u>(11,717)</u>	<u>-139.12%</u>
TOTAL BUDGET (B - C)	<u>1,330,727</u>	<u>1,226,184</u>	<u>104,543</u>	<u>8.53%</u>
Change in Working Capital (A-B+C)	<u>(104,543)</u>	<u>-</u>	<u>(104,543)</u>	
FTE's	4.75	3.75	1.00	26.67%

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MEMBER FORUMS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	399,218	410,899	(11,681)	-2.84%
Payroll Taxes	24,676	45,199	(20,523)	-45.41%
				For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	20,369	29,270	(8,901)	-30.41%
Savings & Retirement	39,698	40,037	(339)	-0.85%
Total Personnel Expenses	<u>483,961</u>	<u>525,405</u>	<u>(41,444)</u>	<u>-7.89%</u>
Meeting Expenses				
Meetings	75,989	108,978	(32,989)	-30.27%
				SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, a greater emphasis on the use of technology by hosting Webex meetings has lowered meeting costs.
Travel	21,884	63,929	(42,045)	-65.77%
				SERC continues to emphasize the use of technology by hosting meetings using Webex. By doing this, travel costs have decreased.
Conference Calls	-	-	-	
Total Meeting Expenses	<u>97,873</u>	<u>172,907</u>	<u>(75,034)</u>	<u>-43.40%</u>
Operating Expenses				
Consultants & Contracts	3,833	9,375	(5,542)	-59.11%
Rent & Improvements	-	-	-	
Office Costs	1,358	1,020	338	33.14%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>5,191</u>	<u>10,395</u>	<u>(5,204)</u>	<u>-50.06%</u>
Indirect Expenses	<u>(587,025)</u>	<u>(708,707)</u>	<u>121,682</u>	<u>-17.17%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>2.75</u>	<u>2.75</u>	<u>-</u>	<u>0.00%</u>

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Statement of Activities
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Per Audit

GENERAL and ADMINISTRATIVE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	144,368	144,368	-	0.00%	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	<u>\$ 144,368</u>	<u>\$ 144,368</u>	<u>\$ -</u>	<u>0.00%</u>	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	8,505	-	8,505	-	
Total Funding (A)	<u>152,873</u>	<u>144,368</u>	<u>8,505</u>	<u>5.89%</u>	
Expenses					
Personnel Expenses					
Salaries	1,584,301	1,474,609	109,692	7.44%	
Payroll Taxes	101,011	162,207	(61,196)	-37.73%	For 2011, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	204,810	141,828	62,982	44.41%	During 2011, the Board of Directors and its Executive Committee authorized SERC to advance the hiring of 13 of the 2012 budgeted positions. SERC hired a Lawyer and a Human Resource Coordinator causing the overrun. Additionally, more employees elected to participate in SERC's benefits than budgeted.
Savings & Retirement	134,879	117,992	16,887	14.31%	During 2011, the Board of Directors and its Executive Committee authorized SERC to advance the hiring of 13 of the 2012 budgeted positions. SERC hired a Lawyer and a Human Resource Coordinator, who were eligible for the 401k benefits, causing the overrun.
Total Personnel Expenses	<u>2,025,001</u>	<u>1,896,636</u>	<u>128,365</u>	<u>6.77%</u>	
Meeting Expenses					
Meetings	37,736	16,400	21,336	130.10%	The over run in meetings expenses includes a higher than budgeted board meeting, as well as additional in-house meetings. SERC has emphasized the use of the on-site conference space in lieu of external space.
Travel	54,125	59,147	(5,022)	-8.49%	
Conference Calls	51,125	66,000	(14,875)	-22.54%	The 2011 budget was based on historical usage which involved connections primarily by toll free and long distance voice access. In 2011, SERC saw a significant increase in the use of lower cost digital based voice access.
Total Meeting Expenses	<u>142,986</u>	<u>141,547</u>	<u>1,439</u>	<u>1.02%</u>	
Operating Expenses					
Consultants & Contracts	13,326	40,000	(26,674)	-66.69%	SERC included \$40,000 for a contractor for continuous improvement activities including self evaluations, corrective action and bench marking. Using existing resources to accomplish the tasks, SERC has not incurred these costs causing the budget to be under run.
Rent & Improvements	317,309	295,692	21,617	7.31%	
Office Costs	289,024	158,837	130,187	81.96%	The over run in office costs includes one time costs for the purchase of office furniture and equipment to furnish the new office space of approximately \$191,400, or approximately \$138,600 over budget. Individually, all items were below SERC's capitalization policy and were therefore expensed.
Professional Services	19,700	15,000	4,700	31.33%	
Miscellaneous	5,631	-	5,631	-	
Depreciation	127,655	112,609	15,046	13.36%	Due to the actual cost of the asset and the timing of when the assets were placed into service, depreciation expense is higher than budget, causing the over run.
Total Operating Expenses	<u>772,645</u>	<u>622,138</u>	<u>150,507</u>	<u>24.19%</u>	
Indirect Expenses	<u>(2,940,632)</u>	<u>(2,660,321)</u>	<u>(280,311)</u>	<u>10.54%</u>	
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>152,873</u>	<u>144,368</u>	<u>8,505</u>	<u>5.89%</u>	
Fixed Assets					
Depreciation	(127,655)	(112,609)	(15,046)	13.36%	Due to the actual cost of the asset and the timing of when the assets were placed into service, depreciation expense is higher than budget, causing the over run.
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	158,145	23,333	134,812	577.77%	Costs for various projects were significantly higher than budgeted due to the actual expense was not split when it was budgeted to be split among three regions. Additionally, as SERC incurred the full cost, the item was capitalized as the total cost was over SERC's capitalization policy.
Leasehold Improvements	-	-	-	-	
Incr(Dec) in Fixed Assets	<u>(30,490)</u>	<u>89,276</u>	<u>(119,766)</u>	<u>-</u>	
Allocation of Fixed Assets	30,490	(89,276)	119,766	-134.15%	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>152,873</u>	<u>144,368</u>	<u>8,505</u>	<u>5.89%</u>	
FTE's	<u>10.00</u>	<u>11.00</u>	<u>(1.00)</u>	<u>-9.09%</u>	

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011
Per Audit

LEGAL and REGULATORY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	32,900	5,000	27,900	558.00% SERC used external lawyers to assist with corporate matters including changes in SERC by-laws, tax exempt status and state of incorporation.
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>32,900</u>	<u>5,000</u>	<u>27,900</u>	<u>558.00%</u>
Indirect Expenses	<u>(32,900)</u>	<u>(5,000)</u>	<u>(27,900)</u>	<u>558.00%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011
Per Audit

INFORMATION TECHNOLOGY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	468,499	583,420	(114,921)	-19.70% Actual costs for hosting and maintaining SERC's servers are lower than budgeted. Additionally, Participation in the OATI schedule checkout tool was lower than planned in 2011. SERC budgeted for 22 balancing authorities for the entire year. During 2011, 20 balancing authorities had joined. Finally, SERC did not incur significant costs related to various IT projects, causing an under run.
Rent & Improvements	-	-	-	
Office Costs	171,652	105,725	65,927	62.36% In order to support the additional FTEs advanced by the Board and BEC, SERC purchased laptops and equipment above the budgeted amounts.
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>640,151</u>	<u>689,145</u>	<u>(48,994)</u>	<u>-7.11%</u>
Indirect Expenses	<u>(640,151)</u>	<u>(689,145)</u>	<u>48,994</u>	<u>-7.11%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011
Per Audit

HUMAN RESOURCES	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	4,948	-	4,948	
Rent & Improvements	-	-	-	
Office Costs	180	-	180	
Professional Services	10,149	-	10,149	Amount represents costs associated with employee recruitment necessary to fill vacant and newly authorized positions.
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>15,277</u>	<u>-</u>	<u>15,277</u>	
Indirect Expenses	<u>(15,277)</u>	<u>-</u>	<u>(15,277)</u>	
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B+C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation
Statement of Activities
From 1/1/2011 through 12/31/2011
Per Audit

ACCOUNTING and FINANCE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	8,105	10,000	(1,895)	-18.95%
Miscellaneous	-	-	-	
Total Funding (A)	<u>8,105</u>	<u>10,000</u>	<u>(1,895)</u>	<u>-18.95%</u>
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	8,206	5,000	3,206	64.12%
Professional Services	28,219	25,200	3,019	11.98%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>36,425</u>	<u>30,200</u>	<u>6,225</u>	<u>20.61%</u>
Indirect Expenses	<u>(36,425)</u>	<u>(20,200)</u>	<u>(16,225)</u>	<u>80.32%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>
Change in Assets (A - B)	<u>8,105</u>	<u>-</u>	<u>8,105</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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B - C)	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>
Change in Working Capital (A-B+C)	<u>8,105</u>	<u>-</u>	<u>8,105</u>	
FTE's	-	-	-	

SERC RELIABILITY CORPORATION
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
As of and for the Years Ended December 31, 2011 and 2010
And
Independent Auditors' Report

SERC RELIABILITY CORPORATION

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Report of Independent Auditors

The Board of Directors
SERC Reliability Corporation
Charlotte, North Carolina

We have audited the accompanying statements of financial position of SERC Reliability Corporation (the "Corporation") as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 10 through 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and to 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.

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
April 13, 2012

SERC RELIABILITY CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 3,847,805	\$ 3,855,131
Accounts receivable	47,962	63,085
Prepaid expenses and other current assets	123,301	95,926
Total current assets	4,019,068	4,014,142
Property and equipment, net	307,434	276,944
Total assets	\$ 4,326,502	\$ 4,291,086
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 211,796	\$ 157,965
Accrued salaries and related benefits	1,363,320	1,090,075
Deferred revenue	476,327	1,256,722
Total current liabilities	2,051,443	2,504,762
Net assets		
Unrestricted and undesignated	1,088,467	725,664
Unrestricted and designated operating reserve	1,186,592	1,060,660
Total net assets	2,275,059	1,786,324
Total liabilities and net assets	\$ 4,326,502	\$ 4,291,086

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

SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Funding		
Member assessments	\$ 10,671,508	\$ 9,831,277
Penalty sanctions	919,000	578,000
Workshops	260,365	246,150
Interest	8,105	6,577
Miscellaneous	37,333	33,675
Total funding	11,896,311	10,695,679
Expenses		
Personnel expenses:		
Salaries	6,838,779	5,943,053
Payroll taxes	485,897	434,534
Employee benefits	684,606	592,588
Savings and retirement	589,666	463,534
Total personnel expenses	8,598,948	7,433,709
Meeting expenses:		
Meetings	332,060	357,668
Travel	503,586	475,204
Conference calls	51,125	49,071
Total meeting expenses	886,771	881,943
Operating expenses:		
Contracts and consultants	882,724	726,292
Rent and improvements	317,309	250,674
Office costs	484,849	506,577
Professional services	103,689	86,882
Depreciation	127,655	89,745
Miscellaneous	5,631	6,193
Total operating expenses	1,921,857	1,666,363
Total expenses	11,407,576	9,982,015
Change in net assets	488,735	713,664
Net assets		
Beginning of year	1,786,324	1,072,660
End of year	\$ 2,275,059	\$ 1,786,324

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

SERC RELIABILITY CORPORATION**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 488,735	\$ 713,664
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	127,655	89,745
Changes in operating assets and liabilities:		
Accounts receivable	15,123	103,571
Prepaid expenses and other current assets	(27,375)	18,832
Accounts payable	53,831	30,096
Accrued salaries and related benefits	273,245	16,004
Deferred revenue	(780,395)	236,167
Net cash provided by operating activities	<u>150,819</u>	<u>1,208,079</u>
Cash flows from investing activities		
Additions to property and equipment	<u>(158,145)</u>	<u>(145,691)</u>
Net increase (decrease) in cash and cash equivalents	(7,326)	1,062,388
Cash and cash equivalents		
Beginning of year	<u>3,855,131</u>	<u>2,792,743</u>
End of year	<u>\$ 3,847,805</u>	<u>\$ 3,855,131</u>

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

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1—Summary of significant accounting policies

Nature of organization – 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 rural electric cooperatives, municipal utilities, independent power producers, power marketers and customers. These entities account for virtually all the electricity supplied in the southeastern United States.

Basis of accounting – The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Corporation is required to report information regarding its financial position and activities according to three classes of net assets- unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Corporation had only unrestricted net assets during the years ended December 31, 2011 and 2010, including unrestricted net assets that have been designated by the Board of Directors as an operating reserve.

Cash and cash equivalents – The Corporation considers all cash investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable – Accounts receivable arise primarily from amounts billed to members. Management's determination of the need for an allowance for doubtful accounts is based on evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. Any amounts considered to be uncollectible are written off at the time of such determination. At December 31, 2011 and 2010, management has determined that an allowance for doubtful accounts is not necessary.

Property and equipment – Property and equipment are stated 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 life 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.

Deferred revenue – Deferred revenue represents amounts billed or collected from members in advance of the periods in which such amounts are earned.

Revenue recognition – All income is recognized in the period when earned. The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation (“NERC”) based on the budget submitted by the Corporation and approved by NERC and the Federal Energy Regulatory Commission (“FERC”). The revenue is received in four equal quarterly installments received at the beginning of each quarter.

Income taxes – The Corporation is exempt from federal and state income taxes under Section 501(c)(6) of the Internal Revenue Code (“IRC”) and the applicable state statutes. Management believes that the Corporation continues to satisfy the requirements of a tax exempt organization and is not subject to tax. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 1—Summary of significant accounting policies (continued)

Management has evaluated the effect of the Financial Accounting Standards Board (“FASB”) guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Corporation’s policy is to record a liability for any tax position taken that is beneficial to the Corporation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions at December 31, 2011 or 2010 and, accordingly, no liability has been accrued. The Corporation is no longer subject to tax examinations for years prior to 2008.

Use of estimates – The preparation of financial statements in conformity with GAAP 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.

Note 2—Property and equipment

Property and equipment consists of the following at December 31:

	2011	2010
Leasehold improvements	\$ 53,099	\$ 53,099
Computer equipment	160,593	147,385
Software	338,352	193,415
	<u>552,044</u>	<u>393,899</u>
Less: Accumulated depreciation	(244,610)	(116,955)
Property and equipment, net	<u>\$ 307,434</u>	<u>\$ 276,944</u>

Note 3—Commitments

The Corporation leases its current office facilities under three non-cancelable operating leases which expire in 2015 and which provide for monthly payments ranging from approximately \$32,000 to \$35,000. Rental expense under all operating leases totaled \$317,309 and \$250,674 for the years ended December 31, 2011 and 2010, respectively.

Future minimum payments for all operating leases are as follows:

<u>Year ending December 31,</u>	
2012	\$ 395,596
2013	401,135
2014	410,667
2015	34,905
Total	<u>\$ 1,242,303</u>

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 4—Line of credit

The Corporation has a \$750,000 bank line of credit at an interest rate of prime plus 0.9%, limited to a 5.0% floor, (5.0% at December 31, 2011) which shall be payable in full on demand. The line is secured by the assets of the Corporation. The Corporation had no outstanding balance at December 31, 2011 and 2010.

Note 5—Retirement plans

401(k) plan - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation makes an annual contribution to the plan equal to 3% of each eligible employee's compensation. In addition, the plan provides that the Corporation may make additional discretionary matching and profit-sharing contributions. During the years ended December 31, 2011 and 2010, contribution expense related to the plan totaled \$562,163 and \$442,996, respectively.

Deferred compensation plan - The Corporation established a deferred compensation plan in accordance with Internal Revenue Code Section 457 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. During the years ended December 31, 2011 and 2010, contribution expense related to the plan totaled \$11,075 and \$13,750, respectively. The asset and liability for deferred compensation of \$39,187 and \$28,112 at December 31, 2011 and 2010, respectively, is included in prepaid and other current assets and accrued salaries and related benefits.

Note 6—Functional expenses

The following is an allocation of expenses by functional category for the year ended December 31:

	2011	2010
Program expenses:		
Reliability standards	\$ 303,961	\$ 306,025
Compliance enforcement	4,570,044	4,129,783
Reliability assessment	887,638	724,246
Training and education	525,680	487,447
Situation awareness	867,843	721,111
	<u>7,155,166</u>	<u>6,368,612</u>
Committee and member forums	<u>587,025</u>	<u>603,634</u>
General and administrative expenses:		
General and administrative	2,940,632	2,310,909
Legal and regulatory	32,900	17,162
Information technology	640,151	638,625
Human resources	15,277	-
Accounting and finance	36,425	43,073
	<u>3,665,385</u>	<u>3,009,769</u>
Total	<u>\$ 11,407,576</u>	<u>\$ 9,982,015</u>

SERC RELIABILITY CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Note 7—Concentrations of credit risk and uncertainties

The Corporation places its cash and cash equivalents on deposit with a North Carolina financial institution. The Federal Deposit Insurance Company ("FDIC") covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Corporation from time to time may have balances in excess of the FDIC insured limits.

The Corporation receives a significant portion of its revenue directly from NERC based on the budget submitted by the Corporation and approved by NERC and FERC. Based on past history with NERC, the Corporation believes that its revenue risk exposure is limited.

Note 8—Subsequent events

The Corporation has evaluated subsequent events through April 13, 2012, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

ACCOMPANYING INFORMATION

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

	<u>2011 YTD Actual</u>	<u>2011 YTD Budget</u>	<u>2011 YTD Variance</u>
Funding			
Member assessments	\$ 10,671,508	\$ 10,671,508	\$ -
Penalty sanctions	919,000	919,000	-
Workshops	260,365	280,500	(20,135)
Interest	8,105	10,000	(1,895)
Miscellaneous	37,333	40,000	(2,667)
Total funding	<u>11,896,311</u>	<u>11,921,008</u>	<u>(24,697)</u>
Expenses			
Personnel expenses:			
Salaries	6,838,779	6,720,718	118,061
Payroll taxes	485,897	739,279	(253,382)
Employee benefits	684,606	723,655	(39,049)
Savings and retirement	589,666	584,444	5,222
Total personnel expenses	<u>8,598,948</u>	<u>8,768,096</u>	<u>(169,148)</u>
Meeting expenses:			
Meetings	332,060	458,258	(126,198)
Travel	503,586	652,158	(148,572)
Conference calls	51,125	66,000	(14,875)
Total meeting expenses	<u>886,771</u>	<u>1,176,416</u>	<u>(289,645)</u>
Operating expenses:			
Contracts and consultants	882,724	1,150,081	(267,357)
Rent and improvements	317,309	295,692	21,617
Office costs	484,849	297,822	187,027
Professional services	103,689	65,200	38,489
Depreciation	127,655	112,609	15,046
Miscellaneous	5,631	-	5,631
Total operating expenses	<u>1,921,857</u>	<u>1,921,404</u>	<u>453</u>
Total expenses	<u>11,407,576</u>	<u>11,865,916</u>	<u>(458,340)</u>
Change in net assets	<u>\$ 488,735</u>	<u>\$ 55,092</u>	<u>\$ 433,643</u>

SERC RELIABILITY CORPORATION

STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2010

	<u>2010 YTD Actual</u>	<u>2010 YTD Budget</u>	<u>2010 YTD Variance</u>
Funding			
Member assessments	\$ 9,831,277	\$ 9,831,277	\$ -
Pentalty Sanctions	578,000	578,000	-
Workshops	246,150	272,406	(26,256)
Interest	6,577	20,000	(13,423)
Miscellaneous	33,675	-	33,675
Total funding	<u>10,695,679</u>	<u>10,701,683</u>	<u>(6,004)</u>
Expenses			
Personnel expenses:			
Salaries	5,943,053	5,919,604	23,449
Payroll taxes	434,534	443,971	(9,437)
Employee benefits	592,588	536,169	56,419
Savings and retirement	463,534	555,467	(91,933)
Total personnel expenses	<u>7,433,709</u>	<u>7,455,211</u>	<u>(21,502)</u>
Meeting expenses:			
Meetings	357,668	468,813	(111,145)
Travel	475,204	722,061	(246,857)
Conference calls	49,071	48,000	1,071
Total meeting expenses	<u>881,943</u>	<u>1,238,874</u>	<u>(356,931)</u>
Operating expenses:			
Contracts and consultants	726,292	1,141,450	(415,158)
Rent and improvements	250,674	255,591	(4,917)
Office costs	506,577	362,257	144,320
Professional services	86,882	98,300	(11,418)
Depreciation	89,745	54,913	34,832
Miscellaneous	6,193	-	6,193
Total operating expenses	<u>1,666,363</u>	<u>1,912,511</u>	<u>(246,148)</u>
Total expenses	<u>9,982,015</u>	<u>10,606,596</u>	<u>(624,581)</u>
Change in net assets	<u>\$ 713,664</u>	<u>\$ 95,087</u>	<u>\$ 618,577</u>

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION
YEAR ENDED DECEMBER 31, 2011

	300	400	800	900	1000	1100	2000	2200	2300	2400	2500	2011 YTD	2011 YTD	2011 YTD
	RELIAB	COMP ENFORCE/	RELIAB	TRAINING	SIT	COMMITTEE &	GENERAL	LEGAL &		HUMAN	ACCOUNTING	Actual	Budget	Variance
	STD DEV	ORG REG & CERT	ASSES	& EDUC	AWARE	MBR FORUMS	ADMIN	REGULATORY	IT	RESOURCES	& FINANCE			
Funding														
Member assessments	\$ 532,975	\$ 7,215,911	\$ 1,202,185	\$ 440,259	\$ 1,135,810	\$ -	\$ 144,368	\$ -	\$ -	\$ -	\$ -	\$ 10,671,508	\$ 10,671,508	\$ -
Penalty sanctions	42,174	634,625	109,653	42,174	90,374	-	-	-	-	-	-	919,000	919,000	-
Workshops	-	-	-	260,365	-	-	-	-	-	-	-	260,365	280,500	(20,135)
Interest	-	-	-	-	-	-	-	-	-	-	8,105	8,105	10,000	(1,895)
Miscellaneous	-	28,828	-	-	-	-	8,505	-	-	-	-	37,333	40,000	(2,667)
Total funding	575,149	7,879,364	1,311,838	742,798	1,226,184	-	152,873	-	-	-	8,105	11,896,311	11,921,008	(24,697)
Expenses														
Personnel expenses:														
Salaries	235,787	3,314,192	498,774	224,610	581,897	399,218	1,584,301	-	-	-	-	6,838,779	6,720,718	118,061
Payroll taxes	14,718	249,506	37,858	14,533	43,595	24,676	101,011	-	-	-	-	485,897	739,279	(253,382)
Employee benefits	18,902	313,462	55,708	17,138	54,217	20,369	204,810	-	-	-	-	684,606	723,655	(39,049)
Savings and retirement	23,549	276,611	52,109	22,443	40,377	39,698	134,879	-	-	-	-	589,666	584,444	5,222
Total personnel expenses	292,956	4,153,771	644,449	278,724	720,086	483,961	2,025,001	-	-	-	-	8,598,948	8,768,096	(169,148)
Meeting expenses:														
Meetings	2,150	13,201	24,471	172,863	5,650	75,989	37,736	-	-	-	-	332,060	458,258	(126,198)
Travel	8,525	334,838	34,993	7,536	41,685	21,884	54,125	-	-	-	-	503,586	652,158	(148,572)
Conference calls	-	-	-	-	-	-	51,125	-	-	-	-	51,125	66,000	(14,875)
Total meeting expenses	10,675	348,039	59,464	180,399	47,335	97,873	142,986	-	-	-	-	886,771	1,176,416	(289,645)
Operating expenses:														
Contracts and consultants	-	46,049	180,042	65,765	100,262	3,833	13,326	-	468,499	4,948	-	882,724	1,150,081	(267,357)
Rent and improvements	-	-	-	-	-	-	317,309	-	-	-	-	317,309	295,692	21,617
Office costs	330	9,464	3,683	792	160	1,358	289,024	-	171,652	180	8,206	484,849	297,822	187,027
Professional services	-	12,721	-	-	-	-	19,700	32,900	-	10,149	28,219	103,689	65,200	38,489
Depreciation	-	-	-	-	-	-	127,655	-	-	-	-	127,655	112,609	15,046
Miscellaneous	-	-	-	-	-	-	5,631	-	-	-	-	5,631	-	5,631
Total operating expenses	330	68,234	183,725	66,557	100,422	5,191	772,645	32,900	640,151	15,277	36,425	1,921,857	1,921,404	453
Total expenses	303,961	4,570,044	887,638	525,680	867,843	587,025	2,940,632	32,900	640,151	15,277	36,425	11,407,576	11,865,916	(458,340)
Change in net assets	\$ 271,188	\$ 3,309,320	\$ 424,200	\$ 217,118	\$ 358,341	\$ (587,025)	\$ (2,787,759)	\$ (32,900)	\$ (640,151)	\$ (15,277)	\$ (28,320)	\$ 488,735	\$ 55,092	\$ 433,643

SERC RELIABILITY CORPORATION
STATUTORY FINANCIAL STATEMENTS BY FUNCTION
YEAR ENDED DECEMBER 31, 2010

	300	400	800	900	1000	1100	2000	2200	2300	2500	2010 YTD	2010 YTD	2010 YTD
	RELIAB	COMP ENFORCE/	RELIAB	TRAINING	SIT	COMMITTEE &	GENERAL	LEGAL &		ACCOUNTING	Actual	Budget	Variance
	STD DEV	ORG REG & CERT	ASSES	& EDUC	AWARE	MBR FORUMS	ADMIN	REGULATORY	IT	& FINANCE			
Funding													
Member assessments	\$ 353,488	\$ 6,319,976	\$ 1,276,678	\$ 482,202	\$ 1,281,104	\$ 117,829	\$ -	\$ -	\$ -	\$ -	\$9,831,277	\$9,831,277	\$ -
Penalty sanctions	27,282	375,122	76,700	27,282	71,614	-	-	-	-	-	578,000	578,000	-
Workshops	-	-	-	246,150	-	-	-	-	-	-	246,150	272,406	(26,256)
Interest	-	-	-	-	-	-	-	-	-	6,577	6,577	20,000	(13,423)
Miscellaneous	20	20,746	-	20	40	20	11,388	-	1,441	-	33,675	-	33,675
Total funding	380,790	6,715,844	1,353,378	755,654	1,352,758	117,849	11,388	-	1,441	6,577	10,695,679	10,701,683	(6,004)
Expenses													
Personnel expenses:													
Salaries	227,737	2,933,565	448,080	216,612	541,396	388,268	1,187,395	-	-	-	5,943,053	5,919,604	23,449
Payroll taxes	15,646	218,847	37,888	15,297	39,553	26,996	80,307	-	-	-	434,534	443,971	(9,437)
Employee benefits	23,634	306,381	43,038	20,374	47,582	29,279	122,300	-	-	-	592,588	536,169	56,419
Savings and retirement	18,727	221,761	39,047	17,793	39,199	32,061	94,946	-	-	-	463,534	555,467	(91,933)
Total personnel expenses	285,744	3,680,554	568,053	270,076	667,730	476,604	1,484,948	-	-	-	7,433,709	7,455,211	(21,502)
Meeting expenses:													
Meetings	7,070	43,679	24,582	146,033	7,345	95,033	33,926	-	-	-	357,668	468,813	(111,145)
Travel	12,704	324,974	24,732	8,728	43,089	26,887	34,090	-	-	-	475,204	722,061	(246,857)
Conference calls	-	-	-	-	-	-	49,071	-	-	-	49,071	48,000	1,071
Total meeting expenses	19,774	368,653	49,314	154,761	50,434	121,920	117,087	-	-	-	881,943	1,238,874	(356,931)
Operating expenses:													
Contracts and consultants	-	65,764	103,318	61,516	2,256	3,425	23,825	-	466,188	-	726,292	1,141,450	(415,158)
Rent and improvements	-	-	-	-	-	-	250,674	-	-	-	250,674	255,591	(4,917)
Office costs	215	7,727	2,403	802	381	1,279	314,051	-	172,437	7,282	506,577	362,257	144,320
Professional services	-	5,853	-	-	-	-	28,076	17,162	-	35,791	86,882	98,300	(11,418)
Depreciation	-	-	-	-	-	-	89,745	-	-	-	89,745	54,913	34,832
Miscellaneous	292	1,232	1,158	292	310	406	2,503	-	-	-	6,193	-	6,193
Total operating expenses	507	80,576	106,879	62,610	2,947	5,110	708,874	17,162	638,625	43,073	1,666,363	1,912,511	(246,148)
Total expenses	306,025	4,129,783	724,246	487,447	721,111	603,634	2,310,909	17,162	638,625	43,073	9,982,015	10,606,596	(624,581)
Change in net assets	\$ 74,765	\$ 2,586,061	\$ 629,132	\$ 268,207	\$ 631,647	\$ (485,785)	\$ (2,299,521)	\$ (17,162)	\$ (637,184)	\$ (36,496)	\$ 713,664	\$ 95,087	\$ 618,577

ATTACHMENT 7

2011 ACTUAL COST-TO-BUDGET COMPARISON

FOR

SOUTHWEST POWER POOL REGIONAL ENTITY

AND

2011 AUDITED FINANCIAL REPORT

FOR

SOUTHWEST POWER POOL, INC.



Alice Wright
RE Manager of Finance and Process Improvement

Southwest Power Pool Regional Entity
16101 St. Vincent Way, Ste 103
Little Rock, AR 72223
P 501.688.1773
F 501.821.8726

April 30, 2012

Via Electronic Mail

Michael Walker, Chief Financial Officer
Susan Turpen, Controller
North American Electric Reliability Corporation
3343 Peachtree Road, NE
4th Floor East Tower – Suite 400
Atlanta, GA 30326

Subject: Southwest Power Pool Regional Entity 2011 Actual Cost-to-Budget Comparison

Dear Mr. Walker and Ms. Turpen,

Attached is the Southwest Power Pool, Inc.'s (SPP, Inc.) submission of the SPP Regional Entity's (SPP RE) 2011 Actual Cost-to-Budget Comparison (2011 True Up Filing). For 2011, the SPP RE received approximately \$9.3 million in statutory funds and incurred approximately \$8.4 million in statutory expense (compared to \$9.8 million budget).

The \$2 thousand funding variance results from interest earned on the cash balance. The SPP RE performs only statutory activities, and therefore no statutory funding was used for non-statutory activities. The net impact on SPP RE's cash position for the year was an \$886 thousand positive variance (compared to the budgeted \$515 thousand negative variance).

The significant expense variances at the aggregate statutory level are explained below, while the explanations for the expense variances by statutory program area are provided in Attachment 1.

Aggregate Expense Variances

- **Personnel Expenses** (Actual - \$322K or 8% below budget) – Personnel expenses were less than budget primarily due to the timing of hiring additional RE direct staff to fill open budgeted positions coupled with the ability to fill the position below their budgeted levels. Two positions were filled during February, one position was filled during April, one position was filled in July, and the remaining two positions were unfilled at year-end. Less than expected activity in the Situation Awareness and Infrastructure and Security (SAIS) and Reliability Assessment and Performance Analysis (RAPA) program areas by Shared Staff also contributed to the lower than expected personnel expenses. The variances in payroll taxes, employee benefits, and savings & retirement costs are also due to the differences between the ratios used to develop the budget and the resulting actual ratios.

- **Travel and Meeting Expenses** (Actual - \$124K or 24% under budget) –Travel expenses were less than expected primarily due to the timing of hiring additional budgeted staff and less than expected travel expenses for 693 and CIP on-site audit activities.

Other Operating Expenses (Actual - \$426K or 30% under budget) – Other Operating Expenses were less than budget primarily due to lower than expected consulting activity related to compliance monitoring and enforcement activities. Lower than expected hearing costs also contributed to the actual operating costs being less than budget.

- **SPP, Inc. Indirect Expense** (Actual - \$528K or 14% under budget) – SPP, Inc. Indirect Expenses were less than budget due to actual FTEs being lower than budgeted FTEs and a decrease in the fixed overhead rate. Indirect Expenses are discussed in greater detail in the discussion that follows.
- **Total Expenses** (Actual \$1.4 million or 14% under budget) – Although SPP RE ended the year \$1.45 million or 14.80% under budget, SPP RE completed its intended activities for 2011. Specifically, SPP RE performed 40 audits, performed 20 spot checks, processed 239 technical feasibility exceptions, identified 239 possible violations, processed 263 violations, reviewed 121 mitigation plans, and examined 22 reportable events. In addition, SPP RE conducted various outreach activities, participated in the facility ratings alert program, and published winter, summer, and long-term reliability assessments.

SPP, Inc. Shared Staff and Indirect Support Staff

The SPP governing documents, approved by NERC and FERC, allow for the use of SPP, Inc. staff not directly assigned to the SPP RE in the performance or support of some of the responsibilities that are performed by the SPP RE. There are two groups of SPP, Inc. staff that support the SPP RE. First, there is a group that performs some of the primary duties delegated to the SPP RE referred to as “shared staff.” Shared staff consists of a portion of the SPP RTO engineering staff that performs the technical studies that form the basis for the SPP Regional Assessments published by NERC. Second, there is another group that supplies administrative services to the SPP RE such as accounting, computer support, human resources support, building services support, etc. referred to as “indirect support staff.” In general, indirect support staff does not directly charge time and expenses to the SPP RE but are billed through an administrative charge referred to as “SPP, Inc. Indirect Overhead Expense Rate.” Neither group participates in compliance or enforcement decisions of the SPP RE.

Shared staff members charge time and expenses directly to the SPP RE accounts and their hours are included in the official total full time equivalent headcount of the SPP RE for the purposes of reporting to NERC and FERC. Shared staff members record specific hours worked in the performance or support of the SPP RE’s statutory functions in SPP, Inc.’s time tracking system. These hours are posted by the shared staff members and reviewed and approved by their specific manager or supervisor. The SPP RE Manager of Finance and Process Improvement as well as the SPP RE General Manager review the hours posted by the shared staff members. This procedure results in actual hours spent by shared staff on SPP RE statutory functions being charged directly to the particular SPP RE direct function at the shared staff member’s compensation rate. These direct charges are included in the SPP RE’s Business Plan and Budget. For 2011, shared staff charged 5,645 hours, or 3.00 FTEs based on SPP’s standard

assumption that total number of hours in a year is 1,880, to the SPP RE. 2011 budgeted shared staff FTEs were 3.75.

With respect to the costs of indirect support staff (SPP, Inc. Indirect Expenses), these costs are assessed to the SPP RE based on a fixed rate per hour per FTE. The fixed rate is calculated by dividing the total costs for SPP, Inc. support services by the total hours worked by non-overhead personnel. The fixed rate is then multiplied by the hours charged by the shared staff and SPP RE direct staff to determine the total amount of SPP, Inc. Indirect Expenses that are assessed to the SPP RE. The SPP, Inc. Indirect Expenses assessed to the SPP RE are included in the SPP RE's Business Plan and Budget.

The development of the \$69.35/hour rate that was used in the development of the 2011 budget and the \$67.35/hour rate embedded in the actual 2011 costs are showed in Attachments 2 and 3, respectively. The SPP, Inc. support costs included in the calculations are reviewed in detail to help ensure that SPP RTO specific costs are excluded from the calculation.

If you have any questions related to the submitted materials please feel free to call me at 501.688.1773 or email me at awright.re@spp.org.

Sincerely,



Alice Wright
RE Manager of Finance and Process Improvement

**Southwest Power Pool
Regional Entity
Statement of Activities
From 1/1/2011 through 12/31/2011**

	2011	2011	Variance from
	Actual	Budget	Budget Over(Under)
Total Statutory			
Funding			
ERO Funding			
Assessments	9,094,985	9,094,985	-
Penalty Sanctions	187,500	187,500	-
Total ERO Funding	\$ 9,282,485	\$ 9,282,485	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	2,206	-	2,206
Miscellaneous	-	-	-
Total Funding (A)	\$ 9,284,691	\$ 9,282,485	\$ 2,206
Expenses			
Personnel Expenses			
Salaries	3,127,625	3,301,544	(173,919)
Payroll Taxes	187,884	252,118	(64,234)
Employee Benefits	270,245	276,323	(6,078)
Savings & Retirement	68,569	146,320	(77,751)
Total Personnel Expenses	\$ 3,654,323	\$ 3,976,305	\$ (321,982)
Meeting Expenses			
Meetings	73,641	68,750	4,891
Travel	315,593	444,300	(128,707)
Conference Calls	-	-	-
Total Meeting Expenses	\$ 389,234	\$ 513,050	\$ (123,816)
Operating Expenses			
Consultants & Contracts	786,436	1,097,000	(310,564)
Rent & Improvements	-	-	-
Office Costs	2,416	-	2,416
Professional Services	225,503	343,000	(117,497)
Miscellaneous	-	-	-
Depreciation	-	-	-
Total Operating Expenses	\$ 1,014,355	\$ 1,440,000	\$ (425,645)
Total Direct Expenses	\$ 5,057,912	\$ 5,929,355	\$ (871,443)
SPP Inc. Indirect Expenses	\$ 3,339,933	\$ 3,867,881	\$ (527,948)
SPP RE Indirect Expenses ⁽¹⁾	\$ -	\$ -	\$ -
Total Indirect Expenses	\$ 3,339,933	\$ 3,867,881	\$ (527,948)
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 8,397,845	\$ 9,797,236	\$ (1,399,391)
Change in Assets (A - B)	886,846	(514,751)	1,401,597
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)	\$ 8,397,845	\$ 9,797,236	\$ (1,399,391)
Change in Working Capital (A-B-C)	\$ 886,846	\$ (514,751)	\$ 1,401,597
FTEs (2)	26.38	29.67	(3.29)

(1) SPP RE Indirect Expenses which represent direct expenses for SPP RE Administrative Services, are included in direct expenses.

(2) Actual FTE equal RE Direct Staff FTEs (number of days employed at RE during 2011 divided by 365) plus Shared Staff FTEs (2011 billed hours divided by 1880)

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01/01/2011 - 12/31/2011**

RELIABILITY STANDARDS	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	472,592	472,592	-	0.00%
Penalty Sanctions	10,958	10,958	-	0.00%
Total ERO Funding	\$ 483,550	\$ 483,550	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 483,550	\$ 483,550	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	23,176	146,500	(123,324)	-84.18%
Payroll Taxes	1,686	11,187	(9,501)	-84.93%
Employee Benefits	2,409	11,554	(9,145)	-79.15%
Savings & Retirement	835	6,593	(5,758)	-87.34%
Total Personnel Expenses	\$ 28,106	\$ 175,834	\$ (147,728)	-84.02%
Meeting Expenses				
Meetings	248	-	248	
Travel	4,184	20,000	(15,816)	-79.08%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 4,432	\$ 20,000	\$ (15,568)	-77.84%
Operating Expenses				
Consultants & Contracts	-	25,000	(25,000)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ 25,000	\$ (25,000)	-100.00%
Total Direct Expenses	\$ 32,538	\$ 220,834	\$ (188,296)	-85.27%
SPP Inc. Indirect Expenses	30,388	195,567	(165,179)	-84.46%
SPP RE Indirect Expenses	11,309	67,149	(55,840)	-83.16%
Total Indirect Expenses	\$ 41,697	\$ 262,716	\$ (221,019)	-84.13%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 74,235	\$ 483,550	\$ (409,315)	-84.65%
Change in Assets (A - B)	\$ 409,315	\$ -	\$ 409,315	
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)	\$ 74,235	\$ 483,550	\$ (409,315)	-84.65%
Change in Working Capital (A-B-C)	\$ 409,315	\$ -	\$ 409,315	
FTE's	0.24	1.50	(1.26)	-84.00%

FTEs were lower due to the repurposing of the direct staff FTE to the Compliance and Enforcement program area and less than expected activity necessary for shared staff to complete the activities on the proposed UFLS regional standard

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COMPLIANCE OPERATIONS,
ENFORCEMENT and ORGANIZATION

REGISTRATION (Includes Critical
Infrastructure Protection)

Funding

ERO Funding

	2011 Actual	2011 Budget	Variance from Budget Over(Under)	
Assessments	6,977,342	6,977,342	-	0.00%
Penalty Sanctions	130,885	130,885	-	0.00%
Total ERO Funding	\$ 7,108,227	\$ 7,108,227	\$ -	0.00%

Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 7,108,227	\$ 7,108,227	\$ -	0.00%

Expenses

Personnel Expenses

Salaries	2,037,073	2,037,181	(108)	-0.01%
Payroll Taxes	125,754	155,567	(29,813)	-19.16%
Employee Benefits	205,096	174,867	30,229	17.29%
Savings & Retirement	29,546	89,423	(59,877)	-66.96%
Total Personnel Expenses	\$ 2,397,469	\$ 2,457,038	\$ (59,569)	-2.42%

Meeting Expenses

Meetings	-	-	-	
Travel	190,916	225,000	(34,084)	-15.15%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 190,916	\$ 225,000	\$ (34,084)	-15.15%

Operating Expenses

Consultants & Contracts	762,266	977,500	(215,234)	-22.02%
Rent & Improvements	-	-	-	
Office Costs	335	-	335	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 762,601	\$ 977,500	\$ (214,899)	-21.98%

Total Direct Expenses

	\$ 3,350,986	\$ 3,659,538	\$ (308,552)	-8.43%
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SPP Inc. Indirect Expenses

	2,168,966	2,335,939	(166,973)	-7.15%
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SPP RE Indirect Expenses

	1,164,650	1,112,749	51,900	4.66%
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Total Indirect Expenses

	\$ 3,333,616	\$ 3,448,688	\$ (115,072)	-3.34%
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Other Non-Operating Expenses

	\$ -	\$ -	\$ -	
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Total Expenses (B)

	\$ 6,684,602	\$ 7,108,226	\$ (423,624)	-5.96%
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Change in Assets (A - B)

	\$ 423,625	\$ -	\$ 423,624	
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Fixed Assets

Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	

Allocation of Fixed Assets

	-	-	-	
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Total Inc(Dec) in Fixed Assets (C)

	\$ -	\$ -	\$ -	
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TOTAL BUDGET (B + C)

	\$ 6,684,602	\$ 7,108,226	\$ (423,624)	-5.96%
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Change in Working Capital (A-B-C)

	\$ 423,625	\$ -	\$ 423,624	
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FTE's	17.13	17.92	(0.79)	-4.41%
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Comments (Explain variances < +/- 10% and <\$10,000)

Personnel Expenses trailed budget primarily due to the timing of hiring additional RE direct staff to fill open budgeted positions coupled with the ability to fill the positions below their budgeted levels. The variances in payroll taxes, employee benefits, and savings & retirement costs are also due to the differences between the ratios used to develop the budget and the resulting actual ratios. Direct Staff assigned to the Compliance Group and whose personnel expenses are assigned to the CMEP also spent time, which is estimated to be approximately 0.75 FTEs, monitoring reliability standards being developed by NERC

Travel Expenses trailed budget due to the timing of hiring additional budgeted staff and less than expected travel expenses for 693 and CIP on-site audit activities.

Consultants & Contracts Expenses were lower as a result of the RE staff's ability to complete the compliance and monitoring activities with fewer consultant resources than expected.

SPP Inc. Indirect Expenses were lower due to actual FTEs being lower than budgeted FTEs and a decrease in the SPP Inc. Overhead Rate. SPP RE Indirect Expenses allocated to this program area were primarily higher due to a larger percentage being allocated to this program area based on the relative share of functional program direct expenses.

FTEs were lower due to the timing of filling the budgeted RE direct staff positions.

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RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	1,790,469	1,790,469	-	0.00%
Penalty Sanctions	36,526	36,526	-	0.00%
Total ERO Funding	\$ 1,826,995	\$ 1,826,995	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 1,826,995	\$ 1,826,995	\$ -	0.00%
Expenses				
Personnel Expenses				Personnel Expenses trailed budget primarily due to the timing of hiring additional RE direct staff to fill open budgeted position and less than expected activity required by shared staff on activities necessary to perform the reliability assessments. The variances in payroll taxes, employee benefits, and savings & retirement costs are also due to the differences between the ratios used to develop the budget and the resulting actual ratios. Direct Staff assigned to the RAPA Group and whose personnel expenses are assigned to the RAPA Group also spent time, which is estimated to be approximately 0.25 FTEs, assisting with SAIS activities.
Salaries	503,237	595,000	(91,763)	-15.42%
Payroll Taxes	34,067	45,436	(11,369)	-25.02%
Employee Benefits	35,562	48,895	(13,333)	-27.27%
Savings & Retirement	16,695	26,775	(10,080)	-37.65%
Total Personnel Expenses	\$ 589,561	\$ 716,106	\$ (126,545)	-17.67%
Meeting Expenses				Travel Expenses trailed budget due to less than expected travel expenses for RE direct staff assisting with event analysis activities and the staff assisting with reliability assessment activities.
Meetings	-	-	-	
Travel	64,580	110,000	(45,420)	-41.29%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 64,580	\$ 110,000	\$ (45,420)	-41.29%
Operating Expenses				Consultants & Contracts Expenses were lower as a result of the RE staff's ability to complete the event analysis and reliability assessment activities with fewer consultant resources than expected.
Consultants & Contracts	11,527	75,000	(63,473)	-84.63%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 11,527	\$ 75,000	\$ (63,473)	-84.63%
Total Direct Expenses	\$ 665,668	\$ 901,106	\$ (235,438)	-26.13%
SPP Inc. Indirect Expenses	591,306	651,890	(60,584)	-9.29%
SPP RE Indirect Expenses	231,356	273,998	(42,642)	-15.56%
Total Indirect Expenses	\$ 822,662	\$ 925,888	\$ (103,226)	-11.15%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 1,488,330	\$ 1,826,994	\$ (338,664)	-18.54%
Change in Assets (A - B)	\$ 338,665	\$ -	\$ 338,664	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ 1,488,330	\$ 1,826,994	\$ (338,664)	-18.54%
Change in Working Capital (A-B-C)	\$ 338,665	\$ -	\$ 338,664	
FTE's	4.67	5.00	(0.33)	-6.60%

FTEs were lower due to timing of filling the budgeted direct staff position and less than expected activity necessary for shared staff to complete the reliability assessments

**Southwest Power Pool
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2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011**

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	269,454	269,454	-	0.00%
Penalty Sanctions	7,305	7,305	-	0.00%
Total ERO Funding	\$ 276,759	\$ 276,759	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 276,759	\$ 276,759	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	57,520	68,750	(11,230)	-16.33%
Travel	3,620	24,000	(20,380)	-84.92%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 61,140	\$ 92,750	\$ (31,610)	-34.08%
Operating Expenses				
Consultants & Contracts	-	19,500	(19,500)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ 19,500	\$ (19,500)	-100.00%
Total Direct Expenses	\$ 61,140	\$ 112,250	\$ (51,110)	-45.53%
SPP Inc. Indirect Expenses	59,510	130,378	(70,868)	-54.36%
SPP RE Indirect Expenses	21,249	34,132	(12,882)	-37.74%
Total Indirect Expenses	\$ 80,760	\$ 164,510	\$ (83,750)	-50.91%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 141,900	\$ 276,760	\$ (134,860)	-48.73%
Change in Assets (A - B)	\$ 134,859	\$ -	\$ 134,860	
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)	\$ 141,900	\$ 276,760	\$ (134,860)	-48.73%
Change in Working Capital (A-B-C)	\$ 134,859	\$ -	\$ 134,860	
FTE's	0.47	1.00	(0.53)	-53.00% FTEs were lower due to timing of filling the budgeted direct staff position

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01/01/2011 - 12/31/2011**

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2011 Actual	2011 Budget	Variance from Budget	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	99,880	99,880	-	0.00%
Penalty Sanctions	1,826	1,826	-	0.00%
Total ERO Funding	\$ 101,706	\$ 101,706	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ 101,706	\$ 101,706	\$ -	0.00%
Expenses				
Personnel Expenses				
Salaries	-	24,813	(24,813)	-100.00%
Payroll Taxes	-	1,895	(1,895)	-100.00%
Employee Benefits	-	1,872	(1,872)	-100.00%
Savings & Retirement	-	1,117	(1,117)	-100.00%
Total Personnel Expenses	\$ -	\$ 29,697	\$ (29,697)	-100.00%
Meeting Expenses				
Meetings	-	-	-	
Travel	-	23,300	(23,300)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ 23,300	\$ (23,300)	-100.00%
Operating Expenses				
Consultants & Contracts	6,514	-	6,514	Actual Consultants & Contract Expenses reflect reimbursement of expenses incurred by SPP registered entity representative to attend quarterly NERC CIPC meetings. These costs were budgeted as travel expenses.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ 6,514	\$ -	\$ 6,514	
Total Direct Expenses	\$ 6,514	\$ 52,997	\$ (46,483)	-87.71%
SPP Inc. Indirect Expenses	-	32,595	(32,595)	-100.00%
SPP RE Indirect Expenses	2,264	16,115	(13,851)	-85.95%
Total Indirect Expenses	\$ 2,264	\$ 48,710	\$ (46,446)	-95.35%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 8,778	\$ 101,707	\$ (92,929)	-91.37%
Change in Assets (A - B)	\$ 92,928	\$ -	\$ 92,929	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ 8,778	\$ 101,707	\$ (92,929)	-91.37%
Change in Working Capital (A-B-C)	\$ 92,928	\$ -	\$ 92,929	
FTE's	-	0.25	(0.25)	-100.00%

FTEs were lower as a result of less than expected activity required by shared staff. Direct Staff assigned to the RAPA group spent time, which is estimated to be approximately 0.25 FTEs, assisting with SAIS activities.

Southwest Power Pool
Regional Entity
2011 Statement of Activities and Capital Expenditures
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MEMBER FORUMS	2011	2011	Variance	
	Actual	Budget	from	
			Budget	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments			-	SPP RE Compliance and RAPA staff attend various SPP committees, subcommittees, working groups, and task force meeting that are grouped by technical areas. The expenses incurred by SPP RE staff for attending these meetings are included in the Compliance and RAPA programs.
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	-	-	-	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	-	-	-	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	-	-	-	
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	-	-	-	

**Southwest Power Pool
Regional Entity
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011**

GENERAL and ADMINISTRATIVE	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	(514,752)	(514,752)	-	0.00%
Penalty Sanctions				
Total ERO Funding	<u>\$ (514,752)</u>	<u>\$ (514,752)</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>\$ (514,752)</u>	<u>\$ (514,752)</u>	<u>\$ -</u>	0.00%
Expenses				
Personnel Expenses				
Salaries	564,139	498,050	66,089	13.27%
Payroll Taxes	26,377	38,033	(11,656)	-30.65%
Employee Benefits	27,178	39,135	(11,957)	-30.55%
Savings & Retirement	21,493	22,412	(919)	-4.10%
Total Personnel Expenses	<u>\$ 639,187</u>	<u>\$ 597,630</u>	<u>\$ 41,557</u>	6.95%
Meeting Expenses				
Meetings	15,873	-	15,873	
Travel	52,293	42,000	10,293	24.51%
Conference Calls	-	-	-	
Total Meeting Expenses	<u>\$ 68,166</u>	<u>\$ 42,000</u>	<u>\$ 26,166</u>	62.30%
Operating Expenses				
Consultants & Contracts	6,129	-	6,129	
Rent & Improvements	-	-	-	
Office Costs	2,081	-	2,081	
Professional Services	184,737	193,000	(8,263)	-4.28%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>\$ 192,947</u>	<u>\$ 193,000</u>	<u>\$ (53)</u>	-0.03%
Total Direct Expenses	<u>\$ 900,300</u>	<u>\$ 832,630</u>	<u>\$ 67,670</u>	8.13%
SPP Inc. Indirect Expenses	489,762	521,512	(31,750)	-6.09%
SPP RE Indirect Expenses	(1,390,062)	(1,354,142)	(35,920)	2.65%
Total Indirect Expenses	<u>\$ (900,300)</u>	<u>\$ (832,630)</u>	<u>\$ (67,670)</u>	8.13%
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Total Expenses (B)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Change in Assets (A - B)	<u>\$ (514,752)</u>	<u>\$ (514,752)</u>	<u>\$ -</u>	0.00%
Fixed Assets				
Depreciation	0.00	0.00	0.00	
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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
TOTAL BUDGET (B + C)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Change in Working Capital (A-B-C)	<u>\$ (514,752)</u>	<u>\$ (514,752)</u>	<u>\$ -</u>	0.00%
FTE's	<u>3.87</u>	<u>4.00</u>	<u>(0.13)</u>	-3.25%

FTE's were lower due to timing of filling the budgeted direct staff position

**Southwest Power Pool
Regional Entity
2010 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011**

LEGAL and REGULATORY	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	<u>-</u>	<u>-</u>	<u>-</u>	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	40,766	150,000	(109,234)	-72.82% Professional Services Expenses were lower than budget due to less than expected hearing costs.
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>40,766</u>	<u>150,000</u>	<u>(109,234)</u>	<u>-72.82%</u>
Total Direct Expenses	<u>40,766</u>	<u>150,000</u>	<u>(109,234)</u>	
SPP Inc. Indirect Expenses	-	-	-	
SPP RE Indirect Expenses	(40,766)	(150,000)	109,234	
Total Indirect Expenses	<u>\$ (40,766)</u>	<u>\$ (150,000)</u>	<u>\$ 109,234</u>	<u>-72.82%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses (B)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Assets (A - B)	<u>-</u>	<u>-</u>	<u>-</u>	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
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	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (B + C)	<u>-</u>	<u>-</u>	<u>-</u>	
Change in Working Capital (A-B-C)	<u>-</u>	<u>-</u>	<u>-</u>	
FTE's	<u>-</u>	<u>-</u>	<u>-</u>	

**Southwest Power Pool
Regional Entity
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011**

INFORMATION TECHNOLOGY	2011	2011	Variance from Budget	Comments (Explain variances < +/- 10% and <\$10,000)
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments			-	The costs for IT services to support all RE programs are accounted for within the SPP, Inc. Indirect Expenses.
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ -	\$ -	\$ -	
SPP Inc. Indirect Expenses	-	-	-	
SPP RE Indirect Expenses	-	-	-	
Total Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets (A - B)	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTE's	-	-	-	

Southwest Power Pool
Regional Entity
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011

HUMAN RESOURCES	2011	2011	Variance	
	Actual	Budget	from Budget	
			Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments			-	
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	The costs for HR services to support all RE programs are accounted for within the SPP, Inc. Indirect Expenses.
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contract	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Total Direct Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ -	\$ -	\$ -	
Change in Assets (A - B)	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ -	
Change in Working Capital	\$ -	\$ -	\$ -	
FTE's	-	-	-	

**Southwest Power Pool
Regional Entity
2011 Statement of Activities and Capital Expenditures
01/01/2011 - 12/31/2011**

ACCOUNTING and FINANCE	2011 Actual	2011 Budget	Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments			-	The costs for Accounting and Finance services to support all RE programs are accounted for within the SPP, Inc. Indirect Expenses.
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
Total Personnel Expenses	\$ -	\$ -	\$ -	
Meeting Expenses				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ -	\$ -	\$ -	
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	\$ -	\$ -	\$ -	
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	
TOTAL BUDGET (B + C)	\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTE's	-	-	-	

CALCULATION OF THE SPP INC. INDIRECT EXPENSE RATE¹

<u>Support Groups</u> ²	<u>Overhead Costs to Allocate</u>
Administration	\$ 14,753,589 *
Officers	3,014,759 **
Accounting	1,020,531
Human Resources	1,585,937
Customer Services	400,513
Legal	618,991
Communications	283,782
Information Technology	10,396,940
Total Costs	\$ 32,075,042 A
<u>Non-Support Resource Groups</u>	
Ending 2009 Headcounts	246
Average Work Hours/FTE in 2009	1880
# of Work Hours in 2009	462,480 B
2009 Indirect Overhead Expense Rate Rate (A/B)	\$ 69.35
Times Budgeted SPP RE FTEs	29.67
Times Average Work Hours/FTE in 2010	1,880
Budgeted SPP Inc. Indirect Costs	\$ 3,867,881

¹Due to the timing of the budget process/schedule, the estimated overhead rate for 2011 is based on actual 2009 costs. Any variance between the estimated overhead rate and the actual 2011 overhead rate will be included in the annual 2011 Business Plan and Budget true-up filing.

² The services provided by these support groups are separate and distinct from the services provided by SPP RE direct staff and consultants and contractors.

* Does not include FERC Pass-Thru Fees and depreciation of market and transmission assets.

** Does not include costs for executives performing delegated functions.

CALCULATION OF THE ACTUAL 2011 SPP INC. INDIRECT EXPENSE RATE

<u>Support Groups</u> ¹	<u>Overhead Costs to Allocate</u>
Administration	\$ 13,512,703 *
Officers	5,186,792 **
Accounting	1,126,218
SPP Compliance- Physical Security	191,153
Human Resources	2,161,869
Customer Services	560,123
Legal	1,254,391
Communications	320,881
Information Technology	13,795,479
Total Costs	\$ 38,109,609 A
<u>Non-Support Resource Groups</u>	
Ending 2011 Headcounts	301
Average Work Hours/FTE in 2011	1880
# of Work Hours in 2011	565,880 B
2011 Indirect Overhead Expense Rate Rate (A/B)	\$ 67.35
Times Actual SPP RE FTEs	26.38
Times Average Work Hours/FTE	1,880
Actual SPP Inc. Indirect Costs	\$ 3,339,933

¹The services provided by these support groups are separate and distinct from the services provided by SPP RE direct staff and consultants and contractors.

* Does not include FERC Pass-Thru Fees and depreciation of market and transmission assets.

** Does not include costs for executives performing delegated functions.

Southwest Power Pool, Inc.

Accountants' Report and Financial Statements

December 31, 2011 and 2010



Southwest Power Pool, Inc.
December 31, 2011 and 2010

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Independent Accountants' Report

Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying balance sheets of Southwest Power Pool, Inc. as of December 31, 2011 and 2010, and the related statements of operations, members' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ **BKD, LLP**

April 17, 2012

Southwest Power Pool, Inc.

Balance Sheets

(In Thousands)

December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 73,763	\$ 81,041
Restricted cash deposits	34,903	25,668
Accounts receivable	15,901	18,509
Prepaid expenses and other	<u>6,636</u>	<u>3,351</u>
Total current assets	<u>131,203</u>	<u>128,569</u>
Property and Equipment, at Cost		
Land	4,812	4,812
Building	5,965	5,965
Furniture and fixtures	4,613	4,395
Equipment and machinery	31,846	20,994
Leasehold improvements	1,309	1,283
Software	74,646	71,082
Software in development	34,351	10,689
Construction in progress	<u>46,779</u>	<u>6,114</u>
	204,321	125,334
Less accumulated depreciation and amortization	<u>92,133</u>	<u>79,334</u>
	<u>112,188</u>	<u>46,000</u>
Other Assets, Net	<u>2,915</u>	<u>3,192</u>
	<u>\$ 246,306</u>	<u>\$ 177,761</u>

Liabilities and Members' Deficit

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Accounts payable	\$ 17,816	\$ 10,348
Customer deposits	34,903	25,668
Current maturities of long-term debt <i>(Note 4)</i>	11,206	13,206
Accrued expenses	25,741	26,448
Deferred revenue	<u>7,450</u>	<u>6,174</u>
Total current liabilities	<u>97,116</u>	<u>81,844</u>
Long-term Debt <i>(Note 4)</i>	170,958	112,163
Other Long-term Liabilities	7,654	4,136
Members' Deficit	<u>(29,422)</u>	<u>(20,382)</u>
	<u>\$ 246,306</u>	<u>\$ 177,761</u>

Southwest Power Pool, Inc.
Statements of Operations
(In Thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Income		
Tariff fees and member assessments	\$ 95,825	\$ 86,563
Other member services	<u>33,115</u>	<u>29,526</u>
	<u>128,940</u>	<u>116,089</u>
Operating Expenses		
Salaries and benefits	64,514	56,896
Employee travel	1,655	1,424
Administrative	3,003	2,899
Regulatory assessment	16,639	14,101
Meetings	838	775
Communications system	3,204	3,079
Leases	1,624	1,707
Maintenance	7,308	6,354
Consulting services	16,124	14,366
Depreciation and amortization	<u>13,107</u>	<u>14,243</u>
	<u>128,016</u>	<u>115,844</u>
Operating Income	<u>924</u>	<u>245</u>
Other Income (Expense)		
Interest income	157	56
Interest expense	(6,307)	(3,619)
Change in fair market value of interest rate swaps	183	53
Other income (expense)	<u>(21)</u>	<u>79</u>
	<u>(5,988)</u>	<u>(3,431)</u>
Loss Before Change in Funded Status of Employee Benefit Plans	(5,064)	(3,186)
Change in Funded Status of Employee Benefit Plans	<u>(3,976)</u>	<u>2,110</u>
Net Loss	<u>\$ (9,040)</u>	<u>\$ (1,076)</u>

Southwest Power Pool, Inc.
Statements of Members' Deficit
(In Thousands)
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Balance, Beginning of Year	\$ (20,382)	\$ (19,306)
Net loss	<u>(9,040)</u>	<u>(1,076)</u>
Balance, End of Year	<u>\$ (29,422)</u>	<u>\$ (20,382)</u>

Southwest Power Pool, Inc.
Statements of Cash Flows
(In Thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Net loss	\$ (9,040)	\$ (1,076)
Items not requiring cash		
Depreciation and amortization	13,107	14,243
Impairment loss	152	-
Change in funded status of employee benefit plans	3,976	(2,110)
Change in fair market value of interest rate swaps	(183)	(53)
Changes in assets and liabilities		
Accounts receivable	2,608	(3,426)
Prepaid expenses and other	(3,285)	(213)
Other assets	(121)	(1,120)
Accounts payable	7,468	(1,121)
Accrued expenses	569	5,594
Other long-term liabilities	67	96
Net cash provided by operating activities	15,318	10,814
Investing Activities		
Acquisition of property and equipment	(79,391)	(21,737)
Net cash used in investing activities	(79,391)	(21,737)
Financing Activities		
Repayments of long-term debt	(13,205)	(9,206)
Issuance of long-term debt	70,000	65,000
Net cash provided by financing activities	56,795	55,794
Increase (Decrease) in Cash and Cash Equivalents	(7,278)	44,871
Cash and Cash Equivalents, Beginning of Year	81,041	36,170
Cash and Cash Equivalents, End of Year	\$ 73,763	\$ 81,041
Supplemental Cash Flow Information		
Interest paid (net of interest capitalized of \$1,943 and \$224 in 2011 and 2010, respectively)	\$ 6,498	\$ 3,512

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Southwest Power Pool, Inc. (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than six million ultimate customers across all or parts of nine states. The Company's membership consists of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, electric reliability coordination, regional transmission scheduling, energy imbalance service (EIS) market operations and regional transmission expansion planning.

The Company also serves as the Regional Entity (RE) for its region. The primary responsibility of the RE is the enforcement of North American Electric Reliability Corporation (NERC)-approved reliability standards for users, owners and operators of the bulk power system within the region.

Use of Estimates

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

Cash and Cash Equivalents and Deposits (in Thousands)

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2011 and 2010, the Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds held in escrow for disputed invoices.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250. At December 31, 2011, the Company's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Income Taxes

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law. However, the Company is subject to federal income tax on any unrelated business taxable income.

The Company files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Accounts Receivable

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date bear interest at a rate set by FERC. Interest continues to accrue until the account is paid or deemed uncollectible.

Property and Equipment (in Thousands)

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

Building	20 years
Furniture and fixtures	5 years
Vehicles	5 years
Equipment and machinery	3 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$1,943 and \$224 in 2011 and 2010, respectively.

The Company capitalizes development costs, including interest, for internal use software costs. These costs are included in software and software in development. Except as noted below, management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Long-lived Asset Impairment (in Thousands)

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

In 2011, management of the Company determined the system development completed in prior years for the Centralized Balancing Authority (CBA) is now obsolete technology and therefore has no fair value. An impairment loss of \$152 was recognized for the year ended December 31, 2011. The loss is included in consulting services in the accompanying Statement of Operations.

Revenue Recognition

Revenues, consisting of member assessments, tariff administrative fees, contract services and miscellaneous revenues are recognized when earned, and expenses are recognized when incurred.

Customer Deposits

Customers may be required to make deposits with the Company prior to the performance of transmission services and engineering studies. These amounts are typically held for the duration of the service and applied to the customer's final invoice. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds held in escrow related to disputed invoices are also recorded as a customer deposit under current liabilities.

Tariff Fees and Member Assessments (in Thousands)

An administrative charge is applied to all transmission service under the Company's tariff to cover the expenses related to the administration of the tariff. The charge is calculated in accordance with the terms of the Company's Open Access Transmission Tariff. The administrative rate used for the calculation is established by the board of directors.

Members are assessed monthly based on their prior year average 12-month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the board. A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2011 and 2010, all members paid a \$6,000 membership fee.

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The Company also bills transmission customers and transmission owners a charge under schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers and transmission owners the annual charges the Company pays to FERC. The rate is developed by FERC in the prior calendar year and applied to energy transmitted in the second prior calendar year.

Deferred Revenue

Revenues for contract services received in advance are recognized over the periods to which the revenues relate.

Other Member Services

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis.

Withdrawing Members

Members wishing to withdraw their membership from the Company must provide 12 months written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal, and the member's share of long-term obligations and related interest.

Concentration of Credit Risk

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2011 and 2010, the Company maintained cash balances that exceeded the insurance limits of the Federal Deposit Insurance Corporation. However, the Company requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

Because the Company considers all accounts receivable to be highly probable of collection, an allowance for doubtful accounts is not maintained. The Company requires its customers to meet certain minimum standards of financial condition and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a counterparty, the Company requires the posting of defined financial security instruments to cover potential liabilities.

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Note 2: Line of Credit (In Thousands)

The Company has a \$20,000 revolving line of credit expiring in 2013. At December 31, 2011 and 2010, no amounts were borrowed against this line. The agreement has a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus a credit margin. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2011.

Note 3: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present organizations with difficult circumstances and challenges, which, in some cases, have resulted in large declines in fair value of assets, decrease in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Company.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the Company's ability to meet debt covenants or maintain sufficient liquidity.

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Note 4: Long-term Debt and Interest Rate Swaps (in Thousands)

Long-term Debt

	2011	2010
4.78% notes due 2011 (A)	\$ -	\$ 5,000
Variable Rate Term Note due 2027 (B)	4,164	4,369
Variable Rate Term Note due 2014 (C)	16,000	21,000
Variable Rate Term Note due 2016 (D)	27,000	30,000
4.82% Series 2010-A Senior Notes due 2042 (E)	30,000	30,000
4.82% Series 2010-B Senior Notes due 2042 (F)	35,000	35,000
3.55% Series 2010-C Senior Notes due 2024 (G)	70,000	-
	<u>182,164</u>	<u>125,369</u>
Less current maturities	<u>11,206</u>	<u>13,206</u>
	<u>\$ 170,958</u>	<u>\$ 112,163</u>

- (A) Due June 25, 2011; principal payable annually, beginning on June 25, 2007; interest payable semi-annually at 4.78%. The note agreement requires mandatory prepayments of outstanding principal upon withdrawal from the Company of various aggregates of membership. The Company was not subject to any mandatory prepayments during 2010 and 2011. The notes are unsecured.
- (B) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note is secured by a first mortgage on the Company's operation facility.
- (C) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven-year amortization. Payments commenced on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note is unsecured.
- (D) Due July 23, 2016; principal and interest are payable quarterly based on a seven-year amortization. Payments commenced on September 30, 2011. The interest rate is fixed at 5.45%. The note is unsecured.
- (E) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (F) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.

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- (G) Due March 30, 2024; principal and interest are payable quarterly based on 13-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.55%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2011, are:

2012	\$	11,206
2013		12,700
2014		17,998
2015		14,300
2016		11,353
Thereafter		<u>114,607</u>
	\$	<u><u>182,164</u></u>

Certain of the Company's term notes require compliance with financial and non-financial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2011.

Variable-to-Fixed Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement on September 15, 2006 with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$4,131 and \$4,335 at December 31, 2011 and 2010, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan B).

The Company entered into another interest rate swap agreement on August 23, 2007, with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.31% on notional amounts of \$16,000 and \$21,000 at December 31, 2011 and 2010, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan C).

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The table below presents certain information regarding the Company's interest rate swap agreements.

	<u>2011</u>	<u>2010</u>
Fair value of interest rate swap agreements	\$ 2,531	\$ 2,714
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long- term Liabilities
Gain recognized in statement of operations	\$ 183	\$ 53
Location of gain recognized in statement of operations	Change in Fair Market Value of Interest Rate Swaps	Change in Fair Market Value of Interest Rate Swaps

Note 5: Operating Leases (In Thousands)

The Company has noncancellable operating leases for office space and certain office equipment, which expire at various times through 2014. The Company incurred lease expense related to these operating leases of \$1,624 and \$1,707 in 2011 and 2010, respectively.

Future minimum lease payments at December 31, 2011, were:

2012	\$ 1,563
2013	743
2014	<u>246</u>
	<u>\$ 2,552</u>

Note 6: Employee Benefit Plans (in Thousands)

Pension and Other Postretirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$3,600 to the plan in 2012.

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The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined postretirement health care plan. The Company’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$444 to the plan in 2012.

The Company uses a December 31 measurement date for the plans. Information about the plans’ funded status is as follows:

	Pension Benefits		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Benefit obligation	\$ 28,921	\$ 23,862	\$ 5,950	\$ 5,298
Fair value of plan assets	<u>25,263</u>	<u>23,536</u>	<u>6,751</u>	<u>6,440</u>
Funded status	<u>\$ (3,658)</u>	<u>\$ (326)</u>	<u>\$ 801</u>	<u>\$ 1,142</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Noncurrent assets	\$ -	\$ -	\$ 801	\$ 1,142
Noncurrent liabilities	<u>(3,658)</u>	<u>(326)</u>	-	-
	<u>\$ (3,658)</u>	<u>\$ (326)</u>	<u>\$ 801</u>	<u>\$ 1,142</u>

Amounts recognized in members’ equity not yet recognized as components of net periodic benefit cost as of December 31, 2011, consist of:

	Pension Benefits	Postretirement Health Care Benefits
Net (gain)/loss	\$ 6,457	\$ (810)
Prior service credit	(19)	-
Transition obligation	<u>148</u>	<u>40</u>
	<u>\$ 6,586</u>	<u>\$ (770)</u>

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The accumulated benefit obligation for the defined benefit pension plan was \$22,317 and \$18,104 at December 31, 2011 and 2010, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Employer contributions	\$ 3,133	\$ 3,122	\$ 445	\$ 511
Benefits paid	144	129	20	20
Benefit costs	2,830	2,763	445	511

The following amounts have been recognized in the statements of operations for the year ended December 31, 2011:

	Pension Benefits		Postretirement Health Care Benefits	
Amounts arising during the period				
Net gain or (loss)	\$	(2,900)	\$	(77)
Amounts recognized as components of net periodic benefit cost of the period				
Net (gain) or loss		25		(26)
Net prior service credit		1		-
Net transition obligation		16		4

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are \$210, \$1 and \$16, respectively. There is no prior service credit for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year.

Weighted-average assumptions used to determine benefit obligations and costs:

	Pension Benefits		Postretirement Health Care Benefits	
	2011	2010	2011	2010
Discount rate benefit obligation	6.25%	6.5%	6.25%	6.5%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.25%	4.5%	-	-

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

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For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2011 and 2010. The rate was assumed to decrease gradually to 5% by the year 2017 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The Company has not determined whether its plan provides benefits that are actuarially equivalent to Medicare Part D.

Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2005*, subsequently incorporated into FASB Accounting Standards Codification (ASC) 715-60, requires federal subsidies, if any, attributable to past service to be accounted for as an actuarial gain and federal subsidies, if any, attributable to current service to be accounted for as a reduction of net periodic benefit cost. The measures of projected benefit obligation and periodic benefit costs do not reflect any amounts associated with the subsidy because the Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. The effect of adopting the provisions of ASC 715-60, if and when the Company makes such a determination, is not expected to be material.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

	<u>Pension Benefits</u>	<u>Postretirement Health Care Benefits</u>
2012	\$ 236	\$ 58
2013	348	87
2014	440	104
2015	552	119
2016	656	134
2017–2021	5,817	1,457

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The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually. At December 31, 2011 and 2010, plan assets by category are as follows:

	Pension Plan Assets		Postretirement Health Care Plan Assets	
	2011	2010	2011	2010
Fixed income securities	14%	15%	30%	28%
Equity securities	74	75	67	71
Cash and equivalents	<u>12</u>	<u>10</u>	<u>3</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Pension and Other Postretirement Plan Assets

Following is a description of the valuation methodologies used for the pension and postretirement plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of the assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, mutual funds and common stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include foreign company stock, corporate debt obligations, foreign corporate debt obligations, government securities and foreign government securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2011, the Company does not hold any plan assets valued using Level 3 inputs.

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The fair values of the Company's pension plan assets at December 31, 2011, by asset category are as follows:

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3	\$ 3	\$ -	\$ -
Money market mutual funds	343	343	-	-
Mutual funds				
Foreign large blend	565	565	-	-
Mid cap value	1,180	1,180	-	-
Mid cap growth	3,031	3,031	-	-
Small cap growth	922	922	-	-
Large growth	3,572	3,572	-	-
Common stock				
Industrial materials	1,368	1,368	-	-
Consumer goods	670	670	-	-
Energy	1,375	1,375	-	-
Healthcare services	1,677	1,677	-	-
Hardware	25	25	-	-
Business services	464	464	-	-
Foreign company stock				
Industrial materials	1,087	-	1,087	-
Hardware	508	-	508	-
Business services	204	-	204	-
Energy	879	-	879	-
Financial services	811	-	811	-
Telecommunications	83	-	83	-
Healthcare services	223	-	223	-
Corporate debt obligations	2,668	-	2,668	-
Foreign corporate debt obligations	616	-	616	-
Government securities	<u>2,989</u>	<u>-</u>	<u>2,989</u>	<u>-</u>
Total	\$ <u>25,263</u>	\$ <u>15,195</u>	\$ <u>10,068</u>	\$ <u>0</u>

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The fair values of the Company's pension plan assets at December 31, 2010, by asset category are as follows:

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3	\$ 3	\$ -	\$ -
Money market mutual funds	267	267	-	-
Mutual funds				
Foreign large blend	535	535	-	-
Mid cap value	704	704	-	-
Mid cap growth	1,638	1,638	-	-
Large growth	5,072	5,072	-	-
Common stock				
Industrial materials	2,324	2,324	-	-
Consumer goods	117	117	-	-
Financial Services	604	604	-	-
Energy	1,361	1,361	-	-
Healthcare services	1,111	1,111	-	-
Hardware	48	48	-	-
Business services	99	99	-	-
Foreign company stock				
Industrial materials	1,501	-	1,501	-
Hardware	334	-	334	-
Business services	235	-	235	-
Energy	682	-	682	-
Financial services	770	-	770	-
Consumer Goods	231	-	231	-
Telecommunications	90	-	90	-
Healthcare services	197	-	197	-
Corporate debt obligations	2,350	-	2,350	-
Foreign corporate debt obligations	580	-	580	-
Government securities	2,381	-	2,381	-
Foreign government securities	302	-	302	-
Total	\$ <u>23,536</u>	\$ <u>13,883</u>	\$ <u>9,653</u>	\$ <u>0</u>

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The fair value of the Company's other postretirement benefit plan assets at December 31, 2011, by asset category are as follows:

Asset Category	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 8	\$ 8	\$ -	\$ -
Money market mutual funds	190	190	-	-
Mutual funds				
Equities				
Foreign large blend	249	249	-	-
Foreign large growth	248	248	-	-
Mid cap value	154	154	-	-
Mid cap growth	356	356	-	-
Small cap value	140	140	-	-
Small blend	149	149	-	-
Real estate	327	327	-	-
Emerging markets	203	203	-	-
Commodities	298	298	-	-
Fixed income				
Bond funds	1,735	1,735	-	-
Inflation protected	280	280	-	-
Common stock				
Industrial materials	293	293	-	-
Consumer goods and services	553	553	-	-
Financial services	180	180	-	-
Energy	222	222	-	-
Healthcare services	321	321	-	-
Hardware	125	125	-	-
Business services	235	235	-	-
Software	60	60	-	-
Telecommunications	84	84	-	-
Media	59	59	-	-
Utilities	107	107	-	-
Foreign company stock				
Business services	69	-	69	-
Financial services	56	-	56	-
Energy	50	-	50	-
Total	\$ 6,751	\$ 6,576	\$ 175	\$ 0

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Notes to Financial Statements

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The fair value of the Company's other postretirement benefit plan assets at December 31, 2010, by asset category are as follows:

Asset Category	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 2	\$ 2	\$ -	\$ -
Money market mutual funds	78	78	-	-
Mutual funds				
Equities				
Foreign large blend	311	311	-	-
Foreign large growth	287	287	-	-
Mid cap value	266	266	-	-
Mid cap growth	278	278	-	-
Small cap value	142	142	-	-
Small blend	142	142	-	-
Real estate	422	422	-	-
Emerging markets	204	204	-	-
Commodities	382	382	-	-
Fixed income				
Bond funds	183	183	-	-
Inflation protected	1,634	1,634	-	-
Common stock				
Industrial materials	323	323	-	-
Consumer goods and services	390	390	-	-
Financial services	207	207	-	-
Energy	186	186	-	-
Healthcare services	251	251	-	-
Hardware	142	142	-	-
Business services	61	61	-	-
Software	166	166	-	-
Telecommunications	128	128	-	-
Media	31	31	-	-
Utilities	66	66	-	-
Foreign company stock				
Business services	63	-	63	-
Financial services	50	-	50	-
Energy	45	-	45	-
Total	\$ 6,440	\$ 6,282	\$ 158	\$ 0

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Defined Contribution Plans

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company contributes funds to the plan on behalf of plan participants equal to 75% of the participants' elective deferrals up to 6% of deferred compensation. Contributions to the plan were \$1,966 and \$1,658 for 2011 and 2010, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Accumulated contributions and earnings of \$775 and \$652 are recorded in other long-term liabilities at December 31, 2011 and 2010, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. Accrued benefits of \$691 and \$443 are recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2011 and 2010, respectively.

Note 7: Related Party Transactions (in Thousands)

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$8,984 and \$9,986 as of December 31, 2011 and 2010, respectively. The Company recognized revenues of \$88,257 and \$84,698, including assessments and tariff administrative fees, from members for the years ended December 31, 2011 and 2010, respectively.

The Southwest Power Pool Regional State Committee (RSC) was incorporated on April 7, 2004, in the State of Arkansas. The RSC is comprised of commissioners from public service commissions or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004, order regarding the Company's RTO application, stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's board of directors for approval. The Company includes in its annual budget funds sufficient to cover 100% of the operating costs of the RSC. During 2011 and 2010, the Company incurred \$311 and \$178, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2012 to be approximately \$394.

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Note 8: Open Access Transmission and EIS Market Operations (In Thousands)

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 15 providers in nine states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2011 and 2010, the Company billed transmission customers \$944,613 and \$698,748, respectively. For the years ended December 31, 2011 and 2010, the Company remitted to transmission owners \$864,380 and \$627,931, respectively. At December 31, 2011 and 2010, the Company was due to collect from customers and remit to owners transmission service charges of \$71,590 and \$53,810, respectively.

The Company's EIS market is a wholesale market that operates under a tariff approved by FERC and is consistent with the mandate of the FERC Order No. 2000, which requires RTOs to provide real-time energy imbalance services and market monitoring functions. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of operations since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis.

Note 9: Commitments and Contingencies (in Thousands)

Litigation and Regulatory Matters

The Company is engaged in various regulatory proceedings at both the federal and state levels. The Company is also subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such proceedings, claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

Construction Contract

The Company entered into a \$52,691 contract for the construction of a new facility. The remaining commitment on the contract at December 31, 2011, was approximately \$13,517.

Integrated Marketplace Contracts

The company entered into long term contracts totaling \$72,491 with numerous vendors for the development of various components of systems that will comprise the Integrated Marketplace. The remaining commitment on these contracts at December 31, 2011, was approximately \$54,331.

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Building Lease Decommissioning

The Company is constructing a new corporate campus and expects to complete the employee migration to the new facility in July 2012. The Company is currently leasing office space that will expire on September 30, 2012. In accordance with the lease agreement, the Company has agreed to pay a vacation services fee to the lessor in 2012 upon vacating the rented office space. An expense of \$631 was recognized for the year ended December 31, 2011, and is included in consulting services in the accompanying Statement of Operations.

Note 10: Disclosures About Fair Value of Financial Instruments (in Thousands)

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At December 31, 2011 and 2010, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheets was a liability of \$2,531 and \$2,714, respectively.

Cash Equivalents

The fair value of money market mutual funds included in cash equivalents are estimated using quoted prices in active markets for identical assets or liabilities. At December 31, 2011 and 2010, the fair value measurement of the cash equivalents as recognized in the accompanying balance sheets was \$12,636 and \$4,261, respectively.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Restricted Cash Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Customer Deposits

The carrying amount is a reasonable estimate of fair value.

Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2011 and 2010.

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 73,763	\$ 73,763	\$ 81,041	\$ 81,041
Restricted cash deposits	\$ 34,903	\$ 34,903	\$ 25,668	\$ 25,668
Financial liabilities				
Customer deposits	\$ 34,903	\$ 34,903	\$ 25,668	\$ 25,668
Long-term debt	\$ 182,164	\$ 171,540	\$ 125,369	\$ 101,799
Swap agreements	\$ 2,531	\$ 2,531	\$ 2,714	\$ 2,714

Note 11: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

ATTACHMENT 8

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.

May 29, 2012

Michael Walker, CFO
Susan Turpen, Controller
North American Electric Reliability Corporation
3343 Peachtree Road, NE Floor East Tower – Suite 400
Atlanta, GA 30326

Subject: Texas Reliability Entity (Texas RE) 2011 Actual Cost-to-Budget Comparison

Dear Mr. Walker and Ms. Turpen,

Texas Reliability Entity (Texas RE) has completed the 2011 True Up Analysis. The budget comparisons are compared to the 2011 Texas RE budget, formally approved by FERC.

Texas RE did not use Statutory funds for Non-statutory purposes. Texas RE's policy is to allocate indirect expenses to programs based on the pro-rata share of FTEs to total program FTEs.

Texas RE maintains a 60 day cash reserve balance.

The significant expense variances at the aggregate statutory level are explained below, while the explanations for the expense variances by statutory program area are provided in the attached spreadsheet.

INCOME

Total Income was under budget by \$59k or 0.6%.

Workshop Fees were under budget by \$79k or 36% due to less attendee fees for the Operations Training Seminar (OTS). The fee reduction was primarily related to cost reductions associated with the seminar being shortened by one day and efficiencies in material distribution.

Membership Fees increased 29%. More entities joined in 2011 than anticipated. We do not expect the trend to continue in 2012 because some members have indicated not all of their affiliated entities will be members.

Interest earned was \$12k over budget due the cash balance from Fines, Penalties and assessments

EXPENSES

Personnel Expenses (Actual \$477K or 7% below budget)

Salary expense was \$224K or 4.7% less than budget due to FTE vacancies. The vacancies were the result of employee turnover and the timing of hiring replacement employees. The budget included additional FTEs which were not hired causing several departments to have vacant positions. Being a function of Salaries, Payroll taxes, Employee benefits, and Savings and Retirement are also less than budget.

Travel and Meeting Expenses (Actual \$198k or 35% less than budget)

Meeting and travel expenses were less than expected primarily due to Operations Training Seminar (OTS) being reduced from 4 days to 3 days, resulting in less meeting costs and lower associated costs for hotel, meals, etc. The travel budget included contingency money for unexpected events which was not needed in 2011.

Other Operating Expenses (Actual \$197K or 7.4% less than budget)

Consultants and Contract costs were less than budget primarily due to positions being filled internally for outside help desk and IT support. An unbudgeted executive compensation study required consultants in G & A. These costs were offset by insurance and accounting services that were not used but budgeted under professional services. Office costs were significantly greater than budget due to software, IT consumable supplies, maintenance agreements, unbudgeted credit card processing fees in finance (\$6k), Sage Accounting Maintenance fees (\$5k) and sales and use tax incurred for office costs. Considering all components, the net result for other operating expenses was less than budget by 7.4%.

Indirect Expenses (Actual \$106K or 44.9% less than budget)

Texas RE indirect expenses were less than budget due to actual FTEs being lower than budget. Indirect expenses were allocated to programs based on the number of actual FTEs.

Total Expenses (Actual \$786K or 8.25% less than budget)

Professional Services: Because Texas RE did not have a contested case begin until late in 2011, professional services were significantly lower than anticipated for 2011.

Contracts: Texas RE experienced lower outside contract services than anticipated because it chose to hire and use internal staff instead of outside contractors to perform certain IT services.

CMEP activities (with reduced staff):

Compliance: Texas RE was able to complete all planned audits and spot checks on schedule. Due to resource constraints, however, Texas RE was not able to begin any spot checks required by the February 2011 cold winter event until December 2011. In addition, Texas RE received significantly more self- reports in 2011 than anticipated (102 instead of the 24 anticipated). Texas RE was not able to complete a compliance review of most self- reports until late in the year, due to resource constraints caused by personnel vacancies.

Enforcement: Texas RE experienced significantly more violations than anticipated for 2011 (130 from audits, 44 from spot checks, 23 from self- certifications, and 102 from spot checks). Due to limited personnel, Texas RE was unable to process the number of violations desired as quickly as desired, and the violation caseload increased by approximately 100 over the year, leaving a caseload of approximately 290 at the end of 2011.

FIXED ASSETS

Depreciation ran \$149k greater than budget. Capital items were actually purchased at the end of 2010 after the budget was submitted, but did not begin depreciation until 2011. The depreciation for those capital items was not included in the 2011 budget.

Computer and software costs are 97.9% less than budget because items included in the IT department budget were not purchased due to leasing the compliance portal. Texas RE elected to use OATIs web CDMS (Compliance Data Management System) instead of purchasing a compliance portal.

Furniture was purchased in order to expand available workstations for employees. Leasehold improvement was for media installation. Neither item was included in the 2011 budget.

If you have any questions on the report or the attached spreadsheet, please call me at 812-583-4959.

Thank you.

Judy Foppiano

Finance and Accounting Manager

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Consolidated Statutory Non-Statutory

Total Statutory & Non-Statutory Combined	2011	2011	2011 Variance
	Actual	Budget	from Budget Over(Under)
Funding			
ERO Funding			
Assessments	9,227,823	9,227,823	-
Penalty Sanctions	20,000	20,000	-
Total ERO Funding	\$ 9,247,823	\$ 9,247,823	\$ -
Federal Grants	-	-	-
Membership Fees & Non-Statutory Fees	1,005,497	997,475	8,022
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	136,325	215,500	(79,175)
Interest	13,520	600	12,920
Miscellaneous	-	-	-
Total Funding (A)	\$ 10,403,165	\$ 10,461,398	\$ (58,233)
Expenses			
Personnel Expenses			
Salaries	4,919,002	5,302,916	(383,914)
Payroll Taxes	350,455	467,181	(116,726)
Employee Benefits	568,859	660,557	(91,698)
Savings & Retirement	641,601	766,868	(125,267)
Total Personnel Expenses	6,479,917	7,197,522	(717,604)
Meeting Expenses			
Meetings	111,432	234,300	(122,868)
Travel	258,552	334,975	(76,423)
Conference Calls	3,821	12,000	(8,179)
Total Meeting Expenses	373,804	581,275	(207,470)
Operating Expenses			
Consultants & Contracts	415,380	624,971	(209,591)
Rent & Improvements	533,927	499,000	34,927
Office Costs	456,906	275,063	181,843
Professional Services	480,717	786,000	(305,284)
Miscellaneous	-	-	-
Depreciation	680,518	532,418	148,099
Total Operating Expenses	2,567,447	2,717,453	(150,005)
Indirect Expenses	(0)	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	9,421,169	10,496,249	(1,075,080)
Change in Assets (A - B)	981,996	(34,851)	1,016,847
Fixed Assets			
Depreciation	(680,518)	(532,418)	(148,099)
Computer & Software CapEx	6,056	290,000	(283,944)
Furniture & Fixtures CapEx	27,299	-	27,299
Equipment CapEx	-	-	-
Leasehold Improvements	85,970	-	85,970
Incr(Dec) in Fixed Assets	(561,193)	(242,418)	(318,774)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(561,193)	(242,418)	(318,774)
TOTAL BUDGET (B + C)	8,859,976	10,253,830	(1,393,854)
Change in Working Capital (A-B-C)	1,543,188	207,567	1,335,621
FTE's	45.6	54.0	(8.4)

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Statutory

Total Statutory	2011	2011	2011 Variance
	Actual	Budget	from Budget
			Over(Under)
Funding			
ERO Funding			
Assessments	9,227,823	9,227,823	-
Penalty Sanctions	20,000	20,000	-
Total ERO Funding	\$ 9,247,823	\$ 9,247,823	\$ -
Federal Grants	-	-	-
Membership Fees	35,497	27,500	7,997
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	136,325	215,500	(79,175)
Interest	12,852	600	12,252
Miscellaneous	-	-	-
Total Funding (A)	\$ 9,432,497	\$ 9,491,423	\$ (58,926)
Expenses			
Personnel Expenses			
Salaries	4,571,040	4,795,004	(223,964)
Payroll Taxes	323,748	423,649	(99,901)
Employee Benefits	530,487	589,499	(59,012)
Savings & Retirement	599,202	693,220	(94,018)
Total Personnel Expenses	6,024,478	6,501,372	(476,894)
Meeting Expenses			
Meetings	111,432	234,300	(122,868)
Travel	256,211	322,753	(66,542)
Conference Calls	3,821	12,000	(8,179)
Total Meeting Expenses	371,463	569,053	(197,589)
Operating Expenses			
Consultants & Contracts	376,853	616,571	(239,718)
Rent & Improvements	500,567	499,000	1,567
Office Costs	418,061	249,239	168,822
Professional Services	474,173	750,000	(275,827)
Miscellaneous	-	-	-
Depreciation	680,518	532,418	148,099
Total Operating Expenses	2,450,172	2,647,229	(197,057)
Indirect Expenses	(105,518)	(191,381)	85,863
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	8,740,595	9,526,272	(785,677)
Change in Assets (A - B)	691,902	(34,850)	726,751
Fixed Assets			
Depreciation	(680,518)	(532,418)	(148,099)
Computer & Software CapEx	6,056	290,000	(283,944)
Furniture & Fixtures CapEx	27,299	-	27,299
Equipment CapEx	-	-	-
Leasehold Improvements	85,970	-	85,970
Incr(Dec) in Fixed Assets	(561,193)	(242,418)	(318,774)
Allocation of Fixed Assets	-	-	-
Total Inc(Dec) in Fixed Assets (C)	(561,193)	(242,418)	(318,774)
TOTAL BUDGET (B + C)	8,179,402	9,283,854	(1,104,452)
Change in Working Capital (A-B-C)	1,253,094	207,569	1,045,526
FTE's	42.68	49.00	(6.32)

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

RELIABILITY STANDARDS

		2011	2011	2011 Variance	
		Actual	Budget	from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
	ERO Funding				
	Assessments	495,484	495,484	-	0.00%
	Penalty Sanctions	1,033	1,033	-	0.00%
	Total ERO Funding	\$ 496,517	\$ 496,517	\$ -	0.00%
	Federal Grants			-	
	Membership Fees	1,420	1,420	-	0.00%
	Testing			-	
	Services & Software			-	
	Workshop Fees			-	
	Interest			-	
	Miscellaneous			-	
Total Funding (A)		497,937	497,937	-	0.00%
Expenses					
	Personnel Expenses				
	Salaries	188,758	236,012	(47,254)	-20.02% Less salary expense due to fewer FTEs than budgeted.
	Payroll Taxes	12,308	20,967	(8,659)	-41.30% A function of salary expense; same variance as noted for salaries
	Employee Benefits	20,671	26,697	(6,026)	-22.57% A function of salary expense; same variance as noted for salaries
	Savings & Retirement	25,147	34,222	(9,075)	-26.52% A function of salary expense; same variance as noted for salaries
	Total Personnel Expenses	246,884	317,898	(71,014)	-22.34%
	Meeting Expenses				
	Meetings	228	3,700	(3,472)	-93.83% Meetings held on-site (RSC, Standard drafting team meetings, various workshops) less than budgeted
	Travel	6,248	9,987	(3,739)	-37.44% Meetings held on-site (RSC, Standard drafting team meetings, various workshops, less travel required to meetings)
	Conference Calls	-	-	-	
	Total Meeting Expenses	6,476	13,687	(7,211)	-52.68%
	Operating Expenses				
	Consultants & Contracts	10,047	10,000	47	0.47%
	Rent & Improvements	-	-	-	
	Office Costs	910	930	(20)	-2.15%
	Professional Services	-	-	-	
	Miscellaneous	-	-	-	
	Depreciation	18,311	-	18,311	Assets purchased in 2010, depreciation started in 2011
	Total Operating Expenses	29,268	10,930	18,338	167.78%
	Indirect Expenses	146,238	148,494	(2,256)	-1.52% Allocation based on FTEs and overhead costs, which are less than budget.
	Other Non-Operating Expenses	-	-	-	
Total Expenses (B)		428,867	491,009	(62,142)	-12.66%
Change in Assets (A - B)		69,070	6,928	62,142	897.02%
Fixed Assets					
	Depreciation	(18,311)	0	(18,311)	Purchased FA at the end of 2010 after budget was prepared
	Computer & Software CapEx	-	10,000	(10,000)	-100.00% Continued to lease the RSVP system, versus purchasing an upgrade
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
	Incr(Dec) in Fixed Assets	(18,311)	10,000	(28,311)	
	Allocation of Fixed Assets	-	8,489	(8,489)	-100.00% Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)		(18,311)	18,489	(36,800)	-199.04%
TOTAL BUDGET (B + C)		410,557	509,498	(98,942)	-19.42%
Change in Working Capital (A-B-C)		87,380	5,417	98,942	1826.64%
FTE's		1.7	2.0	(0.3)	-14.14%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION

	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)		Comments (Explain variances < +/- 10% and <\$10,000)
Funding					
ERO Funding					
Assessments	7,105,792	7,105,792	-	0.00%	
Penalty Sanctions	15,270	15,270	-	0.00%	
Total ERO Funding	<u>\$ 7,121,062</u>	<u>\$ 7,121,062</u>	<u>\$ -</u>	<u>0.00%</u>	
Federal Grants			-		
Membership Fees	20,996	20,996	-	0.00%	
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding (A)	<u>7,142,058</u>	<u>7,142,058</u>	<u>-</u>	<u>0.00%</u>	
Expenses					
Personnel Expenses					
Salaries	2,614,102	2,942,088	(327,986)	-11.15%	Less salary expense due to fewer FTEs than budgeted.
Payroll Taxes	197,529	260,251	(62,722)	-24.10%	A function of salary expense; same variance as noted for salaries
Employee Benefits	311,900	367,508	(55,608)	-15.13%	A function of salary expense; same variance as noted for salaries
Savings & Retirement	352,361	426,603	(74,242)	-17.40%	A function of salary expense; same variance as noted for salaries
Total Personnel Expenses	<u>3,475,891</u>	<u>3,996,450</u>	<u>(520,559)</u>	<u>-13.03%</u>	
Meeting Expenses					
Meetings	78		78		
Travel	150,525	245,078	(94,553)	-38.58%	Primarily attributed to the fewer audits.
Conference Calls			-		
Total Meeting Expenses	<u>150,603</u>	<u>245,078</u>	<u>(94,475)</u>	<u>-38.55%</u>	
Operating Expenses					
Consultants & Contracts	231,332	256,957	(25,625)	-9.97%	Deferral of Sharepoint project.
Rent & Improvements	-	-	-		
Office Costs	9,685	39,224	(29,539)	-75.31%	Maintenance agreement for hardware and software purchased under IT.
Professional Services	40,720	294,500	(253,780)	-86.17%	External legal expenses less than budget for Compliance, offset in Legal
Miscellaneous	-	-	-		
Depreciation	253,121	273,083	(19,962)	-7.31%	Fewer assets purchased than planned, result less depreciation
Total Operating Expenses	<u>534,858</u>	<u>863,764</u>	<u>(328,906)</u>	<u>-38.08%</u>	
Indirect Expenses	<u>2,021,531</u>	<u>2,195,010</u>	<u>(173,479)</u>	<u>-7.90%</u>	The allocation based on FTEs and overhead costs, which were less than budget.
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>		
Total Expenses (B)	<u>6,182,883</u>	<u>7,300,302</u>	<u>(1,117,419)</u>	<u>-15.31%</u>	
Change in Assets (A - B)	<u>959,175</u>	<u>(158,244)</u>	<u>1,117,419</u>	<u>-706.14%</u>	
Fixed Assets					
Depreciation	(253,121)	(273,083)	19,962	-7.31%	Fewer assets purchased than planned, result less depreciation
Computer & Software CapEx		185,000	(185,000)	-100.00%	Texas RE elected to use OATIs webCDMS (Compliance Data Management System) instead of purchasing a compliance portal.
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Incr(Dec) in Fixed Assets	<u>(253,121)</u>	<u>(88,083)</u>	<u>(165,038)</u>		
Allocation of Fixed Assets	-	125,470	(125,470)	-100.00%	Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)	<u>(253,121)</u>	<u>37,387</u>	<u>(290,508)</u>	<u>-777.03%</u>	
TOTAL BUDGET (B + C)	<u>5,929,762</u>	<u>7,337,689</u>	<u>(1,407,927)</u>	<u>-19.19%</u>	
Change in Working Capital (A-B-C)	<u>1,212,296</u>	<u>55,309</u>	<u>1,407,927</u>	<u>2545.58%</u>	
FTE's	<u>23.5</u>	<u>29.1</u>	<u>(5.6)</u>	<u>-19.30%</u>	

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	725,572	725,572	-	0.00%
Penalty Sanctions	1,668	1,668	-	0.00%
Total ERO Funding	\$ 727,240	\$ 727,240	\$ -	0.00%
Federal Grants			-	
Membership Fees	2,293	2,293	-	0.00%
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	729,533	729,533	-	0.00%
Expenses				
Personnel Expenses				
Salaries	470,454	361,177	109,277	30.26% FTEs greater than budget due to workload allocation.
Payroll Taxes	34,862	32,136	2,726	8.48% A function of salary expense; same variance as noted for salaries
Employee Benefits	54,130	40,421	13,709	33.92% A function of salary expense; same variance as noted for salaries
Savings & Retirement	63,954	52,371	11,583	22.12% A function of salary expense; same variance as noted for salaries
Total Personnel Expenses	623,400	486,105	137,295	28.24%
Meeting Expenses				
Meetings			-	
Travel	32,162	8,685	23,477	270.30% Increased travel for RAS, RMWG and related stakeholder meetings, workshops & training
Conference Calls			-	
Total Meeting Expenses	32,162	8,685	23,477	270.30%
Operating Expenses				
Consultants & Contracts			-	
Rent & Improvements			-	
Office Costs	2,885		2,885	
Professional Services			-	
Miscellaneous			-	
Depreciation	39,853		39,853	Assets purchased in 2010, depreciation started in 2011
Total Operating Expenses	42,738	-	42,738	
Indirect Expenses				
	318,284	239,702	78,582	32.78% The allocation based on FTEs and overhead costs, which were greater than budget.
Other Non-Operating Expenses				
			-	
Total Expenses (B)	1,016,584	734,492	282,092	38.41%
Change in Assets (A - B)	(287,051)	(4,959)	(282,092)	5688.02%
Fixed Assets				
Depreciation	(39,853)	0	(39,853)	Assets purchased in 2010, depreciation started in 2011
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	(39,853)	-	(39,853)	
Allocation of Fixed Assets				
	-	13,702	(13,702)	-100.00% Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)	(39,853)	13,702	(53,555)	-390.86%
TOTAL BUDGET (B + C)	976,731	748,194	228,536	30.55%
Change in Working Capital (A-B-C)	(247,198)	(18,661)	(228,536)	1224.65%
FTE's	3.7	1.8	1.9	101.09%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2011 Variance from			
	2011 Actual	2011 Budget	Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	343,544	343,544	-	0.00%
Penalty Sanctions	965	965	-	0.00%
Total ERO Funding	\$ 344,509	\$ 344,509	\$ -	0.00%
Federal Grants			-	
Membership Fees	1,327	1,327	-	0.00%
Testing			-	
Services & Software			-	
				Reduced the number of days for the Operations Training Seminar which resulted in lower costs and lower fees.
Workshop Fees	136,325	215,500	(79,175)	-36.74%
Interest			-	
Miscellaneous			-	
Total Funding (A)	482,161	561,336	(79,175)	-14.10%
Expenses				
Personnel Expenses				
Salaries	71,003	155,953	(84,950)	-54.47% Less salary expense due to fewer FTEs than budgeted.
Payroll Taxes	5,193	13,831	(8,638)	-62.45% A function of salary expense; same variance as noted for salaries
Employee Benefits	8,433	17,311	(8,878)	-51.29% A function of salary expense; same variance as noted for salaries
Savings & Retirement	9,502	22,613	(13,111)	-57.98% A function of salary expense; same variance as noted for salaries
Total Personnel Expenses	94,132	209,708	(115,576)	-55.11%
Meeting Expenses				
Meetings	96,799	215,500	(118,701)	-55.08% Seminar which resulted in lower costs and lower fees.
Travel	5,600	301	5,299	1760.46% Travel expenses for training outside of office higher than budget.
Conference Calls			-	
Total Meeting Expenses	102,399	215,801	(113,402)	-52.55%
Operating Expenses				
Consultants & Contracts			-	
Rent & Improvements			-	
Office Costs	358		358	
Professional Services			-	
Miscellaneous			-	
Depreciation	9,048		9,048	Assets purchased in 2010, depreciation started in 2011
Total Operating Expenses	9,406	-	9,406	
Indirect Expenses	72,259	138,695	(66,436)	-47.90% The allocation based on FTEs and overhead costs, which were less than budget.
Other Non-Operating Expenses			-	
Total Expenses (B)	278,195	564,204	(286,009)	-50.69%
Change in Assets (A - B)	203,966	(2,868)	206,834	-7211.79%
Fixed Assets				
Depreciation	(9,048)	0	(9,048)	Assets purchased in 2010, depreciation started in 2011
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	(9,048)	-	(9,048)	
Allocation of Fixed Assets	-	7,928	(7,928)	-100.00% Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)	(9,048)	7,928	(16,976)	-214.12%
TOTAL BUDGET (B + C)	269,147	572,132	(302,985)	-52.96%
Change in Working Capital (A-B-C)	213,014	5,060	223,810	4423.12%
FTE's	0.8	3.2	(2.3)	-73.58%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Funding)	2011 Actual	2011 Budget	from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
ERO Funding				
Assessments	430,571	430,571	-	0.00%
Penalty Sanctions	1,064	1,064	-	0.00%
Total ERO Funding	\$ 431,635	\$ 431,635	\$ -	0.00%
Federal Grants			-	
Membership Fees	1,464	1,464	-	0.00%
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	433,099	433,099	-	0.00%
Expenses				
Personnel Expenses				
Salaries	188,689	209,656	(20,967)	-10.00% Less salary expense due to slightly fewer FTEs than budgeted.
Payroll Taxes	14,154	18,651	(4,497)	-24.11% A function of salary expense; same variance as noted for salaries
Employee Benefits	20,947	23,272	(2,325)	-9.99% A function of salary expense; same variance as noted for salaries
Savings & Retirement	25,682	30,400	(4,718)	-15.52% A function of salary expense; same variance as noted for salaries
Total Personnel Expenses	249,471	281,979	(32,508)	-11.53%
Meeting Expenses				
Meetings	236		236	
Travel	10,557	1,268	9,288	732.27% Travel costs for CIP audits budgeted in Compliance; charged to SAIS.
Conference Calls			-	
Total Meeting Expenses	10,792	1,268	9,524	750.84%
Operating Expenses				
Consultants & Contracts			-	
Rent & Improvements			-	
Office Costs	1,222		1,222	
Professional Services			-	
Miscellaneous			-	
Depreciation	19,927		19,927	Assets purchased in 2010, depreciation started in 2011
Total Operating Expenses	21,149	-	21,149	
Indirect Expenses	159,142	153,017	6,125	4.00% The allocation based on FTEs and overhead costs, which were less than budget.
Other Non-Operating Expenses			-	
Total Expenses (B)	440,554	436,264	4,290	0.98%
Change in Assets (A - B)	(7,455)	(3,165)	(4,290)	135.52%
Fixed Assets				
Depreciation	(19,927)	0	(19,927)	Assets purchased in 2010, depreciation started in 2011
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	(19,927)	-	(19,927)	
Allocation of Fixed Assets	-	8,746	(8,746)	-100.00% Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)	(19,927)	8,746	(28,673)	-327.84%
TOTAL BUDGET (B + C)	420,628	445,010	(24,383)	-5.48%
Change in Working Capital (A-B-C)	12,471	5,581	24,383	436.92%
FTE's	1.9	2.0	(0.2)	-8.87%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

GENERAL and ADMINISTRATIVE	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	126,860	126,860	-	0.00%
Penalty Sanctions				
Total ERO Funding	\$ 126,860	\$ 126,860	\$ -	0.00%
Federal Grants			-	
Membership Fees	7,997	-	7,997	100.00%
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest	12,852	600	12,252	2042.01%
Miscellaneous			-	Interest earned based on cash balance
Total Funding (A)	147,709	127,460	20,249	15.89%
Expenses				
Personnel Expenses				
Salaries	258,369	161,154	97,215	60.32%
Payroll Taxes	13,038	13,056	(18)	-0.14%
Employee Benefits	29,039	24,663	4,376	17.74%
Savings & Retirement	19,241	21,311	(2,070)	-9.71%
Total Personnel Expenses	319,688	220,184	99,504	45.19%
Meeting Expenses				
Meetings	13,250	13,100	150	1.14%
Travel	46,909	44,094	2,815	6.39%
Conference Calls			-	Under estimated travel costs
Total Meeting Expenses	60,159	57,194	2,965	5.18%
Operating Expenses				
Consultants & Contracts	56,019	780	55,239	7080.97%
Rent & Improvements	452,027	499,000	(46,973)	-9.41%
Office Costs	22,894	29,145	(6,251)	-21.45%
Professional Services	271,575	220,800	50,775	23.00%
Miscellaneous	-	-	-	
Depreciation	113,420	115,952	(2,533)	-2.18%
Total Operating Expenses	915,934	865,678	50,257	5.81%
Indirect Expenses	(1,191,042)	(1,143,056)	(47,986)	4.20%
Other Non-Operating Expenses	-	-	-	The allocation based on FTEs and overhead costs, which were slightly greater than budget.
Total Expenses (B)	104,739	-	104,739	
Change in Assets (A - B)	42,969	127,460	(84,490)	-66.29%
Fixed Assets				
Depreciation	(113,420)	(115,952)	2,533	-2.18%
Computer & Software CapEx			-	
Furniture & Fixtures CapEx	27,299		27,299	Added furniture in order to expand available workstations for employees.
Equipment CapEx			-	
Leasehold Improvements	85,970		85,970	Media installation for boardroom.
Incr(Dec) in Fixed Assets	(151)	(115,952)	115,802	
Allocation of Fixed Assets	-	(115,952)	115,952	-100.00%
Total Inc(Dec) in Fixed Assets (C)	(151)	(231,904)	231,754	-99.94%
TOTAL BUDGET (B + C)	104,588	(231,904)	336,493	-145.10%
Change in Working Capital (A-B-C)	43,120	127,460	(316,244)	-248.11%
FTE's	2.5	2.2	0.3	12.56%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

LEGAL and REGULATORY	2011	2011	2011 Variance	
	Actual	Budget	from Budget	Comments (Explain variances < +/- 10% and <\$10,000)
			Over(Under)	
Funding				
ERO Funding				
Assessments			-	
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants			-	
Membership Fees			-	
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	307,025	274,717	32,308	11.76%
Payroll Taxes	21,738	24,410	(2,672)	-10.95%
Employee Benefits	34,709	31,154	3,555	11.41%
Savings & Retirement	40,389	39,834	555	1.39%
Total Personnel Expenses	403,862	370,115	33,747	9.12%
Meeting Expenses				
Meetings	507		507	
Travel	10,731	6,551	4,180	63.81%
Conference Calls			-	
Total Meeting Expenses	11,238	6,551	4,687	71.55%
Operating Expenses				
Consultants & Contracts	1,547	1,800	(253)	-14.03%
Rent & Improvements			-	
Office Costs	2,720	2,240	480	21.44%
Professional Services	39,761	18,000	21,761	120.89%
Miscellaneous			-	
Depreciation			-	
Total Operating Expenses	44,028	22,040	21,988	99.77%
Indirect Expenses	(459,129)	(398,706)	(60,423)	15.15%
Other Non-Operating Expenses				
			-	
Total Expenses (B)	0	-	0	
Change in Assets (A - B)	(0)	-	(0)	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets			-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	0	-	0	
Change in Working Capital (A-B-C)	(0)	-	(0)	
FTE's	2.7	3.0	(0.3)	-9.93%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

INFORMATION TECHNOLOGY	2011	2011	2011 Variance	
Funding	Actual	Budget	from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
ERO Funding				
Assessments			-	
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants			-	
Membership Fees			-	
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	313,477	267,102	46,375	17.36% More FTEs than budgeted for IT department due to workload allocation
Payroll Taxes	14,334	23,733	(9,399)	-39.60% 2011 tax rate was based on historical data, actual rate less than budgeted
Employee Benefits	33,328	37,535	(4,207)	-11.21% Employee participation less than anticipated in budget
Savings & Retirement	41,472	38,730	2,742	7.08% Employee participation greater than anticipated in budget
Total Personnel Expenses	402,611	367,100	35,511	9.67%
Meeting Expenses				
Meetings	-	2,000	(2,000)	-100.00% Did not host CUG meeting that was budgeted.
Travel	(10,955)	3,805	(14,760)	-387.90% Settlement with a vendor which was not known until 9/2011.
Conference Calls	3,821	12,000	(8,179)	-68.16% Budget included conference call services that were not used.
Total Meeting Expenses	(7,134)	17,805	(24,939)	-140.06%
Operating Expenses				
Consultants & Contracts	77,407	339,034	(261,627)	-77.17% Expected additional IT hosting expense, as well as help desk support which was not required because the positions were filled from within the organization
Rent & Improvements	48,540		48,540	Security services was budgeted in G&A. Software ordering and consumable supplies significantly higher in 2011 than expected; some budgeted under Compliance.
Office Costs	349,629	174,235	175,394	100.67%
Professional Services	9,205		9,205	
Miscellaneous			-	
Depreciation	226,839	143,383	83,456	Assets purchased in 2010, depreciation started in 2011
Total Operating Expenses	711,620	656,652	54,968	8.37%
Indirect Expenses	(886,314)	(1,041,557)	155,243	-14.90% The allocation based on FTEs and overhead costs, which were less than budget.
Other Non-Operating Expenses			-	
Total Expenses (B)	220,784	-	220,784	
Change in Assets (A - B)	(220,784)	-	(220,784)	
Fixed Assets				
Depreciation	(226,839)	(143,383)	(83,456)	58.21% Assets purchased in 2010, depreciation started in 2011 Fewer asset purchases were made due to leasing of the compliance portal and other tools for Texas RE.
Computer & Software CapEx	6,056	95,000	(88,944)	-93.63%
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	(220,783)	(48,383)	(172,400)	
Allocation of Fixed Assets	-	(48,383)	48,383	-100.00% Depreciation allocated to direct programs in budget based on FTEs. Did not allocate actual amount in 2011.
Total Inc(Dec) in Fixed Assets (C)	(220,783)	(96,766)	(124,017)	128.16%
TOTAL BUDGET (B + C)	0	(96,766)	96,766	-100.00%
Change in Working Capital (A-B-C)	(0)	-	(96,766)	
FTE's	3.3	2.6	0.7	25.00%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

HUMAN RESOURCES	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments			-	
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants			-	
Membership Fees			-	
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries			-	All salary related costs are recorded under Admin for HR
Payroll Taxes			-	
Employee Benefits			-	
Savings & Retirement			-	
Total Personnel Expenses	-	-	-	
Meeting Expenses				
Meetings	334		334	
Travel	2,914	1,363	1,551	113.79% Underestimated travel for two (2) HR training sessions.
Conference Calls			-	
Total Meeting Expenses	3,248	1,363	1,885	138.33%
Operating Expenses				
Consultants & Contracts	500		500	Temporary help not budgeted
Rent & Improvements			-	
Office Costs	2,870	260	2,610	1003.88% Primarily due to PayScale subscription that was not budgeted
Professional Services	2,105	7,500	(5,395)	-71.93% Budget included \$7500 for legal support specifically related to the HR area. The legal support was not needed.
Miscellaneous			-	
Depreciation			-	
Total Operating Expenses	5,475	7,760	(2,285)	-29.44%
Indirect Expenses	(8,723)	(9,123)	400	-4.38% The allocation based on FTEs and overhead costs, which were slightly less than budget.
Other Non-Operating Expenses			-	
Total Expenses (B)	0	-	0	
Change in Assets (A - B)	(0)	-	(0)	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets			-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	0	-	0	
Change in Working Capital (A-B-C)	(0)	-	(0)	
FTE's	0.8	1.0	(0.2)	-16.00%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Per Audit

ACCOUNTING and FINANCE	2011 Variance			
	2011	2011	from Budget	
	Actual	Budget	Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments			-	
Penalty Sanctions				
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants			-	
Membership Fees			-	
Testing			-	
Services & Software			-	
Workshop Fees			-	
Interest			-	
Miscellaneous			-	
Total Funding (A)	-	-	-	
Expenses				
Personnel Expenses				
Salaries	159,163	187,145	(27,982)	-14.95% Less salary expense due to fewer FTEs than budgeted.
Payroll Taxes	10,592	16,614	(6,022)	-36.25% A function of salary expense; same variance as noted for salaries
Employee Benefits	17,330	20,938	(3,608)	-17.23% A function of salary expense; same variance as noted for salaries
Savings & Retirement	21,453	27,136	(5,683)	-20.94% A function of salary expense; same variance as noted for salaries
Total Personnel Expenses	208,538	251,833	(43,295)	-17.19%
Meeting Expenses				
Meetings			-	
Travel	1,519	1,619	(100)	-6.18%
Conference Calls			-	
Total Meeting Expenses	1,519	1,619	(100)	-6.18%
Operating Expenses				
Consultants & Contracts	-	8,000	(8,000)	-100.00% Budget was for maintenance for the accounting system, which was not needed
Rent & Improvements			-	
Office Costs	24,888	3,205	21,683	676.53% Overage is primarily attributed to unbudgeted credit card processing fees of \$6K, Sage maintenance of \$5K, and sales and use tax incurred under office costs.
Professional Services	110,808	209,200	(98,392)	-47.03% Lower prices were obtained for accounting support services than budgeted.
Miscellaneous			-	
Depreciation			-	
Total Operating Expenses	135,696	220,405	(84,709)	-38.43%
Indirect Expenses	(277,764)	(473,857)	196,093	-41.38% The allocation based on FTEs and overhead costs, which were less than budget.
Other Non-Operating Expenses			-	
Total Expenses (B)	67,988	-	67,988	
Change in Assets (A - B)	(67,988)	-	(67,988)	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment CapEx			-	
Leasehold Improvements			-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets			-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	67,988	-	67,988	
Change in Working Capital (A-B-C)	(67,988)	-	(67,988)	
FTE's	1.8	2.0	(0.2)	-11.50%

TEXAS RELIABILITY ENTITY, INC.
2011 Statement of Activities Summary
Non-Statutory

NON-STATUTORY	2011 Actual	2011 Budget	2011 Variance from Budget Over(Under)	Comments (Explain variances < +/- 10% and <\$10,000)
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants				
Membership Fees & Non-Statutory Fees	970,000	969,975	25	0.00%
Testing				
Services & Software				
Workshop Fees				
Interest	668		668	
Miscellaneous				
Total Funding (A)	970,668	969,975	693	0.07%
Expenses				
Personnel Expenses				
Salaries	347,962	507,912	(159,950)	-31.49% Vacancy savings attributed to being understaffed for 2011.
Payroll Taxes	26,707	43,532	(16,825)	-38.65% Directly related to underspend on salaries and vacancy savings.
Employee Benefits	38,372	71,058	(32,686)	-46.00% Directly related to underspend on salaries and vacancy savings.
Savings & Retirement	42,398	73,648	(31,249)	-42.43% Directly related to underspend on salaries and vacancy savings.
Total Personnel Expenses	455,439	696,150	(240,710)	-34.58%
Meeting Expenses				
Meetings				
Travel	2,341	12,222	(9,881)	-80.85%
Conference Calls				
Total Meeting Expenses	2,341	12,222	(9,881)	-80.85%
Operating Expenses				
Consultants & Contracts	38,527	8,400	30,127	358.65% Hired a consultant to cover staff vacancies and to enhance protocol Budgeted rent expense under indirect allocation; actually charged the expense directly to the activity.
Rent & Improvements	33,360	-	33,360	50.42% Incurred higher computer supply purchase costs. Expected to incur outside legal expenses; however, none was required for Protocol, due to use of in-house corporate counsel.
Office Costs	38,845	25,824	13,021	
Professional Services	6,543	36,000	(29,457)	
Miscellaneous				
Depreciation				
Total Operating Expenses	117,276	70,224	47,052	67.00%
Indirect Expenses	105,518	191,379	(85,861)	-44.86% Indirect expenses included rent and audit fees in the allocation; however, it was more efficient to charge the expense directly to the appropriate
Other Non-Operating Expenses				
Total Expenses (B)	680,574	969,975	(289,400)	-29.84%
Change in Assets (A - B)	290,094	-	290,094	
Fixed Assets				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx				
Furniture & Fixtures CapEx				
Equipment CapEx				
Leasehold Improvements				
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets				
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	680,574	969,975	(289,400)	-29.84%
Change in Working Capital (A-B-C)	290,094	-	290,093	
FTE's	2.9	5.0	(2.1)	-42.00%

Texas Reliability Entity, Inc.

Accountants' Report and Financial Statements

December 31, 2011



Texas Reliability Entity, Inc.
December 31, 2011

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Independent Accountant's Report on Financial Statements and Supplementary Information

Board of Directors
Texas Reliability Entity, Inc.
Austin, Texas

We have audited the accompanying statement of financial position of Texas Reliability Entity, Inc. (Texas RE) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Texas RE's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas RE as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of Statutory and Non-Statutory Operating Activities is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

April 25, 2012

Texas Reliability Entity, Inc.
Statement of Financial Position
December 31, 2011
(In Thousands)

Assets

Current Assets

Cash	\$ 5,237
Accounts receivable	3
Other current assets	<u>305</u>

Total current assets 5,545

Property and Equipment, Net

1,734

Total assets \$ 7,279

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 52
Accrued liabilities	525
Deferred revenue	<u>1,424</u>

Total current liabilities 2,001

Unrestricted Net Assets

5,278

Total liabilities and net assets \$ 7,279

Texas Reliability Entity, Inc.
Statement of Activities
Year Ended December 31, 2011
(In Thousands)

Operating Revenues	
Statutory revenue	\$ 9,420
Protocol revenue	<u>970</u>
Total operating revenues	<u>10,390</u>
Operating Expenses	
Salaries and related benefits	6,480
Facility and equipment costs	702
Outside services	774
Travel and meetings	374
Administrative and other	411
Depreciation	<u>682</u>
Total operating expenses	<u>9,423</u>
Income from Operations	967
Other Income	
Interest income	<u>13</u>
Change in Unrestricted Net Assets	980
Unrestricted Net Assets, Beginning of Year	<u>4,298</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 5,278</u></u>

Texas Reliability Entity, Inc.
Statement of Cash Flows
Year Ended December 31, 2011
(In Thousands)

Operating Activities	
Change in net assets	\$ 980
Items not requiring providing cash	
Depreciation	682
Net loss on disposal of fixed assets	1
Changes in	
Accounts receivable	125
Other current assets	(135)
Accounts payable	(731)
Deferred revenue	815
Accrued liabilities	<u>(54)</u>
Net cash provided by operating activities	<u>1,683</u>
Investing Activities	
Capital expenditures for property and equipment and systems under development	<u>(119)</u>
Net cash used in investing activities	<u>(119)</u>
Net Increase in Cash	1,564
Cash, Beginning of Year	<u>3,673</u>
Cash, End of Year	<u>\$ 5,237</u>

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2011

(Dollars in Thousands)

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 by encouraging a culture of compliance among all users, owners and operators of the bulk-power system (BPS). Texas RE, took assignment of all rights, contracts, obligations, assets and liabilities of Texas Regional Entity (which was an independent division of ERCOT, the predecessor Regional Entity), effective midnight on June 30, 2010. 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 approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010. The Delegation Agreement with NERC was further amended effective January 1, 2011, as approved by FERC on October 21, 2010. Texas Regional Entity was the authorized Regional Entity for the ERCOT region from May 2007 through June 30, 2010.

As 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 200,000 square miles and 85% of Texas load.

In addition to Texas RE’s statutory activities as Regional Entity, Texas RE has a contract with the Public Utility Commission of Texas (PUCT) and ERCOT to be the Reliability Monitor for the ERCOT region. As 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 “Non-Statutory” activities.

These annual financial statements represent the full year of operation for Texas RE under the NERC and FERC approved Delegation Agreement.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2011
(Dollars in Thousands)

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), Resource Planner (RP) or Interchange Authority (IA).
- Transmission and Distribution: An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP) and is not a Cooperative or Municipal Utility.
- Cooperative Utility: An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (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 is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity (PSE) or any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is an user, owner, or operator of the ERCOT region BPS and registered with NERC for at least one reliability function. Eligible registered entities must complete and submit a membership application, pay a nominal annual fee, which may be waived for good cause shown, and comply with the Texas RE 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 (the Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2011

(Dollars in Thousands)

- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the Bylaws and Delegation Agreement, and to elect a chief executive officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for standards development issues, through its elected Chair and Vice Chair, who serve as directors. The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS. The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews, and comments on Standards under development and Standards interpretation requests.

Note 2: Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Unrestricted Net Assets

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing Texas RE's objectives. Accordingly, net assets of Texas RE and changes therein are classified and reported as unrestricted net assets.

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 disclosures of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2011
(Dollars in Thousands)

Cash

Cash consists of deposits in banks. Deposits may exceed the Federal Deposit Insurance Corporation's insured limit of \$250 for each account. Texas RE places its cash with a limited number of high quality financial institutions and may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash.

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. Four quarterly payments were received by Texas RE, which totaled \$9,228 from NERC during 2011. NERC pays Texas RE at or near the beginning of each quarter. Additionally, Texas RE collected \$36 for membership dues. Texas RE also recognized \$20 in revenue from fines and penalties and \$136 from providing workshops. 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 non-statutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. Texas RE received revenue of \$970 from the Reliability Monitor Agreement in 2011 to cover all operating expenses incurred by Texas RE. All non-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 defers amounts related to fines and penalties pursuant to the NERC operating procedure and the concurring FERC order that restricts availability until the appeals process is complete. After the appeals process is complete, penalty monies received on or prior to June 30 will be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty monies received after June 30 will be applied as a general offset to budget requirements for the next subsequent fiscal year. At December 31, 2011, \$1,424 of fines and penalties have been recorded as deferred revenue.

Related Party Transactions

Texas RE does compensate its independent board directors. This is a common practice in the industry in which Texas RE operates. The authority to compensate its Independent Directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE Independent Director compensation is paid monthly and, in addition to their compensation, Texas RE independent board members are reimbursed for their actual expenses incurred related to their duties as a Texas RE board member.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2011

(Dollars in Thousands)

Property and Equipment

Property and equipment consists primarily of computer hardware, software, furniture and fixtures and leasehold improvement. Property and equipment is recorded at cost. Depreciation is computed on the straight-line method over the estimated life of the asset. The cost of betterments to or replacement of, property and equipment is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period. Repairs and maintenance costs are expensed when incurred. The depreciable life of hardware is three years; software is five years from the date placed in service.

Impairment

Texas RE evaluates long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is identified by comparing expected future cash flows, undiscounted and before interest, to the carrying value of the asset. If impairment exists, it is measured as the difference between the net book value of the asset and its estimated fair value. No asset impairment was recognized during the year ended December 31, 2011.

Tax Status

Texas RE is a nonprofit charitable corporation as defined by Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. Accordingly, there is no provision for federal income taxes included in the financial statements. Currently, all of the prior tax returns filed by Texas RE are subject to federal examinations.

Functional Allocation of Expenses

The costs of providing services of Texas RE have been summarized on a functional basis in the statement of activities. Certain expenses are allocated between program expenses and general and administrative expenses based on actual use or estimates made by management.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2011
(Dollars in Thousands)

Note 3: Expenses by Functional Classification

While the statement of activities presents expenses by natural classification, Texas RE's expenses by functional classification for the year ended December 31, 2011, were as follows:

Program	\$ 5,916
General and administrative	<u>3,507</u>
Total	<u>\$ 9,423</u>

Note 4: Fixed Assets

Fixed assets consist of the following for at December 31, 2011:

Equipment	\$ 383
Computer hardware	690
Computer software	1,165
Furniture	301
Leasehold improvement	<u>172</u>
Total property and equipment	2,711
Less: accumulated depreciation	<u>977</u>
Total property and equipment, net	<u>\$ 1,734</u>

Note 5: Employee Benefit Plans

Texas RE employees are sponsored under the Texas RE Defined Contribution 401(k) Plan (the 401(k) Plan) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) 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 401(k) 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 401(k) Plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Service with the predecessor organization Texas RE or ERCOT counts towards this service period calculation. Contributions related to Texas RE employees are included in salaries and related benefits in the statement of activities. Employer contributions to the 401(k) plans were \$642 in 2011.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2011
(Dollars in Thousands)

Note 6: Commitments and Contingencies

Texas RE leases office space, datacenter space and equipment under agreements recorded as operating leases. Operating lease expenditures for the year ended December 31, 2011, were \$556. The future rental payments due under operating leases are as follows through December 31, 2011:

2012	\$	598
2013		623
2014		548
2015		425
2016		425
Thereafter		<u>695</u>
		<u>\$ 3,314</u>

Texas RE is party to regulatory and legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject. Such proceedings are not anticipated to have a material impact on Texas RE's financial condition, results of operations or cash flows.

Note 7: Line of Credit

Texas RE has a \$500 bank line of credit expiring in 2012. At December 31, 2011, there was \$0, borrowed against this line. The line is not collateralized by any of Texas RE's assets and is unsecured. Interest varies with LIBOR plus 4.255%.

Note 8: Subsequent Events

Texas RE has evaluated subsequent events through April 25, 2012, and no events have occurred from the statement of financial position date through that date that would impact the financial statements.

Supplementary Information

Texas Reliability Entity, Inc.
Schedule of Statutory and Non-Statutory Operating Activities
December 31, 2011
(Dollars in Thousands)

	<u>Statutory</u>	<u>Non- Statutory</u>	<u>Total</u>
Operating Revenues			
Statutory revenue	\$ 9,420	\$ -	\$ 9,420
Protocol revenue	<u>-</u>	<u>970</u>	<u>970</u>
Total operating revenues	<u>9,420</u>	<u>970</u>	<u>10,390</u>
Operating Expenses			
Salaries and related benefits	6,025	455	6,480
Facility and equipment costs	669	33	702
Outside services	728	46	774
Travel and meetings	372	2	374
Administrative other	266	145	411
Depreciation	<u>682</u>	<u>-</u>	<u>682</u>
Total operating expenses	<u>8,742</u>	<u>681</u>	<u>9,423</u>
Income from Operations	678	289	967
Other Income			
Interest income	<u>12</u>	<u>1</u>	<u>13</u>
Change in Unrestricted Net Assets	690	290	980
Unrestricted Net Assets, Beginning of Year	<u>4,261</u>	<u>37</u>	<u>4,298</u>
Unrestricted Net Assets, End of Year	<u>\$ 4,951</u>	<u>\$ 327</u>	<u>\$ 5,278</u>

Note:

Texas RE uses Non-Statutory funding to pay for Non-Statutory expenses.

ATTACHMENT 9

2011 ACTUAL COST-TO-BUDGET COMPARISON

AND

2011 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL



Tricia Kritzberg
Controller

801-883-6866
tkritzberg@wecc.biz

May 29, 2012

Mr. Michael Walker
Ms. Susan Turpen
North American Electric Reliability Corporation (NERC)
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

RE: 2011 Budget Variance Explanations Based on Audited Financials

Summary

The Western Electricity Coordinating Council's (WECC) audited financial statements show that WECC's Statutory Total Change in working capital for the year ended December 31, 2011 is under budget by \$1.39 million.

Significant variances related to the statutory budget are explained by line item, based on program specific budgets and actual results. A summary of significant overall variances is described in this document. Year-end variances greater than \$10,000 and 10 percent are explained, in addition to any other variances that are noteworthy.

WECC completed all of the objectives discussed in the 2011 Business Plan and Budget except the Base Case Coordination System in the Reliability Assessment and Performance Analysis program area. This project was delayed due to vendor negotiations and will be completed in 2012. Despite a significant variance in personnel, Compliance completed all audits per the final WECC audit schedule. Process efficiencies created by the implementation of the WebCDMS system led to the elimination of four FTEs that were budgeted to be hired in 2011.

Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.

Federal Grants

In WECC's 2010 Amended Business Plan and Budget, WECC included revenue and associated costs related to three U.S. Department of Energy grants. FERC determined that the three grants received by WECC qualify as Section 215 activities.

The Western Interconnection Synchrophasor Program (WISP) (budgeted in the Situation Awareness program area) will increase reliability by, among other things, enhancing the situation awareness of WECC's Reliability Coordinator Offices. This Interconnection-wide Synchrophasor system will also enable smart grid functionality such as:

- Improved integrated system operations.
- Enhanced knowledge-based, real-time advanced warning systems.
- Reduced energy losses.
- Increased efficiency of asset use.
- Improved market efficiency.
- Increased reliability and efficient integration of intermittent renewable resources.

The Regional Transmission Expansion Planning (RTEP) project, which encompasses all activities funded under this U.S. DOE grant, produces Interconnection-level transmission plans for the Western Interconnection. The RTEP project is a natural expansion of the depth, breadth, and coordination of existing regional and subregional planning processes. The plan accomplishes the following:

- Evaluate the long-term regional transmission capacity needs under a comprehensive set of load, resource, and policy scenarios.
- Incorporate the results of a comprehensive examination of reliability impacts, technology costs, and emissions conducted during the project.
- Provide guidance for decision-makers at all levels (project developers, siting authorities, utility regulators, and others).
- Facilitate and accelerate the development of needed transmission infrastructure.

The Balancing Authority Cooperation Concepts to Reduce Variable Generation Integration Costs in the Western Interconnection project examined the benefits of different Balancing Authority coordination scenarios including consolidation concepts and less-than-hourly scheduling intervals to aid in the reliable integration of variable generation.

WECC uses a fund-accounting system to ensure that federal grant activities are segregated in accordance with federal cost-accounting standards.

Non-Statutory

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2011, WECC allocated indirect costs to its non-statutory activity based on full-time equivalents (FTE). Indirect costs include the Board of Directors and its Standing Committees, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. This allocation is consistent with the FTE method of allocation used by NERC and the other Regional Entities.

Reserves

WECC did not use any cash reserves during 2011.

Variance Explanations

FUNDING

- **Penalty Sanctions** (\$420,000 over budget)
 - Penalty sanctions are over budget due the recognition of penalty revenue used to cover the Regional Entity fines assessed by NERC and FERC in 2011. These fees were excluded from WECC's 2012 budgeted penalty balance that normally offsets assessments.
- **Grant Funding** (\$9.67 million under budget)
 - Grant funding is received as reimbursement for costs incurred on grant activities. At the time the 2011 budget was developed, WECC was still in the planning phase of the WISP grant and the budget was developed based on estimated expenditures. The Project Execution Plan was finalized and submitted to the U.S. DOE on June 30, 2010, after the WECC Board of Directors had approved the 2011 budget. This is a timing issue only and does not affect annual assessments.
- **Workshops** (\$167,000 under budget)
 - Workshop revenue was under budget due to lower-than-anticipated attendance at workshops and training sessions. Training continues to be self-funded.
- **Interest Income** (\$47,000 under budget)
 - Interest Income is under budget due to lower interest rates than projected.
- **Miscellaneous Income** (\$43,000 under budget)
 - In accordance with Generally Accepted Accounting Principles, WECC adjusts its investment account balances to fair market value. These adjustments result in unrealized gains or losses that roll into miscellaneous funding.

EXPENSES

- **Salaries** (\$844,000 under budget)
 - Salaries are under budget due to hiring lags and turnover in budgeted positions.
- **Payroll Taxes** (\$485,000 under budget)
 - Salaries are under budget so, as a result, payroll taxes are also under budget.
 - WECC's estimates of payroll taxes as part of its 2011 budget process resulted in higher budget amounts than actual results.
- **Employee Benefits** (\$683,000 under budget)
 - Salaries are under budget so, as a result, employee benefits are under budget. Benefits are under budget due to lower than anticipated enrollment in benefit programs among existing employees as well as unfilled vacancies.
 - Budgeted training costs are under budget due to the use of more economic means of training, such as in-house training.
- **Meetings** (\$484,000 under budget)
 - Lower-than-anticipated attendance at training and workshops resulted in lower meeting costs.

- The 2011 budget included costs for hosting meetings in several hotels and conference halls. WECC attempts to hold meetings in its Salt Lake City meeting facilities whenever feasible. As a result, WECC has realized significant cost savings.
- **Travel** (\$160,000 under budget)
 - Greater-than-budgeted use of the Salt Lake City meeting facilities has resulted in less travel by WECC employees.
- **Conference Calls** (\$26,000 under budget)
 - WECC realized cost savings on conference calls as a result of increased use of WebEx.
- **Consultants & Contracts** (\$4.67 million under budget)
 - Consultants & Contracts expenses associated with the grants were delayed due to a modified Project Execution Plan being completed after the budget was submitted and reflects expenditures to be incurred later in the grant period.
- **Office Rent** (\$295,000 under budget)
 - Office Rent is under budget due to the final lease for the Salt Lake City office facilities being lower than budgeted.
- **Professional Services** (\$445,000 under budget)
 - Use of in-house legal counsel instead of outside firms has resulted in professional costs being under budget.
- **Depreciation** (\$606,000 over budget)
 - Depreciation is over budget due to an underestimate in the fixed asset purchases' impact on overall depreciation. The underestimate was the result of an expectation that existing equipment would be replaced with new equipment, which was not the case; therefore, the assets were not removed from the depreciation schedule.
- **Indirect Expenses** (\$168,000 under budget)
 - Indirect expenses are under budget due to lower-than-anticipated FTEs in WREGIS and lower-than-anticipated overhead expenses.

FIXED ASSETS

- **Computer & Software CapEx** (\$4.38 million under budget)
 - Computer & Software CapEx is under budget primarily due to the modification of the WISP Project Execution Plan which was completed after the budget was submitted and reflects expenditures that will be incurred later in the grant period.
 - Negotiation efforts delayed the costs associated with the Base Case Coordination System. These costs will be realized in 2012.
- **Furniture and Fixtures CapEx** (\$53,000 over budget)
 - Furniture and Fixtures CapEx is over budget due to the Reliability Coordination Offices expansion.
- **Leasehold Improvements** (\$1.56 million over budget)
 - Leasehold Improvements were higher than budgeted due to the Reliability Coordination Offices expansion.

Please feel free to contact me if you have any questions.

Thank you,

A handwritten signature in black ink, appearing to read "Tricia Kritzberg". The signature is stylized and cursive.

Tricia Kritzberg

WECC Controller

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Audited

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance
Funding			
ERO Funding			
ERO Assessments	\$ 37,915,529	\$ 37,915,529	\$ -
Penalty Sanctions	1,285,650	865,650	420,000
Total ERO Funding	\$ 39,201,179	\$ 38,781,179	\$ 420,000
Membership Fees & Non-Stat Assessments	2,141,170	1,565,590	575,580
Grant Funding	18,392,811	28,066,621	(9,673,810)
Services & Software	-	-	-
Workshops	839,790	1,016,130	(176,340)
Interest	302,898	350,000	(47,102)
Miscellaneous	(38,992)	4,000	(43,144)
Total Funding	\$ 60,838,856	\$ 69,783,520	\$ (8,944,816)
Expenses			
Personnel Expenses			
Salaries	20,981,722	21,910,762	(929,040)
Payroll Taxes	1,418,566	1,914,475	(495,909)
Employee Benefits	2,394,545	3,141,696	(747,151)
Savings & Retirement	1,466,491	1,506,574	(40,083)
Total Personnel Expenses	\$ 26,261,324	\$ 28,473,507	\$ (2,212,183)
Meeting Expenses			
Meetings	792,674	1,294,150	(501,476)
Travel	1,682,873	1,890,885	(208,012)
Conference Calls	122,323	148,570	(26,247)
Total Meeting Expenses	\$ 2,597,870	\$ 3,333,605	\$ (735,735)
Operating Expenses			
Consultants & Contracts	14,853,384	19,634,905	(4,781,521)
Office Rent	1,858,263	2,153,000	(294,737)
Office Costs	5,270,843	5,450,913	(180,070)
Professional Services	789,311	1,258,800	(469,489)
Miscellaneous	8,211	-	8,211
Depreciation	3,048,719	2,442,250	606,469
Total Operating Expenses	\$ 25,828,731	\$ 30,939,868	\$ (5,111,137)
Total Direct Expenses	\$ 54,687,925	\$ 62,746,980	\$ (8,059,055)
Indirect Expenses	-	-	(0)
Other Non-Operating Expenses	-	-	-
Total Expenses	54,687,925	62,746,980	(8,059,055)
Change in Assets	\$ 6,150,931	\$ 7,036,539	\$ (885,761)
Fixed Assets			
Depreciation	(3,048,719)	(2,442,250)	(606,469)
Computer & Software CapEx	4,531,311	8,906,433	(4,375,122)
Furniture & Fixtures CapEx	52,510	-	52,510
Leasehold Improvements	2,127,891	572,357	1,555,534
Change in Fixed Assets	\$ 3,662,993	\$ 7,036,540	\$ (3,373,547)
Allocation of Fixed Assets	-	-	(0)
Incr(Dec) in Fixed Assets	\$ 3,662,993	\$ 7,036,540	\$ (3,373,547)
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	58,350,918	69,783,520	(11,432,602)
Change in Working Capital (Total Funding less Total Budget)	\$ 2,487,938	\$ -	\$ 2,487,786
FTEs	193.0	212.9	(19.9)

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Statutory

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>
Funding			
ERO Funding			
ERO Assessments	\$ 37,915,529	\$ 37,915,529	\$ -
Penalty Sanctions	1,285,650	865,650	420,000
Total ERO Funding	\$ 39,201,179	\$ 38,781,179	\$ 420,000
Membership Fees & Non-Stat Assessments	-	-	-
Grant Funding	18,392,811	28,066,621	(9,673,810)
Services & Software	-	-	-
Workshops	836,280	1,003,650	(167,370)
Interest	302,898	350,000	(47,102)
Miscellaneous	(39,144)	4,000	(43,144)
Total Funding	\$ 58,694,024	\$ 68,205,450	\$ (9,511,426)
Expenses			
Personnel Expenses			
Salaries	20,710,758	21,554,916	(844,158)
Payroll Taxes	1,397,708	1,882,449	(484,741)
Employee Benefits	2,366,070	3,049,550	(683,480)
Savings & Retirement	1,448,720	1,481,665	(32,945)
Total Personnel Expenses	\$ 25,923,256	\$ 27,968,580	\$ (2,045,324)
Meeting Expenses			
Meetings	789,756	1,273,370	(483,614)
Travel	1,680,578	1,840,885	(160,307)
Conference Calls	122,323	148,070	(25,747)
Total Meeting Expenses	\$ 2,592,657	\$ 3,262,325	\$ (669,668)
Operating Expenses			
Consultants & Contracts	14,849,604	19,521,605	(4,672,001)
Office Rent	1,858,263	2,153,000	(294,737)
Office Costs	4,854,779	5,032,593	(177,814)
Professional Services	757,476	1,202,400	(444,924)
Miscellaneous	6,849	-	6,849
Depreciation	3,048,719	2,442,250	606,469
Total Operating Expenses	\$ 25,375,690	\$ 30,351,848	\$ (4,976,158)
Total Direct Expenses	\$ 53,891,603	\$ 61,582,753	\$ (7,691,150)
Indirect Expenses	(245,656)	(413,842)	168,186
Other Non-Operating Expenses	\$ -	\$ -	\$ -
Total Expenses	53,645,947	61,168,911	(7,522,964)
Change in Assets	\$ 5,048,077	\$ 7,036,539	\$ (1,988,462)
Fixed Assets			
Depreciation	(3,048,719)	(2,442,250)	(606,469)
Computer & Software CapEx	4,531,311	8,906,433	(4,375,122)
Furniture & Fixtures CapEx	52,510	-	52,510
Leasehold Improvements	2,127,891	572,357	1,555,534
Change in Fixed Assets	\$ 3,662,993	\$ 7,036,540	\$ (3,373,547)
Allocation of Fixed Assets	-	-	(0)
Incr(Dec) in Fixed Assets	\$ 3,662,993	\$ 7,036,540	\$ (3,373,547)
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	57,308,940	68,205,451	(10,896,511)
Change in Working Capital (Total Funding less Total Budget)	\$ 1,385,084	\$ -	\$ 1,385,085
FTEs	188.8	207.9	(19.1)

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Reliability Standards

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Funding					
ERO Funding					
ERO Assessments	\$ 1,087,059	\$ 1,087,059	\$ -	0.00%	
Penalty Sanctions	24,500	24,500	-	0.00%	
Total ERO Funding	\$ 1,111,559	\$ 1,111,559	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 1,111,559	\$ 1,111,559	\$ -		
Expenses					
Personnel Expenses					
Salaries	367,601	524,091	(156,490)	-29.86%	Salaries are lower than budgeted due to vacancies in two budgeted positions.
Payroll Taxes	25,811	47,168	(21,357)	-45.28%	Payroll taxes are under budget due to vacancies in two budgeted positions and because they were budgeted at an amount higher than actual results.
Employee Benefits	40,321	58,826	(18,505)	-31.46%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	33,183	36,687	(3,504)	-9.55%	
Total Personnel Expenses	\$ 466,916	\$ 666,772	\$ (199,856)		
Meeting Expenses					
Meetings	10,716	14,250	(3,534)	-24.80%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	36,233	53,250	(17,017)	-31.96%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	10,704	15,900	(5,196)	-32.68%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 57,653	\$ 83,400	\$ (25,747)		
Operating Expenses					
Consultants & Contracts	-	2,400	(2,400)	-100.00%	WECC used staff for work that would have otherwise been performed by consultants.
Office Rent	-	-	-		
Office Costs	8,611	6,490	2,121	32.68%	Office costs are over budget due to more professional license renewals being due in 2011 than what was originally budgeted.
Professional Services	-	2,000	(2,000)	-100.00%	Higher use of in-house legal counsel has resulted in professional costs being under budget.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 8,611	\$ 10,890	\$ (2,279)		
Total Direct Expenses	\$ 533,180	\$ 761,062	\$ (227,882)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Reliability Standards

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Indirect Expenses	193,214	372,459	(179,245)	-48.12%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Standards being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	726,394	1,133,521	(407,127)		
Change in Assets	\$ 385,165	\$ (21,962)	\$ 407,127		
Fixed Assets					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ -	\$ -	\$ -		
	(9,924)	(21,962)	12,038	-54.81%	The Allocation of Fixed Assets is under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Standards being less than budgeted. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Allocation of Fixed Assets					
Incr(Dec) in Fixed Assets	\$ (9,924)	\$ (21,962)	\$ 12,038		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets	716,470	1,111,559	(395,089)		
Change in Working Capital (Total Funding less Total Budget)	\$ 395,089	\$ -	\$ 395,089		
FTEs	2.3	4.5	(2.2)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Compliance and Organization Registration and Certification

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ 13,369,539	\$ 13,369,539	\$ -	0.00%	
Penalty Sanctions	318,494	318,494	-	0.00%	
Total ERO Funding	\$ 13,688,033	\$ 13,688,033	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	268,630	254,000	14,630	5.76%	
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 13,956,663	\$ 13,942,033	\$ 14,630		
Expenses					
Personnel Expenses					
Salaries	4,764,952	5,513,769	(748,817)	-13.58%	Salaries are lower than budgeted due to the elimination of four FTEs as a result of process efficiencies related to the transition to WebCDMS. Also, actual results are lower than budgeted due to turnover and vacancies in other budgeted positions.
Payroll Taxes	340,357	493,088	(152,731)	-30.97%	Payroll taxes are under budget due to the elimination of four FTEs and because they were budgeted at an amount higher than actual results.
Employee Benefits	486,679	676,321	(189,642)	-28.04%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	296,404	383,514	(87,110)	-22.71%	Retirement costs are lower than budgeted due to the elimination of four FTEs as a result of process efficiencies related to the transition to WebCDMS. There was also lower-than-budgeted participation in the 401(k) plan.
Total Personnel Expenses	\$ 5,888,392	\$ 7,066,692	\$ (1,178,300)		
Meeting Expenses					
Meetings	260,961	298,500	(37,539)	-12.58%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	743,181	879,135	(135,954)	-15.46%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	24,954	32,000	(7,046)	-22.02%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 1,029,096	\$ 1,209,635	\$ (180,539)		
Operating Expenses					
Consultants & Contracts	1,619,911	682,500	937,411	137.35%	Consultants are higher than budgeted due to unanticipated Technical Feasibility Exception reviews in 2011. In addition, the implementation of the new Compliance portal required services from outside consultants.
Office Rent	2,508	-	2,508		
Office Costs	652,631	167,040	485,591	290.70%	Office costs are over budget due to the implementation of the new Compliance portal which required services from outside consultants at a rate higher than what was budgeted.

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Compliance and Organization Registration and Certification

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		
Professional Services	150	18,000	(17,850)	-99.17%	Comments - Explain variances that are +/- 10% Use of in-house legal counsel instead of outside firms has resulted in professional costs being under budget.
Miscellaneous	-	-	-		
Depreciation	157,134	143,000	14,134	9.88%	
Total Operating Expenses	\$ 2,432,334	\$ 1,010,540	\$ 1,421,794		
Total Direct Expenses	\$ 9,349,822	\$ 9,286,867	\$ 62,955		
Indirect Expenses	4,146,222	4,841,962	(695,740)	-14.37%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Compliance being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	13,496,044	14,128,829	(632,785)		
Change in Assets	\$ 460,619	\$ (186,796)	\$ 647,415		
Fixed Assets					
Depreciation	(157,134)	(143,000)	(14,134)	9.88%	
	48,670	241,714	(193,044)	-79.86%	Computer & Software CapEx costs are lower than budgeted due to the transition to the new Compliance portal.
Computer & Software CapEx					
Furniture & Fixtures CapEx	34,150	-	34,150		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (74,314)	\$ 98,714	\$ (173,028)		
	(212,967)	(285,509)	72,542	-25.41%	The Allocation of Fixed Assets is under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Compliance being less than budgeted. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Allocation of Fixed Assets					
Incr(Dec) in Fixed Assets	\$ (287,281)	\$ (186,795)	\$ (100,486)		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	13,208,764	13,942,034	(733,270)		
Change in Working Capital (Total Funding less Total Budget)	\$ 747,899	\$ -	\$ 747,900		
FTEs	50.0	58.5	(8.5)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Training and Education

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ 252,269	\$ 252,269	\$ -	0.00%	
Penalty Sanctions	19,055	19,055	-	0.00%	
Total ERO Funding	\$ 271,324	\$ 271,324	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	567,650	749,650	(182,000)	-24.28%	Workshop revenue is under budget due to lower than an anticipated attendance at training and workshops. Training continues to be self-funded.
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 838,974	\$ 1,020,974	\$ (182,000)		
Expenses					
Personnel Expenses					
Salaries	88,361	317,298	(228,937)	-72.15%	Salaries are under budget due to (2) Trainer positions not being filled in 2011, and subsequently eliminated from the WECC 2012 Business Plan & Budget. There were 3.5 FTEs originally budgeted, but WECC only employed 1.5 FTEs.
Payroll Taxes	7,568	28,557	(20,989)	-73.50%	Payroll taxes are under budget due to vacancies in two budgeted positions and because they were budgeted at an amount higher than actual results.
Employee Benefits	10,844	45,400	(34,556)	-76.11%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	10,739	22,211	(11,472)	-51.65%	Retirement costs are lower than budgeted due to (2) Trainer positions not being filled in 2011, and subsequently eliminated from the WECC 2012 Business Plan & Budget.
Total Personnel Expenses	\$ 117,512	\$ 413,466	\$ (295,954)		
Meeting Expenses					
Meetings	119,173	163,000	(43,827)	-26.89%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	15,083	17,000	(1,917)	-11.28%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	650	2,000	(1,350)	-67.50%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 134,906	\$ 182,000	\$ (47,094)		
Operating Expenses					
Consultants & Contracts	148,357	58,000	90,357	155.79%	Consultants are over budget due to the use of consultants during periods of turnover.
Office Rent	6,561	-	6,561		
Office Costs	38,741	94,900	(56,159)	-59.18%	Office Costs are lower than budgeted due to cost savings in licensing for new software.
Professional Services	-	-	-		
Miscellaneous	-	-	-		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Training and Education

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	
Depreciation	-	-	-	
Total Operating Expenses	\$ 193,659	\$ 152,900	\$ 40,759	
Total Direct Expenses	\$ 446,077	\$ 748,366	\$ (302,289)	
Indirect Expenses	145,947	289,690	(143,743)	-49.62%
Other Non-Operating Expenses				
Total Expenses	592,024	1,038,056	(446,032)	
Change in Assets	\$ 246,950	\$ (17,082)	\$ 264,032	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Change in Fixed Assets	\$ -	\$ -	\$ -	
	(7,496)	(17,082)	9,586	-56.12%
Allocation of Fixed Assets				
Incr(Dec) in Fixed Assets	\$ (7,496)	\$ (17,082)	\$ 9,586	
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	584,528	1,020,974	(436,446)	
Change in Working Capital (Total Funding less Total Budget)	\$ 254,446	\$ -	\$ 254,446	
FTEs	1.8	3.5	(1.7)	

Comments - Explain variances that are +/- 10%

Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Training being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.

The Allocation of Fixed Assets is under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Training being less than budgeted. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Reliability Assessment and Performance Analysis

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ 5,040,590	\$ 5,040,590	\$ -	0.00%	
Penalty Sanctions	118,142	118,142	-	0.00%	
Total ERO Funding	\$ 5,158,732	\$ 5,158,732	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	3,269,584	3,831,541	(561,957)	-14.67%	Grant funding is received as a reimbursement for costs incurred on grant activities. WECC did not incur as many costs as expected in 2011. These costs will be incurred in 2012 and 2013.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 8,428,316	\$ 8,990,273	\$ (561,957)		
Expenses					
Personnel Expenses					
Salaries	1,670,105	1,937,860	(267,755)	-13.82%	Salaries are lower than budgeted due to hiring lags and turnover, resulting in 3.5 fewer FTEs than budgeted.
Payroll Taxes	119,724	184,976	(65,252)	-35.28%	Payroll taxes are under budget due to employing 3.5 FTEs less than what was budgeted and because they were budgeted at an amount higher than actual results.
Employee Benefits	229,265	276,016	(46,751)	-16.94%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	129,939	139,223	(9,284)	-6.67%	
Total Personnel Expenses	\$ 2,149,033	\$ 2,538,075	\$ (389,042)		
Meeting Expenses					
Meetings	100,569	415,600	(315,031)	-75.80%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	100,360	127,500	(27,140)	-21.29%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	30,707	44,750	(14,043)	-31.38%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 231,636	\$ 587,850	\$ (356,214)		
Operating Expenses					
Consultants & Contracts	3,316,735	3,314,372	2,363	0.07%	
Office Rent	-	-	-		
Office Costs	100,463	154,805	(54,342)	-35.10%	Office Costs are lower than budgeted due to cost savings in licensing for new software.
Professional Services	-	5,000	(5,000)	-100.00%	Professional Services are lower than budgeted due to in-house counsel being used instead of firms.
Miscellaneous	-	-	-		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Reliability Assessment and Performance Analysis

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		
Depreciation	831	8,000	(7,169)	-89.61%	Depreciation is lower than budgeted as a result of negotiation delays in the purchase of fixed assets related to the Base Case Coordination System.
Total Operating Expenses	\$ 3,418,029	\$ 3,482,177	\$ (64,148)		
Total Direct Expenses	\$ 5,798,698	\$ 6,608,102	\$ (809,404)		
Indirect Expenses	1,510,883	1,796,078	(285,195)	-15.88%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Reliability Assessments being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	7,309,581	8,404,180	(1,094,599)		
Change in Assets	\$ 1,118,735	\$ 586,093	\$ 532,642		
Fixed Assets					
Depreciation	(831)	(8,000)	7,169	-89.61%	Depreciation is lower than budgeted as a result of negotiation delays in the purchase of fixed assets related to the Base Case Coordination System.
Computer & Software CapEx	60,673	700,000	(639,327)	-91.33%	Fixed Assets were lower than budgeted due to negotiations resulting in a delay in the Base Case Coordination System project.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ 59,842	\$ 692,000	\$ (632,158)		
Allocation of Fixed Assets	(77,605)	(105,907)	28,302	-26.72%	The Allocation of Fixed Assets is under budget as a result of Administrative Services costs being less than budgeted, as well as 2011 FTEs for Reliability Assessments being less than budgeted. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Incr(Dec) in Fixed Assets	\$ (17,763)	\$ 586,093	\$ (603,856)		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	7,291,818	8,990,273	(1,698,455)		
Change in Working Capital (Total Funding less Total Budget)	\$ 1,136,498	\$ -	\$ 1,136,498		
FTEs	18.2	21.7	(3.5)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Situation Awareness and Infrastructure Security

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ 18,166,072	\$ 18,166,072	\$ -	0.00%	
Penalty Sanctions	835,459	385,459	450,000	116.74%	This variance was reflected in the 2012 Business Plan and Budget and relates to penalty monies used to pay compliance penalties incurred by WECC registered functions and their recognition as revenue in 2011.
Total ERO Funding	\$ 19,001,531	\$ 18,551,531	\$ 450,000		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	15,024,838	24,112,680	(9,087,842)	-37.69%	Grant funding is received as a reimbursement for costs incurred on grant activities. WECC did not incur as many costs as anticipated in 2011. These costs will be incurred in 2012 and 2013.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 34,026,369	\$ 42,664,211	\$ (8,637,842)		
Expenses					
Personnel Expenses					
Salaries	8,832,164	8,102,630	729,534	9.00%	Salaries are over budget as a result of increased demands on the two (2) WECC Reliability Coordination Offices, which resulted in the hiring of 3.7 more FTEs than were originally budgeted.
Payroll Taxes	600,178	709,600	(109,422)	-15.42%	Payroll taxes were estimated at an amount higher than actual results. Also, the estimation of payroll taxes included in the budget did not take into consideration the caps on social security and Medicare taxes. Several employee salaries in Situational Awareness exceed these caps.
Employee Benefits	767,618	900,500	(132,882)	-14.76%	Employee Benefits are under budget due to more economic means of training, such as in-house training, fewer relocation expenses due to hiring employees from local areas, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	554,049	551,913	2,136	0.39%	
Total Personnel Expenses	\$ 10,754,009	\$ 10,264,643	\$ 489,366		
Meeting Expenses					
Meetings	391	-	391		
Travel	345,441	375,000	(29,559)	-7.88%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	18,547	12,200	6,347	52.02%	Conference calls are over budget due to increased coordination demands on the two (2) WECC Reliability Coordination Offices.
Total Meeting Expenses	\$ 364,379	\$ 387,200	\$ (22,821)		
Operating Expenses					
Consultants & Contracts	9,150,217	14,822,583	(5,672,366)	-38.27%	Consultants & Contracts expenses associated with the grants were delayed due to a modified Project Execution Plan being completed after the budget was submitted and reflects expenditures to be incurred later in the grant period.
Office Rent	668,678	722,000	(53,322)	-7.39%	

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Situation Awareness and Infrastructure Security

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Office Costs	3,041,904	3,598,302	(556,398)	-15.46%	Office Costs are lower than budgeted due to cost savings in licensing for new software.
Professional Services	4,969	55,000	(50,031)	-90.97%	Professional Services are lower than budgeted due to in-house counsel being used instead of outside firms.
Miscellaneous	-	-	-		
Depreciation	2,243,336	1,365,250	878,086	64.32%	Depreciation is over budget as a result of Leasehold Improvements being higher than budgeted due to increased build-out costs related to grant activities, which carried over from 2010.
Total Operating Expenses	\$ 15,109,104	\$ 20,563,135	\$ (5,454,031)		
Total Direct Expenses	\$ 26,227,492	\$ 31,214,978	\$ (4,987,486)		
Indirect Expenses	4,962,268	4,772,947	189,321	3.97%	Indirect Expenses are over budget as a result of 2011 FTEs for Situational Awareness being higher than originally budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	31,189,760	35,987,925	(4,798,165)		
Change in Assets	\$ 2,836,609	\$ 6,676,286	\$ (3,839,677)		
Fixed Assets					
Depreciation	(2,243,336)	(1,365,250)	(878,086)	64.32%	Depreciation is over budget as a result of Leasehold Improvements being higher than budgeted due to increased build-out costs related to grant activities, which carried over from 2010.
Computer & Software CapEx	4,414,712	7,814,719	(3,400,007)	-43.51%	Computer & Software CapEx expenses were lower than budgeted due to timing variances with grant activities. These costs will be incurred in 2012 and 2013.
Furniture & Fixtures CapEx	41,441	-	41,441		
Leasehold Improvements	2,090,003	572,357	1,517,646	265.16%	Leasehold Improvements expenses were higher than budgeted due to increased build-out costs related to grant activities, which carried over from 2010.
Change in Fixed Assets	\$ 4,302,820	\$ 7,021,826	\$ (2,719,006)		
Allocation of Fixed Assets	(317,363)	(345,540)	28,177	-8.15%	The Allocation of Fixed Assets is under budget as a result of Administrative Services costs being less than budgeted. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Incr(Dec) in Fixed Assets	\$ 3,985,457	\$ 6,676,286	\$ (2,690,829)		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	35,175,217	42,664,211	(7,488,994)		
Change in Working Capital (Total Funding less Total Budget)	\$ (1,148,848)	\$ -	\$ (1,148,848)		
FTEs	74.5	70.8	3.7		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Committee and Member Forums

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	98,389	122,400	(24,011)	-19.62%	Grant funding is received as a reimbursement for costs incurred on grant activities. WECC did not incur as many costs as anticipated in 2011. These costs will be incurred in 2012.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ 98,389	\$ 122,400	\$ (24,011)		
Expenses					
Personnel Expenses					
Salaries	820,690	764,903	55,787	7.29%	Salaries are over budget due to hiring employees at rates higher than the rates that were budgeted.
Payroll Taxes	60,445	68,612	(8,167)	-11.90%	Payroll taxes were estimated at an amount higher than actual results.
Employee Benefits	80,098	99,202	(19,104)	-19.26%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	60,718	54,036	6,682	12.37%	Retirement costs are under budget due to lower-than-budgeted participation in the 401(k) plan.
Total Personnel Expenses	\$ 1,021,951	\$ 986,753	\$ 35,198		
Meeting Expenses					
Meetings	273,007	368,020	(95,013)	-25.82%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	203,365	141,000	62,365	44.23%	Travel costs are higher than budgeted due to unbudgeted reimbursement of travel for Member Class Directors.
Conference Calls	20,542	31,100	(10,558)	-33.95%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 496,914	\$ 540,120	\$ (43,206)		
Operating Expenses					
Consultants & Contracts	490,891	590,750	(99,859)	-16.90%	Consultant costs are lower than budgeted due to cost savings associated with the Efficient Dispatch Toolkit Cost/Benefit Analysis.
Office Rent	-	-	-		
Office Costs	136,479	91,216	45,263	49.62%	Office Costs are lower than budgeted due to cost savings in licensing for new software.
Professional Services	453,858	431,000	22,858	5.30%	Professional Services are higher than budgeted due to additional legal fees required for a Bylaws modification.
Miscellaneous	-	-	-		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Committee and Member Forums

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Depreciation	-	16,000	(16,000)	-100.00%	Depreciation was not realized due to budgeted fixed asset upgrades that were not completed until 2012.
Total Operating Expenses	\$ 1,081,228	\$ 1,128,966	\$ (47,738)		
Total Direct Expenses	\$ 2,600,093	\$ 2,655,839	\$ (55,746)		
Indirect Expenses	(2,501,704)	(2,533,439)	31,735	-1.25%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	98,389	122,400	(24,011)		
Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	-	(16,000)	16,000	-100.00%	Depreciation was not realized due to budgeted fixed asset upgrades that were not completed until 2012.
Computer & Software CapEx	-	50,000	(50,000)	-100.00%	Computer & Software CapEx costs were not realized due upgrades being delayed until early 2012.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ -	\$ 34,000	\$ (34,000)		
Allocation of Fixed Assets		(34,000)	34,000	-100.00%	The Allocation of Fixed Assets is under budget as a result of Fixed Asset purchases not being realized until 2012. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets	98,389	122,400	(24,011)		
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -		
FTEs	6.7	7.5	(0.8)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
General and Administrative

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	(30,000)	-	(30,000)		
Total ERO Funding	\$ (30,000)	\$ -	\$ (30,000)		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	302,898	350,000	(47,102)	-13.46%	2011 interest income was less than budgeted due to fluctuations in the markets. In accordance with Generally Accepted Accounting Principles, WECC adjusts its investment account balances to fair market value. These adjustments result in unrealized gains or losses that roll into Miscellaneous funding.
Miscellaneous	(39,344)	4,000	(43,344)	-1083.60%	
Total Funding	\$ 233,554	\$ 354,000	\$ (120,446)		
Expenses					
Personnel Expenses					
Salaries	2,358,082	2,031,849	326,233	16.06%	Salaries are over budget due to the reorganization and restructuring of executive management.
Payroll Taxes	108,385	140,522	(32,137)	-22.87%	Payroll taxes were estimated at an amount higher than actual results.
Employee Benefits	467,032	678,264	(211,232)	-31.14%	Employee Benefits are under budget due to more economic means of training, such as in-house training, less participation in the Health Reimbursement Account, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	244,762	125,806	118,956	94.56%	Savings and Retirement are over budget due to necessary adjustments identified in WECC's ERISA audit.
Total Personnel Expenses	\$ 3,178,261	\$ 2,976,441	\$ 201,820		
Meeting Expenses					
Meetings	21,824	2,000	19,824	991.20%	Meeting expenses are higher than budgeted due to the implementation of a leadership training program, including a leadership retreat that was not budgeted.
Travel	154,737	122,000	32,737	26.83%	Travel expenses are higher than budgeted due to increased travel associated with the new vice president positions.
Conference Calls	5,791	7,000	(1,209)	-17.27%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 182,352	\$ 131,000	\$ 51,352		
Operating Expenses					
Consultants & Contracts	92,366	20,000	72,366	361.83%	Consultants & Contracts expenses are over budget due to increased use of a Procurement consultant and higher costs related to the WECC Measures of Success survey.
Office Rent	1,176,913	1,431,000	(254,087)	-17.76%	Office Rent is under budget due to the final lease for the Salt Lake City office facilities being lower than budgeted.
Office Costs	278,584	407,930	(129,346)	-31.71%	Office Costs are lower than budgeted due to cost savings in licensing for new software.
Professional Services	158,438	490,400	(331,962)	-67.69%	Professional Services are lower than budget due to in-house counsel being used instead of outside firms.

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
General and Administrative

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Miscellaneous	6,849	-	6,849		
Depreciation	497,207	817,000	(319,793)	-39.14%	Depreciation is under budget as a result of reclassification of assets related to other functional areas.
Total Operating Expenses	\$ 2,210,357	\$ 3,166,330	\$ (955,973)		
Total Direct Expenses	\$ 5,570,970	\$ 6,273,771	\$ (702,801)		
Indirect Expenses	(5,337,416)	(5,919,771)	582,355	-9.84%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	233,554	354,000	(120,446)		
Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	(497,207)	(817,000)	319,793	-39.14%	Depreciation is under budget as a result of reclassification of assets related to other functional areas.
Computer & Software CapEx	(46,970)	-	(46,970)		Computer & Software CapEx show a negative balance due to the reclassification of assets related to other functional areas.
Furniture & Fixtures CapEx	(23,081)	-	(23,081)		Furniture & Fixtures CapEX show a negative balance due to the reclassification of assets related to other functional areas.
Leasehold Improvements	31,951	-	31,951		Leasehold Improvements is higher than budgeted due to unanticipated office build-outs.
Change in Fixed Assets	\$ (535,307)	\$ (817,000)	\$ 281,693		
Allocation of Fixed Assets	535,307	817,000	(281,693)	-34.48%	The Allocation of Fixed Assets is under budget as a result of the reclassification of assets related to other functional areas. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	233,554	354,000	(120,446)		
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -		
FTEs	15.3	16.7	(1.4)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Legal and Regulatory

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	200	-	200		
Total Funding	\$ 200	\$ -	\$ 200		
Expenses					
Personnel Expenses					
Salaries	915,992	1,141,000	(225,008)	-19.72%	Salaries are lower than budgeted due to vacancies and normal turnover.
Payroll Taxes	58,197	102,690	(44,493)	-43.33%	Payroll taxes are under budget due to vacancies in two budgeted positions and because they were budgeted at an amount higher than actual results.
Employee Benefits	91,632	134,437	(42,805)	-31.84%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	58,195	79,870	(21,675)	-27.14%	Retirement costs are lower than budgeted due to vacancies in two budgeted positions. There was also lower-than-budgeted participation in the 401(k) plan.
Total Personnel Expenses	\$ 1,124,016	\$ 1,457,997	\$ (333,981)		
Meeting Expenses					
Meetings	73	12,000	(11,927)	-99.39%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in cost savings.
Travel	52,000	87,000	(35,000)	-40.23%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	1,950	3,000	(1,050)	-35.00%	Conference calls are lower than budgeted due to cost savings related to WECC's increased use of WebEx.
Total Meeting Expenses	\$ 54,023	\$ 102,000	\$ (47,977)		
Operating Expenses					
Consultants & Contracts	-	-	-		
Office Rent	-	-	-		
Office Costs	41,590	85,000	(43,410)	-51.07%	Office Costs are lower than budgeted due to cost savings in licensing for new
Professional Services	18,854	150,000	(131,146)	-87.43%	Professional Services are lower than budgeted due to in-house counsel being used instead of outside firms.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 60,444	\$ 235,000	\$ (174,556)		
Total Direct Expenses	\$ 1,238,483	\$ 1,794,997	\$ (556,514)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Legal and Regulatory

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance	
Indirect Expenses	(1,238,283)	(1,794,997)	556,714	-31.01%
Other Non-Operating Expenses				
Total Expenses	200	-	200	
Change in Assets	\$ -	\$ -	\$ -	
Fixed Assets				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Change in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets			-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	200	-	200	
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -	
FTEs	7.6	11.0	(3.4)	

Comments - Explain variances that are +/- 10%
 Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Information Technology

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Personnel Expenses					
Salaries	415,047	536,401	(121,354)	-22.62%	Salaries are lower than budgeted due to vacancies in budgeted positions.
Payroll Taxes	32,710	48,276	(15,566)	-32.24%	Payroll taxes are under budget due to vacancies in budgeted positions and because they were budgeted at an amount higher than actual results.
Employee Benefits	55,943	73,304	(17,361)	-23.68%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees.
Savings & Retirement	24,853	37,548	(12,695)	-33.81%	Retirement costs are lower than budgeted due to vacancies in budgeted positions. There was also lower-than-budgeted participation in the 401(k) plan.
Total Personnel Expenses	\$ 528,553	\$ 695,529	\$ (166,976)		
Meeting Expenses					
Meetings	94	-	94		
Travel	9,041	10,000	(959)	-9.59%	
Conference Calls	6,072	-	6,072		
Total Meeting Expenses	\$ 15,207	\$ 10,000	\$ 5,207		
Operating Expenses					
Consultants & Contracts	17,358	20,000	(2,642)	-13.21%	Consultants & Contracts are under budget due to staff performing the tasks that would have otherwise been performed by consultants.
Office Rent	3,039	-	3,039		
Office Costs	445,838	368,650	77,188	20.94%	Office costs are over budget due to purchases budgeted in fixed assets that did not meet WECC's capitalization threshold and were more appropriately accounted for in office costs
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	145,670	93,000	52,670	56.63%	Depreciation is over budget due to an underestimate in Fixed Asset purchases' impact on overall depreciation. The underestimate was the result of an expectation that existing equipment would be replaced with new equipment, which was not the case; therefore, the assets were not removed from the depreciation schedule.
Total Operating Expenses	\$ 611,905	\$ 481,650	\$ 130,255		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Information Technology

(In Whole Dollars)

	<u>2011 Actual</u>	<u>2011 Budget</u>	<u>2011 Variance</u>		<u>Comments - Explain variances that are +/- 10%</u>
Total Direct Expenses	\$ 1,155,665	\$ 1,187,179	\$ (31,514)		
Indirect Expenses	(1,155,665)	(1,187,179)	31,514	-2.65%	Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	-	-	-		
Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
	(145,670)	(93,000)	(52,670)	56.63%	Depreciation is over budget due to an underestimate in fixed asset purchases' impact on overall depreciation. The underestimate was the result of an expectation that existing equipment would be replaced with new equipment, which was not the case; therefore, the assets were not removed from the depreciation schedule.
Depreciation					
Computer & Software CapEx	54,226	100,000	(45,774)	-45.77%	Computer & Software CapEx are under budget due to efficiencies that include a more conservative refresh policy and better negotiated contracts.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (91,444)	\$ 7,000	\$ (98,444)		
	91,444	(7,000)	98,444	-1406.34%	The Allocation of Fixed Assets is under budget as a result of efficiencies that include a more conservative refresh policy and better negotiated contracts. Fixed Asset costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Allocation of Fixed Assets					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets	-	-	-		
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -		
FTEs	4.8	5.7	(0.9)		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Human Resources

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	-	
Membership Fees & Non-Stat Assessments	-	-	-	-	
Grant Funding	-	-	-	-	
Services & Software	-	-	-	-	
Workshops	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
Total Funding	\$ -	\$ -	\$ -	-	
Expenses					
Personnel Expenses					
Salaries	237,448	430,303	(192,855)	-44.82%	Salaries are lower than budgeted due to the vacancy of a budget position. The hiring of one FTE has been postponed until 2013.
Payroll Taxes	17,786	36,027	(18,241)	-50.63%	Payroll taxes are under budget due to the vacancy of a budgeted position and because they were budgeted at an amount higher than actual results.
Employee Benefits	100,840	61,623	39,217	63.64%	Employee Benefits are higher than budgeted due to an unbudgeted tuition reimbursement program implemented mid-year in 2010, after the 2011 Business Plan and Budget was already submitted.
Savings & Retirement	14,126	33,021	(18,895)	-57.22%	Retirement costs are lower than budgeted due to the vacancy of a budgeted position. There was also lower-than-budgeted participation in the 401(k) plan.
Total Personnel Expenses	\$ 370,200	\$ 560,974	\$ (190,774)		
Meeting Expenses					
Meetings	2,264	-	2,264		
Travel	10,350	20,000	(9,650)	-48.25%	Greater-than-budgeted use of Salt Lake City meeting facilities has resulted in less travel by WECC employees.
Conference Calls	1,585	-	1,585		
Total Meeting Expenses	\$ 14,199	\$ 20,000	\$ (5,801)		
Operating Expenses					
Consultants & Contracts	11,289	9,000	2,289	25.43%	Consultants & Contracts expenses are higher than budgeted due an unbudgeted Compensation study requested by WECC's Human Resources and Compensation Committee.
Office Rent	397	-	397		
Office Costs	62,258	38,960	23,298	59.80%	Office costs are over budget due to increased participation in a broader variety of recruiting services (i.e. additional career fairs and job boards).
Professional Services	41,444	8,000	33,444	418.05%	Professional serves are over budget due to the ERISA audit taking longer than expected and unbudgeted legal fees related to employee matters.
Miscellaneous	-	-	-		
Depreciation	173	-	173		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Human Resources

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance
Total Operating Expenses	\$ 115,561	\$ 55,960	\$ 59,601
Total Direct Expenses	\$ 499,960	\$ 636,934	\$ (136,974)
Indirect Expenses	(499,960)	(636,934)	136,974
Other Non-Operating Expenses			
Total Expenses	-	-	-
Change in Assets	\$ -	\$ -	\$ -
Fixed Assets			
Depreciation	(173)	-	(173)
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Leasehold Improvements	5,937	-	5,937
Change in Fixed Assets	\$ 5,764	\$ -	\$ 5,764
Allocation of Fixed Assets	(5,764)	-	(5,764)
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Total Budget (Expenses plus Inc(Dec) in Fixed Assets	-	-	-
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -
FTEs	2.7	4.0	(1.3)

Comments - Explain variances that are +/- 10%

Indirect Expenses are under budget as a result of Administrative Services costs being less than budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Accounting and Finance

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		Comments - Explain variances that are +/- 10%
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Membership Fees & Non-Stat Assessments	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
Total Funding	\$ -	\$ -	\$ -		
Expenses					
Personnel Expenses					
Salaries	240,316	254,812	(14,496)	-5.69%	Salaries are lower than budgeted due to turnover. However, that under run is offset partially by market increases for two employees resulting in less variance than would be otherwise realized.
Payroll Taxes	26,547	22,933	3,614	15.76%	A portion of taxes that were initially charged to Finance and should have been allocated to the federal grants were not allocated in 2011. This allocation has been made in 2012.
Employee Benefits	35,798	45,657	(9,859)	-21.59%	Employee Benefits are under budget due to more economic means of training, such as in-house training, and lower-than-budgeted enrollment in insurance plans among existing employees. Additionally, a portion of benefit costs that were initially charged to Finance, and that should have been allocated to the federal grants, were not allocated in 2011. This allocation has been made in 2012.
Savings & Retirement	21,752	17,836	3,916	21.96%	A portion of retirement costs that were initially charged to Finance, and should have been allocated to the federal grants, were not allocated in 2011. This allocation has been made in 2012.
Total Personnel Expenses	\$ 324,413	\$ 341,238	\$ (16,825)		
Meeting Expenses					
Meetings	684	-	684		
Travel	10,787	9,000	1,787	19.86%	Travel is over budget due to increased travel to the Loveland and Vancouver offices to assist in Fixed Asset tagging.
Conference Calls	821	120	701	584.17%	Conference calls are over budget due to monthly financial reviews being performed via conference call with the Loveland and Vancouver offices.
Total Meeting Expenses	\$ 12,292	\$ 9,120	\$ 3,172		
Operating Expenses					
Consultants & Contracts	2,480	2,000	480	24.00%	Consultants are over budget due to WECC's Request for Letter Ruling related to Washington State income tax requirements.
Office Rent	167	-	167		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Accounting and Finance

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance		
Office Costs	47,680	19,300	28,380	147.05%	Comments - Explain variances that are +/- 10% Office costs are over budget due to higher-than-budgeted payroll processing fees, along with the implementation of a new web-based timesheet system.
Professional Services	79,763	43,000	36,763	85.50%	
Miscellaneous	-	-	-		
Depreciation	4,368	-	4,368		
Total Operating Expenses	\$ 134,458	\$ 64,300	\$ 70,158		
Total Direct Expenses	\$ 471,163	\$ 414,658	\$ 56,505		
Indirect Expenses	(471,163)	(414,658)	(56,505)	13.63%	Indirect Expenses are over budget as a result of 2011 FTEs for Finance being more than originally budgeted. Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with NERC's accounting methodology for allocation of overhead.
Other Non-Operating Expenses					
Total Expenses	-	-	-		
Change in Assets	\$ -	\$ -	\$ -		
Fixed Assets					
Depreciation	(4,368)	-	(4,368)		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Change in Fixed Assets	\$ (4,368)	\$ -	\$ (4,368)		
Allocation of Fixed Assets	4,368	-	4,368		
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Total Budget (Expenses plus Inc(Dec) in Fixed Assets	-	-	-		
Change in Working Capital (Total Funding less Total Budget)	\$ -	\$ -	\$ -		
FTEs	4.8	4.0	0.8		

WESTERN ELECTRICITY COORDINATING COUNCIL
2011 Statement of Activities Summary
Non-Statutory

(In Whole Dollars)

	2011 Actual	2011 Budget	2011 Variance
Funding			
ERO Funding			
ERO Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -
Membership Fees & Non-Stat Assessments	2,141,170	1,565,590	575,580
Grant Funding	-	-	-
Services & Software	-	-	-
Workshops	3,510	12,480	(8,970)
Interest	-	-	-
Miscellaneous	152	-	-
Total Funding	\$ 2,144,832	\$ 1,578,070	\$ 566,610
Expenses			
Personnel Expenses			
Salaries	270,964	355,846	(84,882)
Payroll Taxes	20,858	32,026	(11,168)
Employee Benefits	28,475	92,146	(63,671)
Savings & Retirement	17,771	24,909	(7,138)
Total Personnel Expenses	\$ 338,068	\$ 504,927	\$ (166,859)
Meeting Expenses			
Meetings	2,918	20,780	(17,862)
Travel	2,295	50,000	(47,705)
Conference Calls	-	500	(500)
Total Meeting Expenses	\$ 5,213	\$ 71,280	\$ (66,067)
Operating Expenses			
Consultants & Contracts	3,780	113,300	(109,520)
Office Rent	-	-	-
Office Costs	416,064	418,320	(2,256)
Professional Services	31,835	56,400	(24,565)
Miscellaneous	1,362	-	1,362
Depreciation	-	-	-
Total Operating Expenses	\$ 453,041	\$ 588,020	\$ (134,979)
Total Direct Expenses	\$ 796,322	\$ 1,164,227	\$ (367,905)
Indirect Expenses	245,656	413,843	(168,187)
Other Non-Operating Expenses		\$ -	
Total Expenses	1,041,978	1,578,070	(536,092)
Change in Assets	\$ 1,102,854	\$ -	\$ 1,102,702
Fixed Assets			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Leasehold Improvements	-	-	-
Change in Fixed Assets	\$ -	\$ -	\$ -
Allocation of Fixed Assets		-	
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Total Budget (Expenses plus Inc(Dec) in Fixed Assets)	1,041,978	1,578,070	(536,092)
Change in Working Capital (Total Funding less Total Budget)	\$ 1,102,854	\$ -	\$ 1,102,702
FTEs	4.2	5.0	(0.8)

**Financial Statements and Report of Independent
Certified Public Accountants**

Western Electricity Coordinating Council

December 31, 2011 and 2010

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Report of Independent Certified Public Accountants

Board of Directors
Western Electricity Coordinating Council

Grant Thornton LLP
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We have audited the accompanying statement of financial position of Western Electricity Coordinating Council (“WECC”) as of December 31, 2011, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of WECC’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of WECC as of and for the year ended December 31, 2010 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated April 27, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WECC’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WECC as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Salt Lake City, Utah
May 16, 2012

FINANCIAL STATEMENTS

Western Electricity Coordinating Council
STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 36,467,365	\$ 37,520,435
Certificates of deposit	1,182,085	1,298,838
Investments	6,622,041	4,336,905
Accounts receivable, net	6,722,564	3,585,189
Prepaid expenses and other assets	502,486	371,323
Property, equipment, and software, net	10,033,947	6,519,678
 Total assets	 \$ 61,530,488	 \$ 53,632,368

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 7,776,577	\$ 6,591,549
Accrued expenses	1,800,884	2,573,528
Deferred revenue	21,121,670	23,969,402
Other liabilities	6,891,368	2,708,824
Total liabilities	37,590,499	35,843,303
 UNRESTRICTED NET ASSETS	 23,939,989	 17,789,065
 Total liabilities and net assets	 \$ 61,530,488	 \$ 53,632,368

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

Western Electricity Coordinating Council

STATEMENTS OF ACTIVITIES

Years ended December 31,

Revenue	2011	2010
Electric reliability organization funding	\$ 39,201,178	\$ 39,132,442
Meetings and workshops	839,790	919,095
Western Renewable Energy Generation Information System (WREGIS)	2,141,170	1,035,810
Federal grants	18,392,811	6,267,560
Total revenue	<u>60,574,949</u>	<u>47,354,907</u>
Other revenue		
Interest and dividends	304,944	276,901
Net unrealized (loss)/gain on investments	(25,843)	2,025
Net realized loss on investments	(19,645)	(6,941)
Other	4,451	17,140
Total revenue, gains, and other	<u>60,838,856</u>	<u>47,644,032</u>
Expenses		
Labor	26,282,991	22,590,366
Office and equipment	7,094,425	5,822,907
Depreciation and amortization	3,048,719	2,771,115
Contract labor and consultants	14,853,384	7,966,730
Meetings	2,597,868	2,467,072
Professional services	789,325	1,398,214
Excise taxes	12,997	(133,400)
Other	8,223	326,638
Total expenses	<u>54,687,932</u>	<u>43,209,642</u>
Increase in unrestricted net assets from operations	<u>6,150,924</u>	<u>4,434,390</u>
Non-operating loss	<u>-</u>	<u>(450,000)</u>
Increase in unrestricted net assets	6,150,924	3,984,390
Net assets, beginning of year	<u>17,789,065</u>	<u>13,804,675</u>
Net assets, end of year	<u>\$ 23,939,989</u>	<u>\$ 17,789,065</u>

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

Western Electricity Coordinating Council

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Increase in net assets	\$ 6,150,924	\$ 3,984,390
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	3,048,719	2,771,115
Unrealized loss/(gain) on investments	25,843	(2,025)
Realized loss on investments	19,645	6,941
Loss on the disposal of fixed assets	-	333,000
Decrease (increase) in assets:		
Accounts receivable	(3,137,375)	(2,917,000)
Prepaid expenses and other assets	(131,163)	(263,000)
Increase (decrease) in liabilities:		
Accounts payable	1,185,028	2,107,000
Accrued expenses	(772,644)	1,040,000
Deferred revenue	(2,847,732)	(453,000)
Other liabilities	<u>4,182,544</u>	<u>2,478,000</u>
Net cash provided by operating activities	<u>7,723,789</u>	<u>9,085,421</u>
Cash flows from investing activities		
Purchase of property and equipment	(6,562,988)	(2,785,000)
Purchase and sale of investments and certificates of deposit, net	<u>(2,213,871)</u>	<u>(722,481)</u>
Net cash used in investing activities	<u>(8,776,859)</u>	<u>(3,507,481)</u>
Cash flows from financing activities		
Payments on the line of credit, net	<u>-</u>	<u>(2,926,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(2,926,000)</u>
Net increase (decrease) in cash and cash equivalents	(1,053,070)	2,651,940
Cash and cash equivalents, beginning of year	<u>37,520,435</u>	<u>34,868,495</u>
Cash and cash equivalents, end of year	<u>\$ 36,467,365</u>	<u>\$ 37,520,435</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ -	\$ 17,000

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

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of activities

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to assure a reliable bulk electric power system in the Western Interconnection. 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 2011 with North American Electric Reliability Corporation (NERC). NERC is the electric reliability organization (ERO) certified by the Federal Energy Regulatory Commission 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 geographic boundaries of the Western Interconnection, which includes the provinces of Alberta and British Columbia, the northern portion of Baja California, Mexico, and all or portions of the 14 western states. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to users within the Western Interconnection.

Non-statutory activities include oversight of the operations of the Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within WECC's region. WECC funds its non-statutory activities through membership dues. WREGIS is not a separate legal entity, but is a component of WECC "doing business as" WREGIS.

2. Financial statement presentation

WECC presents its accounts in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-for-Profit Organizations (Audit Guide). Under the Audit Guide, not-for-profit organizations are required to provide a statement of financial position, a statement of activities and a statement of cash flows which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Not-for-profit organizations are required to report total assets, liabilities, and net assets in the statement of financial position, changes in net assets in a statement of activities, and changes in cash and cash equivalents in a statement of cash flows. The Audit Guide also requires that not-for-profit organizations report expenses by their functional classification, such as major programs and supporting activities.

WECC maintains its accounts on the accrual basis of accounting. The information regarding its financial position and activities is reported based on the existence or absence of donor-imposed restrictions in three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2011 and 2010, WECC had only unrestricted net assets.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Revenue recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund. Federal grant revenue is generated through WECC's and WECC sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis. Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

5. Cash and cash equivalents

Cash and cash equivalents consist of bank demand accounts, money market investment accounts, and other highly liquid investments with remaining maturities of three months or less when purchased. Deposits at times may exceed the federally insured limits.

6. Certificates of deposit

Certificates of deposits held that are not debt securities have original maturities greater than three months.

7. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are included in the change in net assets.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Accounts receivable

Accounts receivable consists of assessments and grant receivables that have not been collected. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

9. Property, equipment, and software

Property, equipment, and software, which individually exceed \$5,000, are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Equipment and software	3 years
Furniture and fixtures	5 years

Leasehold improvements are depreciated over the shorter of the lease term or their estimated useful life of 10 years. Minor replacements, maintenance, and repairs, which do not increase the useful lives of the property, equipment, and software, are expensed as incurred.

10. Impairment of long-lived assets

WECC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If it is determined that the estimated undiscounted future cash flows are not sufficient to recover the carrying value of an asset, an impairment loss is recognized in the statement of activities for the difference between the carrying value and the fair value of the asset.

11. Income taxes

WECC has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(6) of the Internal Revenue Code and, as such, is not subject to federal or state income taxes on exempt purpose income. WECC is subject to excise taxes on revenue generated in the state of Washington, and is subject to taxation on any unrelated business income.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Income taxes - continued

On January 1, 2009, WECC adopted the provisions of Financial Accounting Standard Board Accounting Standards Codification (FASB ASC) 740-10, *Income Taxes*, in accounting for an uncertainty in income taxes. This standard provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. WECC analyzed tax positions for all applicable tax jurisdictions for which the statute of limitations remain open, including US federal, Utah state and foreign jurisdictions for the years ended December 31, 2008 through December 31, 2011 and determined there were no material unrecognized tax benefits. In addition, there have been no material changes in unrecognized benefits for the related tax jurisdictions since adoption and it is not expected that there will be a material change in the 12 months following the year ended December 31, 2011.

WECC recognized no unrelated business income tax benefit in the years ending December 31, 2011 and 2010.

12. Functional Allocation of Expenses

The costs of programs and supporting services have been summarized on a functional basis. All of 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.

13. Adoption of new accounting pronouncements

In January 2010, the FASB issued Accounting Standard Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. This was effective for financial statements issued for periods beginning after December 15, 2009. In addition, the guidance required separate presentation of purchases and sales in the Level 3 asset reconciliation. This was effective for financial statements issued for periods beginning on or after December 15, 2010. WECC adopted this guidance and it did not have a material impact on the financial statements.

14. Reclassifications

Certain immaterial reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE B – FAIR VALUE MEASUREMENTS

WECC's financial instruments, including cash, accounts receivable, accounts payable, and accrued liabilities are carried at cost which approximates their fair value because of the short-term nature of these instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, WECC uses various valuation approaches within a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of WECC. Unobservable inputs are inputs that reflect WECC's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The following hierarchy prioritizes the inputs according to valuation methodologies used to measure fair value:

Level 1: Valuations based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuation based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuation based on unobservable inputs that are used when little or no market data is available.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment in determining fair value is greatest in instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, WECC's own assumptions are set to reflect those that WECC believes a market participant would use in pricing the asset or liability at the measurement date.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE B – FAIR VALUE MEASUREMENTS – CONTINUED

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Description	Fair Value Measurements as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 8,006,708	\$ -	\$ -	\$ 8,006,708
Commercial paper	-	6,363,128	-	6,363,128
	<u>8,006,708</u>	<u>6,363,128</u>	<u>-</u>	<u>14,369,836</u>
Investments:				
Commercial paper	-	974,606	-	974,606
Corporate bonds	-	3,320,221	-	3,320,221
Government agency bonds	-	2,168,578	-	2,168,578
Foreign bonds	-	158,636	-	158,636
	-	<u>6,622,041</u>	-	<u>6,622,041</u>
	<u>\$ 8,006,708</u>	<u>\$ 12,985,169</u>	<u>\$ -</u>	<u>\$ 20,991,877</u>

Description	Fair Value Measurements as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 13,264,256	\$ -	\$ -	\$ 13,264,256
Commercial paper	-	7,102,880	-	7,102,880
	<u>13,264,256</u>	<u>7,102,880</u>	<u>-</u>	<u>20,367,136</u>
Investments:				
Corporate bonds	-	2,662,793	-	2,662,793
Government agency bonds	-	1,572,602	-	1,572,602
Foreign bonds	-	101,510	-	101,510
	-	<u>4,336,905</u>	-	<u>4,336,905</u>
	<u>\$ 13,264,256</u>	<u>\$ 11,439,785</u>	<u>\$ -</u>	<u>\$ 24,704,041</u>

WECC used the following methods and significant assumptions to estimate the fair value of assets recorded at fair value:

Money market funds are valued using observable prices in the active market.

Commercial paper, certificates of deposit, corporate bonds, government agency bonds, and foreign bonds are valued using either an accretion model or the weighted average price from a variety of industry standard data providers, security master files from financial institutions, or other third-party sources.

Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE C – INVESTMENTS

Investments are stated at fair value and consist of the following as of December 31:

	2011		2010
Commercial Paper	\$ 974,606	\$	-
Corporate bonds	3,320,221		2,662,793
Government agency bonds	2,168,578		1,572,602
Foreign bonds	158,636		101,510
	\$ 6,622,041	\$	4,336,905

NOTE D – PROPERTY, EQUIPMENT, AND SOFTWARE

Property, equipment, and software consist of the following as of December 31:

	2011		2010
Equipment	\$ 7,627,337	\$	5,738,109
Software	6,886,248		4,234,201
Leasehold improvements	5,626,689		3,464,010
Furniture and fixtures	689,655		681,334
	20,829,929		14,117,654
Less accumulated depreciation and amortization	(10,795,982)		(7,597,976)
Property, equipment and software - net	\$ 10,033,947	\$	6,519,678

Depreciation expense for the years ended December 31, 2011 and 2010 was \$3,048,719 and \$2,771,115, respectively.

Equipment purchased with grant funds and is secured by a lien on the equipment for the years ending December 31, 2011 and 2010 was \$4,936,249 and \$498,646, respectively.

NOTE E – ACCOUNTS PAYABLE

Accounts payable consist of the following as of December 31:

	2011		2010
Assessment payables	\$ 4,397,868	\$	4,367,129
Trade payables	3,364,796		2,224,420
Other payables	13,913		-
	\$ 7,776,577	\$	6,591,549

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE F – OTHER LIABILITIES

Accrued expenses consist of the following as of December 31:

	2011	2010
Sub-recipient payable	\$ 4,978,340	\$ 1,000,000
Deferred rents	1,913,028	1,708,824
	\$ 6,981,368	\$ 2,708,824

NOTE G – UNRESTRICTED NET ASSETS

WECC reports information regarding statutory and non-statutory related earnings to the Federal Energy Regulatory Commission in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2011. As of December 31, the breakdown of such earnings included in unrestricted net assets consisted of the following:

	2011	2010
Non-statutory earnings	\$ 7,492,641	\$ 6,391,033
Statutory earnings	16,447,348	11,398,033
	\$ 23,939,989	\$ 17,789,065

NOTE H – COMMITMENTS AND CONTINGENCIES

1. Operating lease commitments

WECC has entered into non-cancelable operating leases for office space and office equipment. Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

Years Ending December 31:	Amount
2012	\$ 1,773,274
2013	1,696,816
2014	1,504,718
2015	1,510,637
2016	1,910,792
Thereafter	5,194,485
	\$ 13,590,722

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
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NOTE H – COMMITMENTS AND CONTINGENCIES – CONTINUED

Total rent expense under non-cancelable operating leases was approximately \$1.7 million and \$1.5 million for the years ended December 31, 2011 and 2010, respectively.

2. Litigation and claims

WECC is subject to claims and legal proceedings that arise in the ordinary course of its business activities. WECC records a liability when management believes that it is both probable that a liability has been incurred and the loss can be reasonably estimated. During 2010 WECC incurred a non-operating loss of \$450,000 for a contingency that meets that criteria, and is included in accrued expenses in the statement of financial position at December 31 2010 and was paid during 2011.

3. Washington State excise tax

In 2009, WECC was notified by the state of Washington that WECC was subject to excise taxes on revenue generated in Washington. WECC accrued an amount equal to \$140,000 as of December 31, 2009. In 2010 WECC determined that it is not probable that it will owe the excise tax, and the \$140,000 accrual was reversed.

4. Sub-recipient grant

In 2010, WECC committed up to \$22 million in federal grant awards to a sub-recipient. WECC records a payable in sub-recipient payable for payments due for the sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis. As of December 31, 2011 the remaining commitment was \$15.67 million.

NOTE I – RETIREMENT PLANS

1. Employee benefit plan

WECC has a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of compensation eligible employees contribute to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying statements of activities was \$1.467 million and \$1.156 million for the years ended December 31, 2011 and 2010, respectively.

Western Electricity Coordinating Council
NOTES TO FINANCIAL STATEMENTS
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NOTE J – FUNCTIONAL EXPENSES

The detail of functional expenses for the years ended December 31, are as follows:

	2011	2010
Program services		
Statutory services	\$ 44,860,449	\$ 34,791,248
Non-statutory services	889,549	600,483
	45,749,998	35,391,731
Support Services		
Management and general	8,937,934	7,817,911
	\$ 54,687,932	\$ 43,209,642

NOTE K – SUBSEQUENT EVENTS

WECC has evaluated events occurring between the end of its most recent fiscal year and May 16, 2012, the date the financial statements were available for issue.

ATTACHMENT 10

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2011 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

Analysis of Administrative (Indirect) Costs
2011 Actual and Budget

2011 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 51,331,461	\$ 29,699,184	\$ 21,632,277	42.14%	\$ 1.37
FRCC	5,177,020	4,476,298	700,722	13.54%	6.39
MRO	7,385,721	4,593,792	2,791,929	37.80%	1.65
NPCC	11,754,576	9,256,662	2,497,914	21.25%	3.71
RFC	15,158,286	10,361,567	4,796,719	31.64%	2.16
SERC	11,438,066	7,155,166	4,282,900	37.44%	1.67
SPP	8,397,845	4,116,846	4,280,999	50.98%	0.96
Texas RE	8,179,402	5,289,369	2,890,033	35.33%	1.83
WECC	57,554,596	46,643,617	10,910,979	18.96%	4.27
TOTAL	\$ 176,376,973	\$ 121,592,501	\$ 54,784,472	31.06%	\$ 2.22

2011 BUDGET SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 48,726,466	\$ 33,611,755	\$ 15,114,711	31.02%	\$ 2.22
FRCC	\$ 5,588,607	\$ 4,917,745	\$ 670,862	12.00%	7.33
MRO	\$ 8,130,824	\$ 5,335,657	\$ 2,795,167	34.38%	1.91
NPCC	\$ 12,716,807	\$ 10,317,055	\$ 2,399,752	18.87%	4.30
RFC	\$ 15,226,318	\$ 11,462,486	\$ 3,763,832	24.72%	3.05
SERC	\$ 11,776,640	\$ 7,772,543	\$ 4,004,097	34.00%	1.94
SPP	\$ 9,797,236	\$ 4,946,725	\$ 4,850,511	49.51%	1.02
Texas RE	\$ 9,442,092	\$ 6,548,528	\$ 2,893,564	30.65%	2.26
WECC	\$ 68,619,296	\$ 56,431,918	\$ 12,187,378	17.76%	4.63
TOTAL	\$ 190,024,286	\$ 141,344,412	\$ 48,679,874	25.62%	\$ 2.90

2011 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	140.25	101.04	39.21	27.96%	2.58
FRCC	25.48	21.15	4.33	16.99%	4.88
MRO	32.97	24.47	8.50	25.78%	2.88
NPCC	29.83	23.08	6.75	22.63%	3.42
RFC	62.05	48.77	13.28	21.40%	3.67
SERC	56.70	43.95	12.75	22.49%	3.45
SPP	26.38	22.51	3.87	14.67%	5.82
Texas RE	42.70	31.60	11.10	26.00%	2.85
WECC	188.70	146.80	41.90	22.20%	3.50
TOTAL	605.06	463.37	141.69	23.42%	3.27

2011 BUDGET FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	150.74	112.99	37.75	25.04%	2.99
FRCC	26.45	22.63	3.82	14.44%	5.92
MRO	34.50	27.35	7.15	20.72%	3.83
NPCC	31.42	24.00	7.42	23.62%	3.23
RFC	68.00	55.95	12.05	17.72%	4.64
SERC	53.50	39.75	13.75	25.70%	2.89
SPP	29.67	25.67	4.00	13.48%	6.42
Texas RE	49.00	38.14	10.86	22.16%	3.51
WECC	207.90	159.00	48.90	23.52%	3.25
TOTAL	651.18	505.48	145.70	22.37%	3.47

2011 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 366,000	\$ 293,935	\$ 551,703	\$ 154,241
FRCC	203,180	211,645	161,830	27,501
MRO	224,013	187,732	328,462	84,681
NPCC	394,052	401,069	370,061	83,738
RFC	244,291	212,458	361,199	77,304
SERC	201,730	162,802	335,914	75,536
SPP	318,341	182,890	1,106,201	162,282
Texas RE	191,555	167,385	260,363	67,682
WECC	305,006	317,736	260,405	57,822
TOTAL	\$ 291,503	\$ 262,409	\$ 386,650	\$ 90,544

2011 BUDGETED SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 323,248	\$ 297,475	\$ 400,390	\$ 100,270
FRCC	211,289	217,311	175,618	25,363
MRO	235,676	195,088	390,932	81,019
NPCC	404,736	429,877	323,417	76,377
RFC	223,916	204,870	312,351	55,350
SERC	220,124	195,536	291,207	74,843
SPP	330,207	192,705	1,212,628	163,482
Texas RE	192,696	171,697	266,442	59,052
WECC	330,059	354,918	249,231	58,621
TOTAL	\$ 291,815	\$ 279,624	\$ 334,110	\$ 74,756

The accompanying narrative in this filing is essential to understanding the financial information on this schedule