

**SCHIFF HARDIN LLP**  
A Limited Liability Partnership

Owen E. MacBride  
(312) 258-5680  
Email: [omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)

233 SOUTH WACKER DRIVE  
SUITE 6600  
CHICAGO, ILLINOIS 60606  
*Tel.:* 312.258.5500  
*Fax:* 312.258.5700  
[www.schiffhardin.com](http://www.schiffhardin.com)

May 30, 2017

**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. RR17-\_-000  
Report of Comparisons of Budgeted to Actual Costs for 2016  
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 2016 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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**Attachment 3:** Midwest Reliability Organization – 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements

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**Attachment 8:** Texas Reliability Entity, Inc. – 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 9:** Western Electricity Coordinating Council – 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements)

**Attachment 10:** Metrics Concerning Administrative Costs in 2016 NERC and Regional Entity Budgets and Actual Costs

## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2016 for NERC and the eight Regional Entities.<sup>1</sup> 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.<sup>2</sup> In several subsequent orders, the Commission has clarified and modified the information to be included in the annual actual-to-budget cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2016, 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, 2016.
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2016 budgets and actual results.

This filing includes the following attachments:

**Attachment 1:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

**Attachment 2:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

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<sup>1</sup> 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”).

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

**Attachment 3:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

**Attachment 4:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

**Attachment 5:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

**Attachment 6:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

**Attachment 7:** 2016 Actual Cost-to-Budget Comparison for SPP RE and Audited Financial Statements for Southwest Power Pool, Inc.

**Attachment 8:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

**Attachment 9:** 2016 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

**Attachment 10:** Metrics Concerning Administrative Costs in 2016 NERC and Regional Entity Budgets and Actual Costs

## **II. NOTICES AND COMMUNICATIONS**

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

Gerald W. Cauley  
President and Chief Executive Officer  
Michael Walker  
Senior Vice President and Chief Financial  
and Strategic Development Officer  
North American Electric  
Reliability Corporation  
3353 Peachtree Road  
North Tower, Suite 600  
Atlanta, GA 30326  
(404) 446-2560  
(404) 446-9765 – facsimile

\*Persons to be included on the official  
service list are indicated by an asterisk

Charles A. Berardesco\*  
Senior Vice President and General Counsel  
North American Electric Reliability Corporation  
1325 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 400-3000  
(202) 644-8099 – facsimile  
[charles.berardesco@nerc.net](mailto:charles.berardesco@nerc.net)

Owen E. MacBride\*  
Schiff Hardin LLP  
233 South Wacker Drive, Suite 6600  
Chicago, IL 60606  
(312) 258-5680  
(312) 258-5700 – facsimile  
[omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)

### **III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2016 – NERC AND REGIONAL ENTITIES**

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

37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity’s statutory programs in the aggregate. Regional Entities should also follow NERC’s template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.

38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.<sup>4</sup>

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<sup>3</sup> *2008 ERO Budget Order* at P 23.

<sup>4</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) (“*June 19, 2008 Budget Compliance Order*”), PP 37-38.

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

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

The comparisons of 2016 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, 2016, as prepared by its independent public accounting firm.

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

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2016 budget, 2016 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 2016, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2016 budget, 2016 actual amounts, and the variance, for major line-item categories of Funding and Expenses.<sup>5</sup>
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2016 budget, 2016 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs<sup>6</sup> (direct costs) and for the administrative functions<sup>7</sup> (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, either below the table or on the immediately following page(s).<sup>8</sup>

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2016 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2016); (ii) the impact of the entity's 2016 results on its working cash reserve for statutory

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<sup>5</sup> FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2016 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 2016 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

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

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

<sup>8</sup> 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.



programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2016)<sup>9</sup>; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2016.

NERC has provided additional information in its 2016 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, by department, and (2) an analysis of the major sources of changes in its working capital and operating reserves for 2016. The table on page 3 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2016 by NERC program area, and is accompanied by a discussion of the principal reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area. The analysis of changes in working capital and operating reserves is provided on pages 8-9 of **Attachment 1**, including a table which shows the changes in working capital and operating reserves due to 2016 budgeted operations (differences in actual funding or expenditures from amounts budgeted) and due to approved uses of reserves, for (as applicable) the Future Obligations Reserve, the Operating Contingency Reserve, the System Operator Reserve, the Cyber Risk Information Sharing Program Reserve, and the Assessment Stabilization Reserve. In addition, in its report, NERC has provided an actual cost-to budget comparison of 2016 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). *See* page 6 of **Attachment 1**.

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<sup>9</sup> The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the “Change in Working Capital” (or in “Operating Reserves”) for the 2016 Actual Funding and Expenditures. A positive “Change in Working Capital” means the entity’s total Actual Funding exceeded its total Actual Expenditures for the year 2016; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2015 to fund 2016 expenditures.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2016 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and the Regional Entities in 2016, as identified by NERC's review of the comparisons.

- A number of entities<sup>10</sup> experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget.<sup>11</sup>
- Conversely, some entities filled open, budgeted positions earlier than anticipated, including in some cases in late 2015 after the 2016 budgets had been prepared and approved, resulting in higher than budgeted Personnel Expenses for 2016.
- Having fewer (or in some cases, more) personnel on staff than budgeted was a factor tending to reduce (or increase) Meetings, Travel Expense, and/or Office Costs (each of which is related, to some extent, to staffing levels) below (or above) the budgeted amounts.
- The inability to fill budgeted positions as planned resulted, in some instances, in higher-than budgeted Consultants and Contracts or Professional Services expense, due to the need to use consultants or contractors to perform work that would have been performed by employees in unfilled positions.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program.

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<sup>10</sup> The term "entities" is used in this discussion to include NERC as well as Regional Entities.

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

(For example, employees may have been able, and elected, to stay on the health and medical programs of previous employers). Employee Benefits expense was also lower than budgeted for some entities due to employees not using educational or training program benefits to the full extent assumed in the budget.

- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget. In some cases the fact that budgeted positions were filled later than expected during the year resulted in the new employees not reaching the maximum retirement plan contribution levels for the year.
- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2016, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- Some entities experienced lower than budgeted expenses in their Compliance Monitoring and Enforcement Programs ("CMEP") for Personnel Expenses, Travel, Consultants and Contracts, and/or Professional Services, in connection with compliance audits and other CMEP functions, due to the continuing implementation of risk-based compliance monitoring and other changes to CMEP processes that resulted in less time being required at registered entities' sites for audits and introduced other efficiencies.
- Some entities were able to spend less on Consultants and Contracts than budgeted as a result of having work that was budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, thereby increasing in-house capabilities, entities have seen less need to use outside services. Further, increased experience and expertise gained by entity staffs, and implementation of process efficiencies based on experience, has enabled entity staffs to perform and complete work for which consultants or contractors were previously used.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continued efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings; (ii) scheduling meetings at NERC or Regional Entity facilities or facilities of stakeholders (*e.g.* at the offices of Regional Entity members) rather than in rented, third-party meeting spaces; (iii) obtaining discounts through repetitive use of selected hotels or other meeting space providers; or (iv) overall increased corporate attention to controlling travel and meeting costs.
- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in 2016 or in recent prior years, have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.

- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects, while other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration of projects requiring consultant or contractor assistance.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed lease terms resulting from office lease renewals, from moving to a new office, or from taking additional space in the existing office facility, as compared to the terms reflected in the budget. In addition, the requirement of Generally Accepted Accounting Principles (“GAAP”) to record rent expense on a straight-line basis over the life of the lease, even though some period of free or reduced rent was provided by the landlord at the start of the lease term, resulted in variances on Office Rent.
- Some entities which moved to new offices or expanded existing offices in 2015 or 2016 to accommodate increased staffing, incurred additional costs for capital expenditures (Furniture & Fixtures CapEx, Equipment CapEx, Computer & Software CapEx, and/or Leasehold Improvements) associated with the move to the new office or expansion of the existing office.
- Some entities experienced higher or lower Office Rent or Office Costs expense than budgeted due to higher or lower property taxes or utilities costs than assumed in preparing their budgets.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in the program area responsible for incurring, or benefitting from, the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services; or budgeting costs for information technology projects in the Information Technology budget but recording the actual costs in the program areas that utilize the particular projects or programs).
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2016 budget were either (i) completed, or at least initiated, in late 2015, (ii) not carried out in 2016 (*i.e.*, delayed/deferred to 2017 or later), or (iii) initiated later in 2016 than assumed in the budget and therefore not completed in 2016. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2015 were not fully completed in 2015 or were delayed or deferred into 2016, resulting in unbudgeted or over-budget expenditures in 2016.
- Some entities budgeted certain expenditures as expenses (*e.g.*, budgeting computer or software purchases as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures), based on the entity’s capitalization policy or the capitalization requirements of GAAP. In other instances, the reverse occurred. Capitalizing rather than expensing these expenditures

(or vice versa) also impacted actual versus budgeted Depreciation expense.

- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due either to (i) higher or lower total Indirect Expenses than budgeted, or (ii) differences in actual versus budgeted FTEs during the year in individual statutory programs, or both, entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than were planned in the budget, making a determination not to charge fees for some programs for which fees had been budgeted, or charging lower fees than budgeted because the costs to hold the event were less than budgeted (e.g., due to obtaining hotel meeting space at a lower cost than anticipated).
- Additionally, some entities held one or more workshops or similar programs at their offices, rather than at third-party facilities as assumed in the budget, resulting in lower Meeting expense and correspondingly lower Workshop revenue where the attendance fees charged are based on the costs of presenting the event.

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

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2016, as well as year-to-date actual cost-to-budget comparisons for 2017, into account in developing their business plans and budgets for 2018, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2017.

#### **IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2016 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS**

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics analyzing its administrative services expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and

Business Plan and Budget filings. NERC has provided administrative cost metrics for NERC and the Regional Entities in its annual actual cost-to-budget reports for the ensuing years. In accordance with the *June 19, 2008 Budget Compliance Order*, the costs incurred by NERC and the Regional Entities in the following functions are considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance.<sup>12</sup>

**Attachment 10** provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2016 budgets and 2016 actual costs. In addition, **Attachment 10** provides a comparison of these metrics values for 2014, 2015 and 2016 actual results.

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

These are the same administrative cost metrics that NERC has provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for the years 2008 through 2015.

## **V. CONCLUSION**

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission’s requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for

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<sup>12</sup> See *June 19, 2008 Budget Compliance Order*, footnote 13.

NERC and the Regional Entities for the year ended December 31, 2016.

Respectfully submitted,

Gerry W. Cauley  
President and Chief Executive Officer  
Michael Walker  
Senior Vice President and Chief Financial and  
Strategic Development Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road  
Suite 600, North Tower  
Atlanta, GA 30326  
(404) 446-2560  
(404) 446-9765 – facsimile

/s/ Owen E. MacBride  
Owen E. MacBride  
Schiff Hardin LLP  
233 South Wacker Drive, Suite 6600  
Chicago, IL 60606  
(312) 258-5680  
(312) 258-5700 – facsimile  
[omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)

Charles A. Berardesco  
Senior Vice President and General Counsel  
North American Electric Reliability Corporation  
1325 G Street, N.W., Suite 600  
Washington, D.C. 20005  
(202) 400-3000  
(202) 644-8099 – facsimile  
[charles.berardesco@nerc.net](mailto:charles.berardesco@nerc.net)

**ATTACHMENT 1**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**



## North American Electric Reliability Corporation 2016 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2016, NERC was \$644k (1.0%) under budget for total expenses and fixed asset (capital) purchases, inclusive of expenses associated with the Cyber Risk Information Sharing Program (CRISP).

### 2016 Actual vs Budget - Including CRISP

	Actual	Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 67,499,168</b>	<b>\$ 67,502,155</b>	<b>\$ (2,988)</b>	<b>0.0%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 37,202,623	\$ 37,283,807	\$ (81,184)	-0.2%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,472,637	3,620,286	(147,650)	-4.1%
CONSULTANTS and CONTRACTS	11,696,806	12,865,914	(1,169,108)	-9.1%
RENT	3,249,112	3,054,287	194,825	6.4%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,702,233	6,341,372	(639,139)	-10.1%
OTHER NON-OPERATING EXPENSES	174,099	110,000	64,099	58.3%
FIXED ASSET PURCHASES (excluding depreciation)	5,045,619	3,911,000	1,134,619	29.0%
<b>TOTAL EXPENSES and FIXED ASSETS</b>	<b>\$ 66,543,128</b>	<b>\$ 67,186,665</b>	<b>\$ (643,538)</b>	<b>-1.0%</b>
FTEs	192.7	192.5	0.2	0.1%

**NERC VARIANCES - excluding CRISP**

NERC was \$680k (1.1%) under its expense and fixed assets budget at year-end. NERC utilized reserves for various expenditures during 2016 (see page 7 for details) and all were appropriately authorized under NERC’s reserve policy. Those reserve expenditures, representing specific over budget items, were more than offset by reduced spending in others areas. Reserves were primarily utilized for projects in data analysis and the E-ISAC. NERC was under budget primarily in contracts and consultants, office costs, and meetings, offset by increased spending in fixed assets.

**2016 Actual vs Budget – Excluding CRISP**

	Actual	Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 59,435,881</b>	<b>\$ 59,529,136</b>	<b>\$ (93,255)</b>	<b>-0.2%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 36,571,689	\$ 36,542,135	\$ 29,553	0.1%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,432,788	3,550,831	(118,043)	-3.3%
CONSULTANTS and CONTRACTS	5,418,419	6,977,320	(1,558,901)	-22.3%
RENT	3,249,112	3,054,287	194,825	6.4%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,558,397	5,862,095	(303,698)	-5.2%
OTHER NON-OPERATING EXPENSES	174,099	110,000	64,099	58.3%
FIXED ASSET PURCHASES (excluding depreciation)	4,822,758	3,811,000	1,011,758	26.5%
<b>TOTAL</b>	<b>\$ 59,227,261</b>	<b>\$ 59,907,668</b>	<b>\$ (680,406)</b>	<b>-1.1%</b>
<b>FTEs</b>	<b>190.3</b>	<b>189.7</b>	<b>0.6</b>	<b>0.3%</b>

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

- Personnel expenses were over budget \$30k (0.1%). Salaries was over budget \$250k due primarily to the addition of staff resources during the year. Payroll taxes, benefits, and retirement costs were collectively under budget \$221k largely due to the timing of new hires.

Under appropriate accounting guidance, certain labor costs were capitalized and reflected as costs associated with applicable IT projects. For 2016, \$462k was capitalized toward these projects and reflected in fixed assets. Before recognizing the capitalization of labor, the personnel expense category was over budget \$492k (excluding CRISP).

- Meeting, travel and conferencing expenses were collectively under budget \$118k (3.3%). Meetings and conferencing expenses were collectively \$151k under budget, offset by travel expenses \$31k over budget.
- Consultant and Contract expenses were under budget \$1.6M (22.3%). The following is a brief summary of variances by department:
  - Several departments, including Compliance Analysis and Certification, Compliance Assurance, Training, Human Resources, and Finance were under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
  - Reliability Assessments and System Analysis: Under budget primarily because certain 2016 budgeted costs related to work on the Clean Power Plan analysis were incurred in late 2015. Additionally, the department purchased certain analytical tools that allowed for additional and more efficient work by NERC staff and lessened the need for external contractors.
  - E-ISAC: Under budget primarily due to lower costs related to the cyber risk preparedness assessments and cyber awareness monitoring.
  - Information Technology: Under budget due to lower costs for Electric Reliability Organization (ERO) application support and data analysis.

**Consultant and Contract Expenses  
By Department**

<b>CONSULTANTS and CONTRACTS</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance Over (Under)</b>
COMPLIANCE ANALYSIS and CERTIFICATION	\$ -	\$ 50,000	\$ (50,000)
COMPLIANCE ASSURANCE	5,347	200,000	(194,653)
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	406,570	575,000	(168,430)
RELIABILITY RISK MANAGEMENT	1,720,788	1,776,514	(55,726)
E-ISAC	540,108	663,335	(123,227)
TRAINING, EDUCATION & OPERATOR CERTIFICATION	549,109	675,800	(126,691)
GENERAL & ADMINISTRATIVE	77,285	80,000	(2,715)
POLICY and EXTERNAL AFFAIRS	12,282	15,000	(2,718)
INFORMATION TECHNOLOGY	1,458,681	2,094,671	(635,990)
HUMAN RESOURCES	446,446	550,000	(103,554)
FINANCE and ACCOUNTING	201,803	297,000	(95,197)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 5,418,419</b>	<b>\$ 6,977,320</b>	<b>\$ (1,558,901)</b>

- Rent expense was over budget \$195k (6.4%) due to higher than budgeted building maintenance and real estate taxes expense.

- Office Costs, Professional Services and Miscellaneous expenses were collectively \$304k (5.18%) under budget primarily due to lower than budgeted costs for outside counsel, which are included in professional services expenses.
- Fixed Asset Purchases (excluding depreciation) were \$1.M (26.6%) over budget due to the GADS Wind project (originally budgeted in contracts and consultants but recognized in fixed assets), the authorized use of reserves in connection with a data analysis software that collects and analyzes system inertia data, and labor costs budgeted in personnel expenses but capitalized and reflected as costs associated with certain IT projects. See page 5 for additional information.

**Summary of Variances by Program**

The following table reflects variances for direct expenses and fixed asset purchases by department as of December 31, 2016.

DIRECT EXPENSES and NET FIXED ASSETS	2016 Actual	2016 Budget	Variance Over/(Under)	
RELIABILITY STANDARDS	\$ 3,443,252	\$ 3,678,708	\$ (235,456)	-6%
COMPLIANCE ANALYSIS, CERTIFICATION and REGISTRATION	1,919,464	2,086,784	(167,320)	-8%
COMPLIANCE ASSURANCE	3,955,190	4,559,234	(604,043)	-13%
ENFORCEMENT	2,416,255	2,225,816	190,439	9%
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	3,886,874	3,392,571	494,304	15%
RELIABILITY RISK MANAGEMENT	8,080,223	6,719,091	1,361,132	20%
E-ISAC	4,603,949	4,742,862	(138,913)	-3%
TRAINING, EDUCATION and OPERATOR CERTIFICATION	1,828,507	2,060,167	(231,659)	-11%
GENERAL and ADMINISTRATIVE and EXECUTIVE	8,214,530	8,024,564	189,966	2%
POLICY and EXTERNAL AFFAIRS	2,049,296	1,856,747	192,549	10%
LEGAL and REGULATORY	3,027,804	3,465,966	(438,162)	-13%
INFORMATION TECHNOLOGY	11,133,336	12,156,674	(1,023,339)	-8%
HUMAN RESOURCES	1,195,030	1,510,177	(315,147)	-21%
FINANCE and ACCOUNTING	3,473,550	3,428,307	45,243	1%
<b>TOTAL (excluding CRISP)</b>	<b>\$ 59,227,261</b>	<b>\$ 59,907,668</b>	<b>\$ (680,406)</b>	<b>-1%</b>
CRISP	7,315,866	7,278,998	36,868	1%
<b>TOTAL (EXPENSES and NET FIXED ASSETS)</b>	<b>\$ 66,543,128</b>	<b>\$ 67,186,665</b>	<b>\$ (643,538)</b>	<b>-1%</b>

- Reliability Standards; Compliance Analysis, Certification and Registration; Compliance Assurance – Under budget primarily due to resource allocations and timing of new hires, and lower than budgeted outside contract support related to risk-based compliance monitoring, as noted above.

- Enforcement – Over budget due to higher than budgeted employee retention (attrition was less than budgeted vacancy rate), as well as enhancements to the current CRATS database that was budgeted in 2015 but not completed until 2016. Funding for this project was reserved in the Future Obligations Reserve at the end of 2015.
- Reliability Assessments and System Analysis (RASA) – Over budget due to the allocation of additional resources to support ongoing program activities, lower than budgeted attrition which increased personnel expenses, and higher than budgeted travel.
- Reliability Risk Management (RRM) (includes Event Analysis, Performance Analysis, and Situation Awareness departments) – Over budget due to: (1) allocation of additional staff resources to support ongoing program activities, including preparation of the 2016 State of Reliability Report, assistance with Bulk Electric System exception resolution, serving as liaison to the System Protection & Controls Subcommittee, and assisting with data mining from prior events; (2) the approved use of reserves for enhancements to webTADS related to interface and data import, and (3) development of Enterprise Reporting for GADS data, which was budgeted in IT but charged to the Performance Analysis program to align costs with the program utilizing the system.
- E-ISAC – Under budget primarily due to lower expenditures in contracts and consultants (as explained above).
- Legal and Regulatory – Under budget due primarily to fewer personnel resources during the year and less use of outside legal counsel.
- Human Resources – Under budget due to lower temporary office services, outside compensation consultants and other general consulting services.
- Information Technology – The under budget variance of \$1.1M was primarily related to ERO Application development costs that are budgeted in IT but recorded in the programs utilizing the applications. Approximately \$807k of costs were allocated from the IT department to other operating programs. Before the impacts of these allocations, the IT department was \$217k under budget in total primarily due to lower personnel expenses.

The following table shows the detail of project costs allocated to other departments.

<b>Information Technology</b>	<b>2016</b>
Actual	\$ 11,133,336
Budget	12,156,674
Variance Over (Under)	\$ (1,023,338)
<b>Transferred Projects</b>	
ERGADS (to RRM)	\$ 370,040
GADS-Wind (to RRM)	192,583
MIDAS (to RRM)	79,122
SBS Enhancements (to Standards)	62,154
BESnet Enhancements (to RASA)	81,047
CRATS (to Enforcement)	21,788
<b>Total Transferred</b>	<b>\$ 806,734</b>
<b>Adjusted Variance Over (Under)</b>	<b>\$ (216,604)</b>

### Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were under budget \$73k (4.5%).

<b>Board of Trustee Expenses</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance Over (Under)</b>	<b>%</b>
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings and Conference Calls	\$ 204,063	\$ 244,000	\$ (39,937)	-16.4%
Trustee Travel	117,512	157,329	(39,817)	-25.3%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>\$ 321,576</b>	<b>\$ 401,329</b>	<b>\$ (79,753)</b>	<b>-19.9%</b>
<b>Professional Services</b>				
Independent Trustee Fees	1,126,354	1,126,354	-	0.0%
Trustee Search Fees	106,334	100,000	6,334	6.3%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>\$ 1,232,688</b>	<b>\$ 1,226,354</b>	<b>\$ 6,334</b>	<b>0.5%</b>
<b>Total Board of Trustee Expenses</b>	<b>\$ 1,554,263</b>	<b>\$ 1,627,683</b>	<b>\$ (73,420)</b>	<b>-4.5%</b>

**CRISP Variances** (including indirect expenses and allocation of fixed assets)

CRISP was \$96k (1.2%) under budget. The under runs in actual versus budgeted CRISP costs, which are funded by CRISP participants, will be credited to CRISP participants pursuant to the terms of the CRISP participant agreements.

	Actual	Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 8,063,286</b>	<b>\$ 7,973,019</b>	<b>\$ 90,267</b>	<b>1.1%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 630,934	\$ 741,671	\$ (110,737)	
MEETINGS, TRAVEL and CONFERENCE CALLS	39,849	69,455	(29,606)	
CONSULTANTS and CONTRACTS	6,278,387	5,888,594	389,793	
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	143,836	479,277	(335,442)	
FIXED ASSET PURCHASES (excluding depreciation)	222,860	100,000	122,860	
INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS	560,684	694,022	(133,337)	
<b>TOTAL EXPENSES and FIXED ASSETS</b>	<b>\$ 7,876,550</b>	<b>\$ 7,973,019</b>	<b>\$ (96,468)</b>	<b>-1.2%</b>

**Allocation of Indirect Expenses and Fixed Assets by Program**

Total expenses of the administrative programs were \$27.2M, which was \$1.4M (4.7%) under budget. Administrative program expenses were under budget primarily due to lower consultants and contracts costs for ERO application support and data analysis and less use of outside counsels.

Total fixed asset purchases, (excluding the offset of depreciation), for the administrative programs were \$3.6M, which was \$169k (4.4%), under budget. As explained above, fixed assets in the administrative programs were under budget primarily due to several capital projects that were budgeted in IT, but charged to the direct function program utilizing the product, to properly align costs.

The actual and budgeted allocations of indirect expenses by FTE were \$235k and \$223k, respectively, for a decrease of \$12k (5.0%) per FTE. Both the actual and budgeted allocations of fixed assets by FTE were \$15k. The variances in indirect expenses and the allocation of fixed assets reflected in the variance reports by department are the result of the slight decrease in costs per FTE and the difference in actual versus budgeted FTE by department.

### **Use of Statutory Funds for Non-Statutory Activities**

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

### **Operating Reserves Analysis**

As of December 31, 2016, the balance in working capital and operating reserves was \$8.8M, \$63k (0.7%) less than budget, including \$2.3M in the Operating Contingency Reserve (OCR) and \$2.3M in the Assessment Stabilization Reserve (ASR).

OCR: The \$2.3M balance is net of approximately \$114k which has been transferred from the OCR to the Future Obligations Reserve (FOR) to fund ongoing projects. All of these projects have internal approval, executed contracts, were budgeted in 2016, and work is underway. The completion of these projects and their funding from the FOR is expected in early 2017 and will have no impact on the 2017 OCR.

The following items reflect the authorized use of reserves during 2016:

- E-ISAC STIX/TAXII project (\$24k)
- Data analysis software to collect and analyze system inertia data (\$172k)
- Enhancements to webTADS related to interface and data support (\$66k)
- SAFNR data modification (\$50k)
- IT contract support during periods of staff vacancies (\$52k)



				December 31, 2016 Reserve Balances				
	Actual	Budget	Variance Over (Under)	Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)	\$ 3,431,795	\$ 1,213,419	\$ 930,568	\$ 500,000	
<b>Change in Reserves from Current Year Operations</b>								
Change in Reserves from budgeted operations	1,609,292	315,490	1,293,802	114,145	1,597,702	(102,555)		
Approved use of reserves	(653,252)	-	(653,252)	(289,293)	(363,960)			
<b>Capital Financing</b>								
Proceeds from Financing Activities (non-current only)	989,375	1,000,000	(10,625)		989,375			
Debt Service	(1,044,253)	(1,055,000)	10,747		(1,044,253)			
Other adjustments to reserves**	1,805,066	2,271,000	(465,934)	(381,180)	(84,754)			2,271,000
<b>Reserve Balance</b>	<b>\$ 8,782,011</b>	<b>\$ 8,845,013</b>	<b>\$ (63,002)</b>	<b>\$ 2,875,467</b>	<b>\$ 2,307,531</b>	<b>\$ 828,013</b>	<b>\$ 500,000</b>	<b>\$ 2,271,000</b>

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

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

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities and Fixed Assets Budget**  
**(Audited)**  
**For the period ended 12/31/2016 (Including CRISP)**

	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Funding</b>				
Assessments	\$ 57,081,445	\$ 57,081,445	-	0%
Assessment Stabilization Reserves - Penalties	1,439,000	1,439,000	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	6,917,790	6,830,738	87,052	1%
Testing	1,738,043	1,867,972	(129,930)	-7%
Services & Software	43,000	50,000	(7,000)	-14%
Workshop Fees	240,837	230,000	10,837	5%
Interest	38,851	3,000	35,851	1195%
Miscellaneous	202	-	202	
<b>Total Funding</b>	<b>\$ 67,499,168</b>	<b>\$ 67,502,155</b>	<b>\$ (2,988)</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 29,012,522	\$ 28,842,336	\$ 170,186	1%
Payroll Taxes	1,734,756	1,871,367	(136,611)	-7%
Employee Benefits	3,574,975	3,579,280	(4,305)	0%
Savings & Retirement	2,880,369	2,990,823	(110,454)	-4%
<b>Total Personnel Expenses</b>	<b>\$ 37,202,623</b>	<b>\$ 37,283,807</b>	<b>\$ (81,184)</b>	<b>0%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 972,077	\$ 1,096,500	\$ (124,423)	-11%
Travel	2,232,853	2,203,786	29,067	1%
Conference Calls	267,707	320,000	(52,293)	-16%
<b>Total Meeting Expenses</b>	<b>\$ 3,472,637</b>	<b>\$ 3,620,286</b>	<b>\$ (147,650)</b>	<b>-4%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	\$ 11,696,806	\$ 12,865,914	\$(1,169,108)	-9%
Rent & Improvements	3,249,112	3,054,287	194,825	6%
Office Costs	3,441,686	3,795,572	(353,886)	-9%
Professional Services	2,233,736	2,509,300	(275,564)	-11%
Miscellaneous	26,811	36,500	(9,689)	-27%
Depreciation	2,472,276	2,641,943	(169,667)	-6%
<b>Total Operating Expenses</b>	<b>\$ 23,120,427</b>	<b>\$ 24,903,515</b>	<b>\$(1,783,088)</b>	<b>-7%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 174,099</b>	<b>\$ 110,000</b>	<b>\$ 64,099</b>	<b>58%</b>
Indirect Expenses	\$ 0	\$ 0	\$ (0)	
<b>Total Expenses</b>	<b>\$ 63,969,785</b>	<b>\$ 65,917,608</b>	<b>\$(1,947,823)</b>	<b>-3%</b>
<b>Net Change in Assets</b>	<b>\$ 3,529,383</b>	<b>\$ 1,584,547</b>	<b>\$ 1,944,836</b>	<b>123%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (2,472,276)	\$ (2,641,943)	\$ 169,667	-6%
Computer & Software	3,581,427	2,347,000	1,234,427	53%
Furniture & Fixtures	-	-	-	
Equipment	1,464,192	1,564,000	(99,808)	-6%
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(0)	0	(0)	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 2,573,343</b>	<b>\$ 1,269,057</b>	<b>\$ 1,304,285</b>	<b>103%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>\$ 66,543,128</b>	<b>\$ 67,186,665</b>	<b>\$ (643,538)</b>	<b>-1%</b>
<b>Change in Reserves (Total Funding less Total Budget)</b>	<b>956,040</b>	<b>315,490</b>	<b>640,549</b>	<b>203%</b>
<b>FTE's</b>	<b>192.7</b>	<b>192.5</b>	<b>0.2</b>	<b>0%</b>

## Reliability Standards

## Statement of Activities and Fixed Asset Budget

Reliability Standards	2016	2016	Variance	
	Actual	Budget	Over (Under)	%
<b>Funding</b>				
Assessments	7,869,295	7,869,295	-	0%
Assessment Stabilization Reserves - Penalties	218,376	218,376	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	61,992	105,000	(43,008)	-41%
Interest	5,401	445	4,956	1114%
Misc.	-	-	-	-
<b>Total Funding</b>	<b>8,155,064</b>	<b>8,193,116</b>	<b>(38,052)</b>	<b>0%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	2,243,105	2,260,735	(17,629)	-1%
Payroll Taxes	145,399	163,064	(17,665)	-11%
Employee Benefits	301,757	327,239	(25,482)	-8%
Savings & Retirement	247,255	250,560	(3,304)	-1%
<b>Total Personnel Expenses</b>	<b>2,937,517</b>	<b>3,001,598</b>	<b>(64,080)</b>	<b>-2%</b>
Meeting Expenses				
Meetings	105,901	207,000	(101,099)	-49%
Travel	231,894	271,988	(40,095)	-15%
Conference Calls	65,513	133,000	(67,487)	-51%
<b>Total Meeting Expenses</b>	<b>403,308</b>	<b>611,988</b>	<b>(208,681)</b>	<b>-34%</b>
Operating Expenses				
Consultants and Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	40,273	64,622	(24,349)	-38%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	-100%
Depreciation	231,843	210,060	21,783	10%
<b>Total Operating Expenses</b>	<b>272,116</b>	<b>275,182</b>	<b>(3,066)</b>	<b>-1%</b>
Other Non-Operating Expenses	-	-	-	0%
Indirect Expenses	3,956,636	4,234,020	(277,384)	-7%
<b>Total Expenses</b>	<b>7,569,577</b>	<b>8,122,788</b>	<b>(553,211)</b>	<b>-7%</b>
<b>Net Change in Assets</b>	<b>585,487</b>	<b>70,328</b>	<b>515,159</b>	<b>733%</b>
<b>Fixed Assets</b>				
Depreciation	(231,843)	(210,060)	(21,783)	10%
Computer & Software	62,154	-	62,154	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	275,933	280,388	(4,455)	-2%
<b>Incr(Dec) in Fixed Assets</b>	<b>106,245</b>	<b>70,328</b>	<b>35,917</b>	<b>51%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>7,675,822</b>	<b>8,193,116</b>	<b>(517,294)</b>	<b>-6%</b>
<b>Change in Working Capital</b>	<b>479,242</b>	<b>-</b>	<b>479,242</b>	<b>-</b>
FTE's on 12/31/16	17.7	18.0	(0.2)	-1%

### Explanation of Variances by Category – Reliability Standards

- **Funding** – Workshop fees were \$43k (41%) under budget due to a reduction in the number Standards and Compliance workshops, reduced from two budgeted to one held.
- **Personnel Expenses** – Total personnel expenses were \$64k (2%) under budget due to having fewer FTEs (1%) on staff. The higher under budget percentage for payroll tax expenses cannot be attributed to any specific cause. Employee benefit expenses were under budget by a higher percentage because no relocation expenses were incurred.
- **Meetings, Travel and Conferencing Expenses**
  - Meetings – Meeting expenses, which includes catering, room rental and audio visual expenses was \$101k (49%) lower than budget due to a reduction in the number of budgeted workshops.
  - Travel – Under budget \$40k (15%) due to having fewer FTEs than budgeted.
  - Conference Calls – Under budget \$67k (51%) due to a reduction in the number of conference calls and webinars.
- **Indirect Expenses** – Under budget \$227k (7%) due to having fewer FTEs on staff, and indirect expenses were \$12k per FTE lower than budgeted, as explained on Page 7.
- **Fixed Assets** – The over budget variance of \$62k for Computer and Software is related to Standards Balloting and Commenting System (SBS) release 4 which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs were charged to Standards to match expenditures with the statutory program served.

## Compliance Assurance Program

## Statement of Activities and Fixed Asset Budget

	2016	2016	Variance	
	Actual	Budget	Over (Under)	%
<b>Compliance Assurance</b>				
<b>Funding</b>				
Assessments	9,185,250	9,185,250	-	0%
Assessment Stabilization Reserves - Penalties	235,174	235,174	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	4,914	479	4,435	926%
Miscellaneous	-	-	-	-
<b>Total Funding</b>	<b>9,425,339</b>	<b>9,420,903</b>	<b>4,435</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,634,462	3,063,004	(428,541)	-14%
Payroll Taxes	166,623	205,979	(39,356)	-19%
Employee Benefits	371,514	351,727	19,787	6%
Savings & Retirement	251,365	336,902	(85,537)	-25%
<b>Total Personnel Expenses</b>	<b>3,423,964</b>	<b>3,957,612</b>	<b>(533,648)</b>	<b>-13%</b>
<b>Meeting Expenses</b>				
Meetings	76,572	60,000	16,572	28%
Travel	392,848	276,343	116,505	42%
Conference Calls	18,468	20,000	(1,532)	-8%
<b>Total Meeting Expenses</b>	<b>487,888</b>	<b>356,343</b>	<b>131,545</b>	<b>37%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	5,347	200,000	(194,653)	-97%
Rent & Improvements	-	-	-	-
Office Costs	37,911	44,779	(6,868)	-15%
Professional Services	-	-	-	-
Miscellaneous	80	500	(420)	-84%
Depreciation	-	-	-	-
<b>Total Operating Expenses</b>	<b>43,339</b>	<b>245,279</b>	<b>(201,940)</b>	<b>-82%</b>
<b>Other Non-Operating Expenses</b>				
			-	-
<b>Indirect Expenses</b>	<b>3,688,994</b>	<b>4,559,714</b>	<b>(870,719)</b>	<b>-19%</b>
<b>Total Expenses</b>	<b>7,644,185</b>	<b>9,118,947</b>	<b>(1,474,762)</b>	<b>-16%</b>
<b>Net Change in Assets</b>	<b>1,781,154</b>	<b>301,956</b>	<b>1,479,198</b>	<b>490%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	-
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	257,268	301,956	(44,688)	-15%
Incr(Dec) in Fixed Assets	257,268	301,956	(44,688)	-15%
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>7,901,453</b>	<b>9,420,903</b>	<b>(1,519,450)</b>	<b>-16%</b>
<b>Change in Working Capital</b>	<b>1,523,886</b>	<b>-</b>	<b>1,523,886</b>	
<b>FTE's on 12/31/16</b>	<b>16.5</b>	<b>19.4</b>	<b>(2.8)</b>	<b>-15%</b>

### Explanation of Variances by Category – Compliance Assurance

- **Personnel** – Under budget \$534k (14%) due to having fewer FTEs on staff than budgeted. Budgeted but open positions were reallocated to support ongoing activities in other programs. Employee benefits were over budget primarily due to higher medical and life benefits and higher relocation expenses than the average amount budgeted per FTE.
- **Meetings, Travel and Conferencing Expenses**
  - Meetings – Over budget \$17k (28%) due to increasing the number of ERO auditor training meetings from one to two.
  - Travel – Over budget \$117k (42%) due to an increase in the number of meetings and to support the ongoing implementation of risk-based compliance initiative among the Regional Entities.
- **Operating Expenses**
  - Consultant and Contract expenses were \$195k (97%) under budget because implementation of the risk-based compliance initiative was managed by staff.
- **Indirect Expenses** – Under budget \$871k (19%) as a result of having fewer FTEs on staff than budgeted and, as explained above, indirect expenses were \$12k lower per FTE than budgeted.

Compliance Analysis, Certification and Registration

Statement of Activities and Fixed Asset Budget

	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Compliance Analysis, Certification and Registration</b>				
<b>Funding</b>				
Assessments	4,509,458	4,509,458	-	0%
Assessment Stabilization Reserves - Penalties	123,162	123,162	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	2,845	251	2,594	1034%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>4,635,464</b>	<b>4,632,871</b>	<b>2,594</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	1,314,855	1,410,333	(95,478)	-7%
Payroll Taxes	84,901	97,779	(12,878)	-13%
Employee Benefits	191,804	184,238	7,567	4%
Savings & Retirement	139,211	157,451	(18,240)	-12%
<b>Total Personnel Expenses</b>	<b>1,730,771</b>	<b>1,849,801</b>	<b>(119,030)</b>	<b>-6%</b>
<b>Meeting Expenses</b>				
Meetings	2,182	4,000	(1,818)	-45%
Travel	165,275	155,146	10,130	7%
Conference Calls	2,860	2,000	860	43%
<b>Total Meeting Expenses</b>	<b>170,317</b>	<b>161,146</b>	<b>9,171</b>	<b>6%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	-	50,000	(50,000)	-100%
Rent & Improvements	-	-	-	
Office Costs	18,376	25,338	(6,962)	-27%
Professional Services	-	-	-	
Miscellaneous	-	500	(500)	-100%
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>18,376</b>	<b>75,838</b>	<b>(57,462)</b>	<b>-76%</b>
<b>Other Non-Operating Expenses</b>				
	-	-	-	
<b>Indirect Expenses</b>	<b>2,065,302</b>	<b>2,387,951</b>	<b>(322,649)</b>	<b>-14%</b>
<b>Total Expenses</b>	<b>3,984,765</b>	<b>4,474,735</b>	<b>(489,969)</b>	<b>-11%</b>
<b>Net Change in Assets</b>	<b>650,699</b>	<b>158,136</b>	<b>492,563</b>	<b>311%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software	-	-	-	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Leasehold Improvements	-	-	-	
<b>Allocation of Fixed Assets</b>	<b>144,033</b>	<b>158,136</b>	<b>(14,103)</b>	<b>-9%</b>
<b>Incr(Dec) in Fixed Assets</b>	<b>144,033</b>	<b>158,136</b>	<b>(14,103)</b>	<b>-9%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>4,128,798</b>	<b>4,632,871</b>	<b>(504,073)</b>	<b>-11%</b>
<b>Change in Working Capital</b>	<b>506,666</b>	<b>-</b>	<b>506,666</b>	
<b>FTE's on 12/31/16</b>	<b>9.3</b>	<b>10.1</b>	<b>(0.9)</b>	<b>-9%</b>

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

- **Personnel** – Personnel expenses were \$119k (6%) under budget due to having 0.9 (9%), fewer FTEs on staff than budgeted, resulting from unfilled budgeted positions. Employee benefits were over budget due to higher medical and life benefits expenses than the average amount budgeted per FTE. The higher under budget percentages in payroll taxes and retirement expenses cannot be attributed to any specific cause.
- **Operating Expenses**
  - Consultant and Contract expenses were \$50k (100%) under budget because outside consulting support for risk-based registration was not required.
- **Indirect Expenses** – Under budget \$323k (14%) as a result of having fewer FTEs on staff than budgeted and, as explained above, indirect expenses were \$12k lower per FTE than budgeted.



Compliance Enforcement

Statement of Activities and Fixed Asset Budget

	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Compliance Enforcement</b>				
<b>Funding</b>				
Assessments	5,144,612	5,144,612	-	0%
Assessment Stabilization Reserves - Penalties	148,384	148,384	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	3,786	302	3,483	1152%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>5,296,782</b>	<b>5,293,298</b>	<b>3,483</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	1,766,248	1,629,233	137,015	8%
Payroll Taxes	108,049	109,485	(1,436)	-1%
Employee Benefits	174,578	222,877	(48,299)	-22%
Savings & Retirement	178,836	181,419	(2,583)	-1%
<b>Total Personnel Expenses</b>	<b>2,227,712</b>	<b>2,143,014</b>	<b>84,698</b>	<b>4%</b>
<b>Meeting Expenses</b>				
Meetings	1,114	2,500	(1,386)	-55%
Travel	40,452	56,737	(16,284)	-29%
Conference Calls	2,108	1,200	908	76%
<b>Total Meeting Expenses</b>	<b>43,674</b>	<b>60,437</b>	<b>(16,762)</b>	<b>-28%</b>
<b>Operating Expenses</b>				
Consultants and Contracts				
Rent & Improvements				
Office Costs	15,343	21,866	(6,522)	-30%
Professional Services				
Miscellaneous	737	500	237	47%
Depreciation	52,629	122	52,507	42986%
<b>Total Operating Expenses</b>	<b>68,710</b>	<b>22,488</b>	<b>46,222</b>	<b>206%</b>
<b>Other Non-Operating Expenses</b>				
	-	-	-	
<b>Indirect Expenses</b>	<b>2,861,536</b>	<b>2,876,962</b>	<b>(15,427)</b>	<b>-1%</b>
<b>Total Expenses</b>	<b>5,201,632</b>	<b>5,102,901</b>	<b>98,731</b>	<b>2%</b>
<b>Net Change in Assets</b>	<b>95,150</b>	<b>190,398</b>	<b>(95,248)</b>	<b>-50%</b>
<b>Fixed Assets</b>				
Depreciation	(52,629)	(122)	(52,507)	
Computer & Software	128,788	-	128,788	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Leasehold Improvements	-	-	-	
<b>Allocation of Fixed Assets</b>	<b>199,562</b>	<b>190,520</b>	<b>9,042</b>	
<b>Incr(Dec) in Fixed Assets</b>	<b>275,720</b>	<b>190,398</b>	<b>85,323</b>	<b>45%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>5,477,352</b>	<b>5,293,298</b>	<b>184,054</b>	<b>3%</b>
<b>Change in Working Capital</b>	<b>(180,571)</b>		<b>(180,571)</b>	
<b>FTE's on 12/31/16</b>	<b>12.8</b>	<b>12.2</b>	<b>0.6</b>	<b>5%</b>

### Explanation of Variances by Category – Compliance Enforcement

- **Personnel** - Personnel expenses were \$85k (8%) over budget due to having 0.6 (5%) more FTEs on staff than budgeted resulting from lower attrition than the budgeted 6% vacancy rate in this department. Employee benefits were under budget \$48k (22%) primarily due to lower medical benefits as a result of several employees in the department not electing coverage.
- **Travel Expenses** were under budget \$16k (29%) as a result of ongoing focus on travel expense management.
- **Operating Expenses**
  - **Office Costs** – Under budget \$6.5k (30%) due to lower telecommunications expense than budgeted. Telecommunications expense was budgeted by calculating the average cost per FTE in the program in the prior year. The average actual telecommunications expense per FTE was lower than budgeted.
- **Fixed Assets** - The over budget variance of \$129k for Computer and Software is related to enhancements to the current Compliance Reporting and Tracking System (CRATS) database which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs were charged to Compliance Enforcement to match expenditures with the statutory program served.

Reliability Assessments and System Analysis (RASA)

Statement of Activities and Fixed Asset Budget

	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Reliability Assessments and System Analysis</b>				
Funding				
Assessments	6,135,872	6,135,872	-	0%
Assessment Stabilization Reserves - Penalties	142,718	142,718	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	21,257	15,000	6,257	42%
Interest	3,847	462	3,385	733%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>6,303,694</b>	<b>6,294,052</b>	<b>9,642</b>	<b>0%</b>
Expenses				
Personnel Expenses				
Salaries	2,106,479	1,826,951	279,529	15%
Payroll Taxes	125,883	122,096	3,787	3%
Employee Benefits	252,814	213,866	38,948	18%
Savings & Retirement	257,916	203,274	54,642	27%
<b>Total Personnel Expenses</b>	<b>2,743,092</b>	<b>2,366,187</b>	<b>376,906</b>	<b>16%</b>
Meeting Expenses				
Meetings	143,081	109,000	34,081	31%
Travel	278,393	208,338	70,055	34%
Conference Calls	11,268	17,280	(6,012)	-35%
<b>Total Meeting Expenses</b>	<b>432,741</b>	<b>334,618</b>	<b>98,124</b>	<b>29%</b>
Operating Expenses				
Consultants and Contracts	406,570	575,000	(168,430)	-29%
Rent & Improvements	-	-	-	
Office Costs	145,621	116,266	29,355	25%
Professional Services	-	-	-	
Miscellaneous	438	500	(62)	-12%
Depreciation	290,960	386,024	(95,065)	-25%
<b>Total Operating Expenses</b>	<b>843,588</b>	<b>1,077,790</b>	<b>(234,202)</b>	<b>-22%</b>
Other Non-Operating Expenses				
	-	-	-	
<b>Indirect Expenses</b>	<b>2,981,974</b>	<b>2,767,102</b>	<b>214,872</b>	<b>8%</b>
<b>Total Expenses</b>	<b>7,001,396</b>	<b>6,545,697</b>	<b>455,698</b>	<b>7%</b>
<b>Net Change in Assets</b>	<b>(697,702)</b>	<b>(251,645)</b>	<b>(446,057)</b>	<b>177%</b>
<b>Fixed Assets</b>				
Depreciation	(290,960)	(386,024)	95,065	-25%
Computer & Software	158,412	-	158,412	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Leasehold Improvements	-	-	-	
<b>Allocation of Fixed Assets</b>	<b>207,961</b>	<b>183,245</b>	<b>24,716</b>	<b>13%</b>
<b>Incr(Dec) in Fixed Assets</b>	<b>75,414</b>	<b>(202,780)</b>	<b>278,193</b>	<b>-137%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>7,076,810</b>	<b>6,342,918</b>	<b>733,892</b>	<b>12%</b>
<b>Change in Working Capital</b>	<b>(773,116)</b>	<b>(48,865)</b>	<b>(724,250)</b>	<b>1482%</b>
<b>FTE's on 12/31/16</b>	<b>13.37</b>	<b>11.75</b>	<b>1.62</b>	<b>14%</b>

## Explanation of Variances by Category – RASA

- **Funding**
  - Workshop fees were \$6k (42%) over budget due to higher attendance at the Power Plant Modeling Workshops.
- **Personnel** – Personnel expenses were \$377k (16%) over budget due to having 1.62 (14%), more FTEs on staff than budgeted. Additional staff resources were allocated to this program during the year and there was lower attrition than the budgeted 6% vacancy rate.
- **Meetings, Travel and Conferencing Expenses**
  - Meetings expenses were over budget \$34k (31%) due to higher than budgeted costs associated with the Planning Committee meetings and Power Plant Modeling workshop.
  - Travel expenses were over budget \$70k (34%) due to having more staff than budgeted and additional trips to support ongoing activities.
- **Operating Expenses**
  - Consultants and Contracts were under budget \$168k (29%) because certain 2016 budgeted costs related to work on the Clean Power Plan analysis were incurred in late 2015. Additionally, the department purchased certain analytical tools that allowed for additional and more efficient work by NERC staff and lessened the need for external contractors.
  - Office Costs were over budget \$29k (26%) due to higher than budget maintenance and service agreements associated with the purchase of analytical tools noted above.
- **Fixed Assets** – The over budget variance of \$158k for Computer and Software was related to software purchases of analytical tools noted above, and the development of a Bulk Electric System (BES) Notification and Exceptions Tool (BESNet), which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development. Actual costs are charged to RASA to match expenditures with the statutory program served.
- **Indirect Expenses** - Over budget \$215k (8%) as a result of having more FTEs on staff than budgeted, offset by lower costs per FTE than budgeted.

Performance Analysis (PA)

Statement of Activities and Fixed Asset Budget

Performance Analysis	2016	2016	Variance	
	Actual	Budget	Over (Under)	%
<b>Funding</b>				
Assessments	3,490,625	3,490,625	-	0%
Assessment Stabilization Reserves - Penalties	84,051	84,051	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	43,000	50,000	(7,000)	-14%
Workshop Fees	-	-	-	-
Interest	2,712	-	2,712	-
Miscellaneous	-	-	-	-
<b>Total Funding</b>	<b>3,620,388</b>	<b>3,624,676</b>	<b>(4,288)</b>	<b>0%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	1,316,104	886,643	429,462	48%
Payroll Taxes	81,531	65,373	16,158	25%
Employee Benefits	154,250	126,253	27,997	22%
Savings & Retirement	116,926	98,314	18,612	19%
<b>Total Personnel Expenses</b>	<b>1,668,811</b>	<b>1,176,583</b>	<b>492,228</b>	<b>42%</b>
Meeting Expenses				
Meetings	11,841	1,000	10,841	1084%
Travel	73,886	118,172	(44,286)	-37%
Conference Calls	6,175	9,720	(3,545)	-36%
<b>Total Meeting Expenses</b>	<b>91,903</b>	<b>128,892</b>	<b>(36,989)</b>	<b>-29%</b>
Operating Expenses				
Consultants and Contracts	408,306	509,039	(100,732)	-20%
Rent & Improvements	-	-	-	-
Office Costs	51,830	23,732	28,098	118%
Professional Services	-	-	-	-
Miscellaneous	216	-	216	-
Depreciation	34,012	-	34,012	-
<b>Total Operating Expenses</b>	<b>494,363</b>	<b>532,770</b>	<b>(38,407)</b>	<b>-7%</b>
Other Non-Operating Expenses	-	-	-	-
Indirect Expenses	2,092,066	1,629,647	462,419	28%
<b>Total Expenses</b>	<b>4,347,142</b>	<b>3,467,891</b>	<b>879,251</b>	<b>25%</b>
<b>Net Change in Assets</b>	<b>(726,754)</b>	<b>156,785</b>	<b>(883,539)</b>	<b>-564%</b>
<b>Fixed Assets</b>				
Depreciation	(34,012)	-	(34,012)	-
Computer & Software	804,244	-	804,244	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	145,899	107,919	37,980	35%
<b>Incr(Dec) in Fixed Assets</b>	<b>916,132</b>	<b>107,919</b>	<b>808,213</b>	<b>749%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>5,263,274</b>	<b>3,575,811</b>	<b>1,687,463</b>	<b>47%</b>
<b>Change in Working Capital</b>	<b>(1,642,886)</b>	<b>48,865</b>	<b>(1,691,752)</b>	<b>-3462%</b>
<b>FTE's on 12/31/16</b>	<b>9.38</b>	<b>6.92</b>	<b>2.46</b>	<b>36%</b>

### Explanation of Variances by Category – PA

- **Funding**
  - Fees collected for services and software were \$7k (14%) less than budgeted due to decreased requests from industry for historical data related to generation availability.
- **Personnel** – Personnel expenses were \$492k (42%) over budget due to having 2.46 (36%) more FTEs on staff than budgeted. Additional staff resources were allocated to support ongoing program activities, including preparation of the 2016 State of Reliability Report, assistance with Bulk Electric System exception resolution, serving as liaison to the System Protection and Controls Subcommittee, and assisting with data mining from prior events.
- **Meetings, Travel and Conferencing Expenses**
  - Meetings expenses were over budget due to higher than budgeted costs associated with the Transmission Availability Data System and Generation Availability Data System (GADS) Working Group meetings.
  - Travel expenses were under budget as a result of ongoing focus on travel expense management.
- **Operating Expenses**
  - Consultants and Contracts were under budget \$101k (20%) due to costs related to development of GADS Wind data collection which were budgeted as consultant and contract expense, but recorded in fixed assets as capitalized software.
  - Office Costs were over budget \$28k (118%) primarily due to higher than budgeted software maintenance and service agreements for analytical tools.
- **Fixed Assets** – The over budget variance of \$804k for Computer and Software is related to: (1) development of Enterprise Reporting for GADS (ER-GADS), which was budgeted in Information Technology as part of the total budget for ERO Enterprise software application development, but recorded in PA to match expenditures with the statutory program served; (2) approved use of reserves for data analysis software to collect and analyze system inertia data; and (3) GADS Wind data collection development.
- **Indirect Expenses** - Over budget \$462k (28%) as a result of having more FTEs on staff than budgeted, offset by lower costs per FTE than budgeted.

## Situation Awareness

## Statement of Activities and Fixed Asset Budget

SITUATION AWARENESS	2016	2016	Variance	%
	Actual	Budget	Over (Under)	
<b>Funding</b>				
Assessments	3,624,868	3,624,868	-	0%
Assessment Stabilization Reserves - Penalties	67,193	67,193	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	1,128	-	1,128	
Interest	1,822	137	1,685	1231%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>3,695,010</b>	<b>3,692,197</b>	<b>2,813</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	882,880	764,342	118,538	16%
Payroll Taxes	56,762	58,235	(1,473)	-3%
Employee Benefits	158,161	101,765	56,395	55%
Savings & Retirement	96,769	85,275	11,495	13%
<b>Total Personnel Expenses</b>	<b>1,194,572</b>	<b>1,009,617</b>	<b>184,955</b>	<b>18%</b>
<b>Meeting Expenses</b>				
Meetings	15,812	6,500	9,312	143%
Travel	35,487	33,005	2,482	8%
Conference Calls	866	1,000	(134)	-13%
<b>Total Meeting Expenses</b>	<b>52,165</b>	<b>40,505</b>	<b>11,660</b>	<b>29%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	1,268,284	1,211,475	56,809	5%
Rent & Improvements	-	-	-	
Office Costs	38,195	41,052	(2,857)	-7%
Professional Services	-	-	-	
Miscellaneous	-	500	(500)	
Depreciation	8,367	7,727	641	8%
<b>Total Operating Expenses</b>	<b>1,314,847</b>	<b>1,260,754</b>	<b>54,093</b>	<b>4%</b>
<b>Other Non-Operating Expenses</b>				
	-	-	-	
<b>Indirect Expenses</b>	<b>1,338,208</b>	<b>1,302,775</b>	<b>35,433</b>	<b>3%</b>
<b>Total Expenses</b>	<b>3,899,792</b>	<b>3,613,650</b>	<b>286,142</b>	<b>8%</b>
<b>Net Change in Assets</b>	<b>(204,782)</b>	<b>78,547</b>	<b>(283,329)</b>	<b>-361%</b>
<b>Fixed Assets</b>				
Depreciation	(8,367)	(7,727)	(641)	8%
Computer & Software	3,845	-	3,845	
Furniture & Fixtures	-	-	-	
Equipment	-	-	-	
Leasehold Improvements	-	-	-	
<b>Allocation of Fixed Assets</b>	<b>93,326</b>	<b>86,273</b>	<b>7,053</b>	<b>8%</b>
<b>Incr(Dec) in Fixed Assets</b>	<b>88,803</b>	<b>78,547</b>	<b>10,257</b>	<b>13%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>3,988,595</b>	<b>3,692,197</b>	<b>296,398</b>	<b>8%</b>
<b>Change in Working Capital</b>	<b>(293,585)</b>	<b>-</b>	<b>(293,585)</b>	
<b>FTE's on 12/31/16</b>	<b>6.0</b>	<b>5.5</b>	<b>0.5</b>	<b>8%</b>

### Explanation of Variances by Category – Situation Awareness

- **Funding** – Fees were collected for a workshop related to primary frequency response which was not budgeted.
- **Personnel** – Personnel expenses were over budget due lower attrition than the budgeted 6% vacancy rate and allocating one position 100% to Situation Awareness that had been split equally with Event Analysis in the budget. Additionally, the cost of medical benefits was higher than the budgeted rate per FTE due to the level of coverage elected by staff in this program. The under budget variance in payroll taxes cannot be attributed to any specific cause.
- **Consultants and Contracts** – Over budget primarily due to a modification of the tool used by FERC, NERC and the Regional Entities related to monitoring situation awareness.
- **Fixed Assets** - Over budget due to the purchase of a special laptop budgeted in IT but charged to Situation Awareness to match expenditures with the statutory program served.



Event Analysis

Statement of Activities and Fixed Asset Budget

Events Analysis	2016	2016	Variance	
	Actual	Budget	Over (Under)	%
<b>Funding</b>				
Assessments	5,181,136	5,181,136	-	0%
Assessment Stabilization Reserves - Penalties	134,385	134,385	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	78,073	40,000	38,073	95%
Interest	3,047	274	2,773	1013%
Miscellaneous	-	-	-	-
<b>Total Funding</b>	<b>5,396,641</b>	<b>5,355,795</b>	<b>40,846</b>	<b>1%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	1,650,736	1,716,263	(65,527)	-4%
Payroll Taxes	96,074	114,132	(18,058)	-16%
Employee Benefits	175,641	202,259	(26,617)	-13%
Savings & Retirement	173,186	191,377	(18,190)	-10%
<b>Total Personnel Expenses</b>	<b>2,095,638</b>	<b>2,224,030</b>	<b>(128,392)</b>	<b>-6%</b>
Meeting Expenses				
Meetings	150,091	81,500	68,591	84%
Travel	160,313	152,487	7,826	5%
Conference Calls	8,547	14,000	(5,453)	-39%
<b>Total Meeting Expenses</b>	<b>318,950</b>	<b>247,987</b>	<b>70,963</b>	<b>29%</b>
Operating Expenses				
Consultants and Contracts	44,197	56,000	(11,803)	-21%
Rent & Improvements	-	-	-	-
Office Costs	39,067	49,181	(10,114)	-21%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	-
Depreciation	85,582	72,367	13,214	18%
<b>Total Operating Expenses</b>	<b>168,846</b>	<b>178,048</b>	<b>(9,202)</b>	<b>-5%</b>
Other Non-Operating Expenses	-	-	-	-
Indirect Expenses	2,348,556	2,605,551	(256,995)	-10%
<b>Total Expenses</b>	<b>4,931,990</b>	<b>5,255,616</b>	<b>(323,626)</b>	<b>-6%</b>
<b>Net Change in Assets</b>	<b>464,651</b>	<b>100,179</b>	<b>364,472</b>	<b>364%</b>
<b>Fixed Assets</b>				
Depreciation	(85,582)	(72,367)	(13,214)	18%
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	163,787	172,546	(8,760)	-5%
<b>Incr(Dec) in Fixed Assets</b>	<b>78,205</b>	<b>100,179</b>	<b>(21,974)</b>	<b>-22%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>5,010,195</b>	<b>5,355,795</b>	<b>(345,600)</b>	<b>-6%</b>
<b>Change in Working Capital</b>	<b>386,446</b>	<b>-</b>	<b>386,446</b>	
FTE's on 12/31/16	10.5	11.1	(0.5)	-5%

## Explanation of Variances by Category – Event Analysis

- **Funding**
  - Workshop fees were \$38k (95%) over budget due to higher attendance at the Human Performance Workshop.
- **Personnel** – Personnel expenses were under budget due to having fewer FTEs on staff. One position was allocated 100% to Situation Awareness that had been split equally with Event Analysis in the budget. The higher percentage variances in payroll taxes employee benefits and retirement are not traceable to a specific cause, other than the reallocation of one half of one position to Situation Awareness.
- **Meetings, Travel and Conferencing Expenses**
  - Meeting expenses were \$98k (84%) over budget primarily due to higher costs related to the Human Performance Workshop as a result of significantly higher attendance. The higher cost was offset by higher workshop fees, as noted above.
- **Operating Expenses**
  - Consultants and Contracts were \$12k (21%) under budget due to less need for outside consultants to support ongoing activities.
  - Office costs were under budget \$10k (21%) primarily due to lower than budgeted telephone expense.
- **Indirect Expenses** - Under budget \$257k (10%) as a result of having fewer FTEs on staff than budgeted and, as explained above, Indirect Expenses were \$12k lower per FTE than budgeted.

## E-ISAC, including CRISP

## Statement of Activities and Fixed Asset Budget

E-ISAC, including CRISP	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Funding</b>				
Assessments	9,636,756	9,636,756	-	0%
Assessment Stabilization Reserves - Penalties	229,563	229,563	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	
Third-Party Funding (CRISP)	6,917,790	6,830,738	87,052	1%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	78,387	70,000	8,387	12%
Interest	8,318	468	7,850	1679%
Misc.	-	-	-	
<b>Total Funding</b>	<b>16,870,814</b>	<b>16,767,525</b>	<b>103,289</b>	<b>1%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	3,271,230	3,373,066	(101,836)	-3%
Payroll Taxes	184,661	208,610	(23,949)	-11%
Employee Benefits	359,508	345,260	14,247	4%
Savings & Retirement	311,599	366,723	(55,123)	-15%
<b>Total Personnel Expenses</b>	<b>4,126,998</b>	<b>4,293,659</b>	<b>(166,661)</b>	<b>-4%</b>
Meeting Expenses				
Meetings	142,765	230,000	(87,235)	-38%
Travel	281,863	256,488	25,375	10%
Conference Calls	28,987	22,000	6,987	32%
<b>Total Meeting Expenses</b>	<b>453,615</b>	<b>508,488</b>	<b>(54,872)</b>	<b>-11%</b>
Operating Expenses				
Consultants and Contracts	6,818,495	6,551,929	266,566	4%
Rent & Improvements	-	-	-	
Office Costs	138,345	392,285	(253,940)	-65%
Professional Services	135,796	175,000	(39,204)	-22%
Miscellaneous	-	500	(500)	-100%
Depreciation	22,046	43,489	(21,443)	-49%
<b>Total Operating Expenses</b>	<b>7,114,683</b>	<b>7,163,203</b>	<b>(48,520)</b>	<b>-1%</b>
Other Non-Operating Expenses	-	-	-	
Indirect Expenses	4,253,272	4,450,914	(197,641)	-4%
<b>Total Expenses</b>	<b>15,948,569</b>	<b>16,416,263</b>	<b>(467,695)</b>	<b>-3%</b>
<b>Net Change in Assets</b>	<b>922,245</b>	<b>351,262</b>	<b>570,983</b>	<b>163%</b>
<b>Fixed Assets</b>				
Depreciation	(22,046)	(43,489)	21,443	-49%
Computer & Software	65,052	-	65,052	
Furniture & Fixtures	-	-	-	
Equipment	181,514	100,000	81,514	82%
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	296,620	294,751	1,869	1%
<b>Incr(Dec) in Fixed Assets</b>	<b>521,139</b>	<b>351,262</b>	<b>169,878</b>	<b>33%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>16,469,708</b>	<b>16,767,525</b>	<b>(297,817)</b>	<b>-2%</b>
<b>Change in Working Capital</b>	<b>401,106</b>	<b>-</b>	<b>401,106</b>	
FTE's	19.07	18.90	0.17	1%

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

- **Funding**
  - Third-Party Funding, which represents funding of CRISP expenses by CRISP participants, was over budget \$87k (1%) due to the additional funding for start-up costs received from new participants that joined the program during the year.
  - Workshop fees were \$8k (12%) over budget due to higher attendance at the Grid Security Conference.
  
- **Personnel** – Personnel expenses were collectively \$167k (4%) under budget due to having 0.5 (1%) fewer FTEs on staff than budgeted. Employee Benefits expenses was over budget due to higher than budgeted training expenses. The higher under budget variance in payroll taxes cannot be attributed to a specific cause. The higher under budget variance in retirement expenses was due to the timing of hiring, which impacts eligibility in the plan.
  
- **Meetings, Travel and Conferencing Expenses**
  - Meeting expenses were \$87k (38%) under than budget due to lower costs of the Grid Security Conference and Critical Infrastructure Protection Committee meetings.
  - Travel expenses were \$25k (10%) over budget due to international travel related to assessment of a cyber-security event in the Ukraine. NERC assisted in the analysis of the event and used the findings to support our own cyber-security efforts.
  
- **Operating Expenses**
  - Consultant and contract expenses were \$267k (4%) over budget. Excluding CRISP, E-ISAC was under budget \$123k primarily due to lower costs related to the cyber risk preparedness assessments and cyber awareness monitoring. CRISP was over budget \$390k due to the additional costs associated with start-up expenses for new participants not originally included in the budget and additional project support provided by outside consultants. The additional project support was offset by lower than budgeted third party data storage included in office costs.
  - Office costs were \$254k (65%) under budget primarily due to lower than budgeted third party data storage for CRISP, as noted above.
  - Professional Services expenses were \$39k (22%) under budget due to lower than budgeted legal expenses related to CRISP.
  
- **Fixed Assets**
  - Computer and Software expenditures were over budget due to costs associated with the separation of the office space for the E-ISAC from other program areas in NERC's Washington, D.C. office.
  - Equipment expenditures were over budget due to the purchase of additional servers for ISAC and CRISP analysis capabilities.

- **Indirect Expenses** - Under budget \$197k (4%) as a result of lower costs per FTE, as explained above, offset by having slightly higher FTEs on staff than budgeted.

Training, Education and Operator Certification

Statement of Activities and Fixed Asset Budget

Training, Education and Operator Certification	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Funding</b>				
Assessments	1,742,146	1,742,146	-	0%
Assessment Stabilization Reserves - Penalties	55,994	55,994	-	0%
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	1,738,043	1,867,972	(129,930)	-7%
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	2,160	183	1,978	1084%
Misc.	-	-	-	-
<b>Total Funding</b>	<b>3,538,342</b>	<b>3,666,294</b>	<b>(127,952)</b>	<b>-3%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	814,406	857,257	(42,851)	-5%
Payroll Taxes	57,127	64,345	(7,218)	-11%
Employee Benefits	108,526	133,991	(25,465)	-19%
Savings & Retirement	91,723	94,860	(3,138)	-3%
<b>Total Personnel Expenses</b>	<b>1,071,782</b>	<b>1,150,454</b>	<b>(78,671)</b>	<b>-7%</b>
Meeting Expenses				
Meetings	43,765	80,000	(36,235)	-45%
Travel	17,068	21,139	(4,072)	-19%
Conference Calls	40,203	36,500	3,703	10%
<b>Total Meeting Expenses</b>	<b>101,036</b>	<b>137,639</b>	<b>(36,604)</b>	<b>-27%</b>
Operating Expenses				
Consultants and Contracts	549,109	675,800	(126,691)	-19%
Rent & Improvements	-	-	-	-
Office Costs	106,580	95,773	10,807	11%
Professional Services	-	-	-	-
Miscellaneous	-	500	(500)	-100%
Depreciation	1,919	1,919	-	0%
<b>Total Operating Expenses</b>	<b>657,608</b>	<b>773,992</b>	<b>(116,384)</b>	<b>-15%</b>
Other Non-Operating Expenses	-	-	-	-
Indirect Expenses	1,610,311	1,737,034	(126,723)	-7%
<b>Total Expenses</b>	<b>3,440,737</b>	<b>3,799,119</b>	<b>(358,382)</b>	<b>-9%</b>
<b>Net Change in Assets</b>	<b>97,605</b>	<b>(132,825)</b>	<b>230,431</b>	<b>-173%</b>
<b>Fixed Assets</b>				
Depreciation	(1,919)	(1,919)	-	0%
Computer & Software	-	-	-	-
Furniture & Fixtures	-	-	-	-
Equipment	-	-	-	-
Leasehold Improvements	-	-	-	-
Allocation of Fixed Assets	112,302	115,031	(2,729)	-2%
Incr(Dec) in Fixed Assets	110,383	113,112	(2,729)	-2%
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>3,551,120</b>	<b>3,912,231</b>	<b>(361,111)</b>	<b>-9%</b>
<b>Change in Working Capital</b>	<b>(12,778)</b>	<b>(245,937)</b>	<b>233,160</b>	<b>-95%</b>
FTE's	7.22	7.38	(0.16)	-2%

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

- **Personnel** – Salaries, payroll taxes, benefits and retirement costs were collectively under budget \$79k (7%), due to having 0.16 (2%) fewer FTEs on staff than budgeted due to lower attrition than the 6% vacancy rate assumed in the budget. Employee Benefits were under budget by a higher percentage because not all employees in the program have elected medical benefit coverage. The budget for medical benefits is based on an average cost applied to all FTEs.
- **Meetings, Travel and Conferencing** expenses were collectively \$37k (27%) under budget.
  - Meetings expense was \$36k (46%) under budget due to reductions in the number of meetings held.
- **Operating Expenses**
  - Consultant and contract expenses were under budget \$127k (19%) due to lower than budgeted costs related to improvement of the system operator and continuing education database and course development for NERC and ERO staff technical training.
  - Office costs expenses were over budget \$11k (11%) due to higher than budgeted merchant credit card fees associated with payments made by system operators with credit cards for testing fees and other services.
- **Indirect Expenses** - Under budget \$127k (7%) as a result of having fewer FTEs on staff than budgeted and, lower costs per FTE than budgeted.

## Administrative Services

## Statement of Activities and Fixed Asset Budget

	2016 Actual	2016 Budget	Variance Over (Under)	%
<b>Funding</b>				
Assessments	561,427	561,427	-	0%
Assessment Stabilization Reserves - Penalties	-	-	-	-
Assessment Stabilization Reserves - Non-Penalties	-	-	-	-
Third-Party Funding (CRISP)	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Misc.	202	-	202	
<b>Total Funding</b>	<b>561,630</b>	<b>561,427</b>	<b>202</b>	<b>0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	11,012,015	11,054,511	(42,496)	0%
Payroll Taxes	627,746	662,269	(34,523)	-5%
Employee Benefits	1,326,423	1,369,805	(43,383)	-3%
Savings & Retirement	1,015,581	1,024,669	(9,087)	-1%
<b>Total Personnel Expenses</b>	<b>13,981,765</b>	<b>14,111,254</b>	<b>(129,489)</b>	<b>-1%</b>
<b>Meeting Expenses</b>				
Meetings	278,953	315,000	(36,047)	-11%
Travel	555,374	653,945	(98,570)	-15%
Conference Calls	82,712	63,300	19,412	31%
<b>Total Meeting Expenses</b>	<b>917,039</b>	<b>1,032,245</b>	<b>(115,205)</b>	<b>-11%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	2,196,497	3,036,671	(840,174)	-28%
Rent & Improvements	3,249,112	3,054,287	194,825	6%
Office Costs	2,810,144	2,920,678	(110,534)	-4%
Professional Services	2,097,939	2,334,300	(236,361)	-10%
Miscellaneous	25,341	32,000	(6,659)	-21%
Depreciation	1,744,919	1,920,234	(175,316)	-9%
<b>Total Operating Expenses</b>	<b>12,123,952</b>	<b>13,298,171</b>	<b>(1,174,219)</b>	<b>-9%</b>
<b>Other Non-Operating Expenses</b>	<b>174,099</b>	<b>110,000</b>	<b>64,099</b>	<b>58%</b>
<b>Indirect Expenses</b>	<b>(27,196,855)</b>	<b>(28,551,669)</b>	<b>1,354,815</b>	<b>-5%</b>
<b>Total Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Assets</b>	<b>561,630</b>	<b>561,427</b>	<b>202</b>	<b>0%</b>
<b>Fixed Assets</b>				
Depreciation	(1,744,919)	(1,920,234)	175,316	-9%
Computer & Software	2,358,931	2,347,000	11,931	1%
Furniture & Fixtures	-	-	-	-
Equipment	1,282,678	1,464,000	(181,322)	-12%
Leasehold Improvements	-	-	-	-
<b>Allocation of Fixed Assets</b>	<b>(1,896,691)</b>	<b>(1,890,766)</b>	<b>(5,926)</b>	<b>0%</b>
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>-</b>
<b>Change in Working Capital</b>	<b>561,630</b>	<b>561,427</b>	<b>202</b>	<b>0%</b>
<b>FTE's</b>	<b>70.7</b>	<b>71.2</b>	<b>(0.5)</b>	<b>-1%</b>



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

	Administrative Services					
	Direct Expenses and Fixed Assets			FTEs		
	2016 Actual	2016 Budget	Increase (Decrease)	2016 Actual	2016 Budget	Increase (Decrease)
General and Administrative	\$ 10,263,826	\$ 9,881,311	\$ 382,515	17.70	17.52	0.18
Legal and Regulatory	3,027,804	3,465,966	(438,162)	11.70	12.22	(0.52)
Information Technology	11,133,336	12,156,674	(1,023,339)	23.10	22.13	0.97
Human Resources	1,195,030	1,510,177	(315,147)	3.42	2.77	0.65
Finance and Accounting	3,473,550	3,428,307	45,243	14.80	16.60	(1.80)
Total Administrative Services	\$ 29,093,546	\$ 30,442,435	\$ (1,348,889)	70.72	71.23	-0.51

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

- **Personnel** – Total personnel expenses and total FTEs in the combined Administrative Services programs were very close to budget.
- **Meeting, Travel and Conferencing Expenses** were collectively \$115k (11%) under budget primarily due to lower costs in General and Administrative for quarterly BOT meetings and lower trustee travel expenses, as explained above on page 6. Conferencing expenses in Information Technology were over budget due to outside support for webinars with a large number of attendees.
- **Operating Expenses**
  - Consultant and contract expense under budget \$840k (28%) primarily due to lower costs in Information Technology, Human Resources, and Finance and Accounting.
    - Information Technology was under budget by \$636k due to the reallocation to fixed assets for: (1) \$314k for development of the ER-GADS and BESnet projects; (2) \$71k for development of the document management; and (3) \$95k lower than budget ERO data analysis.
    - Human Resources, and Finance and Accounting were collectively \$199k under budget due to the less than anticipated use of outside consulting support related to various activities in those groups.
  - Rent expense in General and Administrative was over budget \$195k (6%) due to higher than budgeted building maintenance and real estate tax expense.
  - Professional services was under budget \$236k (10%) due to lower outside counsel costs, primarily budgeted in Legal and Regulatory.
- **Fixed Asset purchases**, were collectively under budget by \$169k (4%), primarily related to ERO Application development costs that are budgeted in IT but recorded in the programs utilizing the

applications. Approximately \$807k of costs were allocated from the IT department to other operating programs, as detailed on page 6. This transfer was offset by the reallocation of consultant and contract expense to fixed assets as explained above.

Financial Statements and Report of  
Independent Certified Public Accountants

**North American Electric Reliability Corporation**

December 31, 2016 and 2015

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP  
1100 Peachtree Street, NE, Suite 1200  
Atlanta, GA 30309-4504  
T 404.330.2000  
F 404.330.2047  
[www.GrantThornton.com](http://www.GrantThornton.com)

To the Board of Trustees of  
North American Electric Reliability Corporation

We have audited the accompanying financial statements of **North American Electric Reliability Corporation** (a New Jersey non-profit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Electric Reliability Corporation as of December 31, 2016 and 2015, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary information

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

*Grant Thornton LLP*

Atlanta, Georgia

May 11, 2017

# Statements of financial position

December 31	2016	2015
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	54,023,917	39,808,955
Restricted cash	500,000	500,000
Accounts receivable, net of allowance for doubtful accounts of \$0	3,784,074	3,986,346
Prepaid expenses	2,046,006	1,291,805
Total Current Assets	60,353,997	45,587,106
<b>Long-Term Assets</b>		
Property and equipment, net	10,791,214	8,301,731
Security deposits	125,585	125,416
457f Plan Assets	473,741	271,200
457b Plan Assets	1,109,883	744,439
Total Long-Term Assets	12,500,423	9,442,786
Total Assets	72,854,420	55,029,892
<b>Liabilities and net assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	9,267,555	10,048,001
Accrued retirement liabilities	1,903,342	1,878,830
Current portion of long-term debt	1,238,940	744,253
Deferred revenue	14,720,664	10,469,830
Deferred rent - current	396,121	322,016
Capital lease obligations - current	74,212	64,728
Regional assessments collected in advance	23,471,153	12,273,666
Total Current Liabilities	51,071,987	35,801,324
<b>Long-Term Liabilities</b>		
Deferred rent - non-current	3,015,784	3,412,298
Deferred compensation - non-current	1,527,437	1,038,351
Insurance reserve	500,000	500,000
Long-term debt	625,433	680,311
Capital lease obligations - non-current	77,541	151,752
Total Long-Term Liabilities	5,746,195	5,782,712
Total Liabilities	56,818,182	41,584,036
<b>Net Assets</b>		
Unrestricted	13,265,238	9,735,856
Temporarily restricted	2,771,000	3,710,000
Total Net Assets	16,036,238	13,445,856
Total Liabilities and Net Assets	72,854,420	55,029,892

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

# Statements of activities

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
NERC assessments	57,081,445	-	57,081,445	55,308,376	-	55,308,376
Penalty income	-	500,000	500,000	-	900,000	900,000
Third-Party funding	6,917,790	-	6,917,790	5,273,658	-	5,273,658
Testing / fees	1,738,043	-	1,738,043	1,683,977	-	1,683,977
Services and software	43,000	-	43,000	71,000	-	71,000
Workshops	240,837	-	240,837	249,726	-	249,726
Rental income	188,684	-	188,684	188,684	-	188,684
Interest	38,851	-	38,851	10,761	-	10,761
Miscellaneous revenues	202	-	202	156	-	156
Net assets (penalties) released from restrictions	1,439,000	(1,439,000)	-	1,155,000	(1,155,000)	-
<b>Total revenues</b>	<b>67,687,852</b>	<b>(939,000)</b>	<b>66,748,852</b>	<b>63,941,338</b>	<b>(255,000)</b>	<b>63,686,338</b>
<b>Expenses:</b>						
Salaries	29,012,522	-	29,012,522	28,386,720	-	28,386,720
Employee costs	5,309,731	-	5,309,731	5,213,812	-	5,213,812
Retirement and savings plans	2,880,369	-	2,880,369	2,613,168	-	2,613,168
Travel and meetings	3,472,637	-	3,472,637	3,341,900	-	3,341,900
Services	13,930,542	-	13,930,542	14,245,845	-	14,245,845
Rent	3,437,796	-	3,437,796	3,126,268	-	3,126,268
Office costs	1,587,514	-	1,587,514	1,669,306	-	1,669,306
Computer	1,854,172	-	1,854,172	1,845,733	-	1,845,733
Depreciation and amortization	2,472,276	-	2,472,276	2,116,797	-	2,116,797
Property tax expense	45,604	-	45,604	41,435	-	41,435
Provision for bad debts	10,017	-	10,017	17	-	17
Loss on disposal of fixed assets	39,507	-	39,507	3,969	-	3,969
Miscellaneous expenses	26,812	-	26,812	32,045	-	32,045
Interest	78,971	-	78,971	54,407	-	54,407
<b>Total expenses</b>	<b>64,158,470</b>	<b>-</b>	<b>64,158,470</b>	<b>62,691,422</b>	<b>-</b>	<b>62,691,422</b>
Change in net assets	3,529,382	(939,000)	2,590,382	1,249,916	(255,000)	994,916
<b>Net assets, beginning of year</b>	<b>9,735,856</b>	<b>3,710,000</b>	<b>13,445,856</b>	<b>8,485,940</b>	<b>3,965,000</b>	<b>12,450,940</b>
<b>Net assets, end of year</b>	<b>13,265,238</b>	<b>2,771,000</b>	<b>16,036,238</b>	<b>9,735,856</b>	<b>3,710,000</b>	<b>13,445,856</b>

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



# Statements of cash flows

For the Years Ended December 31	2016	2015
	\$	\$
<b>Cash flows from operating activities</b>		
Change in net assets	2,590,382	994,916
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,472,276	2,116,797
Straight-line rent accrual	(322,409)	(84,447)
Loss on disposal of fixed assets	39,507	3,969
Provision for bad debts	10,107	17
457f Non-qualified deferred compensation	(202,541)	(271,200)
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	192,165	1,072,639
Prepaid expenses	(754,201)	(535,078)
Security deposits	(169)	(26,280)
Receipt of funds for regional entities	120,569,235	109,618,044
Disbursements of funds to regional entities	(120,569,235)	(109,618,044)
Accounts payable and accrued expenses	(1,854,627)	1,063,227
Deferred revenue	4,250,834	287,492
Regional assessments collected in advance	11,197,487	835,212
Deferred compensation	123,642	18,965
Accrued retirement liabilities	24,512	(28,733)
Net cash provided by operating activities	17,766,965	5,447,496
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(3,927,185)	(4,441,281)
Proceeds from sales of property and equipment	100	2,311
Net cash used in investing activities	(3,927,085)	(4,438,970)
<b>Cash flows from financing activities</b>		
Proceeds from non-revolving credit facility	1,484,062	967,758
Debt service	(1,044,253)	(421,667)
Capital lease payments	(64,727)	(56,458)
Net cash provided by financing activities	375,082	489,633
Net increase in cash and cash equivalents	14,214,962	1,498,159
<b>Cash and cash equivalents, beginning of year</b>	<b>40,308,955</b>	<b>38,810,796</b>
<b>Cash and cash equivalents, end of year</b>	<b>54,523,917</b>	<b>40,308,955</b>
<b>Supplemental disclosure of non-cash information</b>		
Fixed asset purchases within accounts payable	1,074,181	54,161
<b>Supplemental disclosure of cash paid</b>		
Interest	78,971	54,407
<b>Reconciliation of Cash</b>		
Cash and cash equivalents	54,023,917	39,808,955
Restricted cash	500,000	500,000
<b>Cash and cash equivalents, end of year</b>	<b>54,523,917</b>	<b>40,308,955</b>

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

# Notes to financial statements

## 1 Organization and Nature of Business

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

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

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

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

Annually, the Board of Trustees approves an operating budget for the Corporation that includes a provision for working capital and operating reserves, which are recovered through assessments to Load-Serving Entities ("LSE"). The determination of the annual working capital and operating reserve requirements and the authorization of management to access these funds is governed by the Corporation's "Working Capital and Operating Reserve Policy." The Corporation assesses each LSE a proportional share of its annual operating budget based on "net energy for load." During 2016, the assessments to LSEs made up approximately 84.6% of the total funding for the Corporation. Assessments to U.S. entities in 2016 were offset by \$1,439,000 in penalties received in prior years, but restricted from use until 2016 per the Corporation's policy on the "Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards." The Corporation also generates funding from the collection of fees charged for various services. These services include management of some contracts associated with the Electricity Information Sharing and Analysis Center (E-ISAC), the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters.

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

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

## 2 Summary of Significant Accounting Policies

### **Basis of Accounting and Presentation**

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2016 or 2015.

### **Cash and Cash Equivalents**

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

### **Use of Estimates**

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

### **Revenue Recognition**

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

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

### **Deferred Revenue**

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

### Accounts Receivable

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

### Property and Equipment

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

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

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

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

### Compensated Absences

Employees of the Corporation are entitled to paid time off depending on length of service. At December 31, 2016 and 2015, the Corporation has recorded accrued compensated absences of \$565,999 related to days earned, which is included with accounts payable and accrued expenses on the statements of financial position.

### Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Corporation is subject to income taxes on revenues from unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2016 or 2015.

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2013. Tax years 2013 through 2016 remain subject to examination by major tax jurisdictions.

### Subsequent Events

The Corporation discloses material events that occur after the statement of financial position date but before financial statements are issued. In general, these events are recognized in the financial statements if the condition existed at the date of the statement of financial position, but are not recognized if the condition did not exist at the statement of financial position date. The Corporation discloses non-recognized events if required to keep the financial statements from being misleading. Management evaluated events occurring subsequent to December 31, 2016 through May 11, 2017, the date the financial statements were available for issuance.

### 3 Property and Equipment

Property and equipment consist of the following at December 31:

December 31	2016	2015
	\$	\$
Software development	9,117,286	6,712,491
Furniture and equipment	7,949,637	7,618,243
Leasehold improvements	1,380,675	1,380,675
	<b>18,447,598</b>	15,711,409
Accumulated depreciation and amortization	<b>(7,656,384)</b>	(7,409,678)
<b>Property and Equipment, net</b>	<b>10,791,214</b>	8,301,731

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$2,472,276 and \$2,116,797, respectively.

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

On January 13, 2014, the company secured a non-revolving credit facility under the Capital Financing Program that was approved by the Board of Trustees and FERC as part of the Corporation's 2014 Business Plan and Budget. The interest rate is floating and equal to LIBOR plus 275 basis points, which yielded a rate of 2.91% at closing and 3.35% as of December 31, 2016. The total size of this facility is \$7,500,000, with the total authorized borrowings each year limited to the amount approved by the Board of Trustees and FERC in that year's business plan and budget, for capital expenditures made through December 31, 2016. This facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. Borrowings outstanding as of December 31, 2016 were \$1,864,373, and no further draws will be made under this facility.

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

The Corporation has a line of credit with a bank that renews annually and currently expires in September 2017. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. In connection with the non-revolving credit facility secured on January 13, 2014, the line of credit was amended and restated. The line of credit accrues interest at a rate per annum equal to LIBOR plus 275 basis points. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. There were no borrowings outstanding at December 31, 2016 or 2015. At December 31, 2016 and 2015, the available amount under the line of credit was reduced by open letters of credit totaling \$142,708, which represent security deposits for the Corporation's office lease agreements.

Both loan agreements contain various positive and negative covenants, and the Corporation was in compliance with these covenants as of December 31, 2016.

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

In 2015, NERC amended its Working Capital and Operating Reserve Policy to include the establishment of a separate Assessment Stabilization Reserve. The purpose of the Assessment Stabilization Reserve is to spread the use of available penalty funds, together with any operating surpluses, over a number of years in order to avoid wide swings in annual member assessments that could otherwise result from applying all of these funds as an offset to assessments in a single year. At December 31, 2016, \$2,271,000 is designated in the Assessment Stabilization Reserve, as approved by NERC's Board of Trustees and FERC, and is available to offset future assessments. Net assets totaling \$2,771,000 and \$3,710,000 were temporarily restricted as of December 31, 2016 and 2015, respectively, to offset future assessments.

The Corporation received \$500,000 and \$900,000 of penalty income in 2016 and 2015, respectively, which is temporarily restricted. The penalty income will be utilized to reduce future assessments, in accordance with the timing of the receipt of the income under FERC requirements and in coordination with NERC's assessment stabilization reserve policy. In 2016 and 2015, NERC transferred \$1,439,000 and \$1,155,000, respectively, of penalty income from temporarily restricted net assets to unrestricted net assets.

## 6 Regional Assessments Collected in Advance

In addition to the Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the Regional Entities. The regional assessment is based on approved budgets of the eight Regional Entities and remitted to the Regional Entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the Regional Entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for 2016 and 2015 were as follows:

<b>For the Year Ended December 31</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	<b>109,426,742</b>	108,272,977
Total regional assessments remitted to Regional Entities	<b>(109,416,385)</b>	(108,269,729)
Billings over Remittances	<b>10,357</b>	3,248

As of December 31, 2016 and 2015, regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements totaled \$23,471,153 and \$12,273,666, respectively.

## 7 Deferred Compensation

### **Agreements and Life Insurance Policies**

During 2005, the Council entered into a deferred compensation agreement with a retiring executive that provided benefits payable over a period selected by the retiring employee, payable to the retiree or his surviving spouse. The Corporation assumed the liability upon merger with the Council. The original agreement was superseded in 2008 and a variable universal life policy was used to fund the liability. This life policy, including the cash surrender value, was assigned and transferred to the retired executive in January 2009. In accordance with the new agreement, the Corporation paid all remaining policy premiums as of December 31, 2015.

### **Deferred Compensation Plan**

The Corporation established a deferred compensation plan for certain employees in 2012 in accordance with Internal Revenue Code Section 457(b). The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In 2014, the plan was amended to allow the company to make discretionary, non-elective contributions to the plan on behalf of the employee. While the Company has the discretion to make contributions to this plan, the balances are primarily comprised of funds contributed by the employees. The asset and liability for this deferred compensation plan of \$1,109,883 and \$744,439 at December 31, 2016 and 2015, respectively, are included in 457(b) Plan Assets and Non-current Deferred Compensation on the statements of financial position.

In 2015, the Corporation established a 457(f) nonqualified deferred compensation plan for certain key employees. The plan allows the company to make discretionary, annual awards that vest over time. The vesting period of each award for each participant is specified in writing. When the award is made, the Corporation makes a contribution to the 457(f) plan and records the contribution as 457(f) Plan Assets on the statements of financial position. The company records the expense of the award over time, based on the vesting schedule, on the statements of activities. The accrued expense liability is recorded in non-current deferred compensation on the statements of financial position. As of December 31, 2016, the asset and liability for this deferred compensation plan are \$473,741 and \$195,673; and as of December 31, 2015, the asset and liability are \$271,200 and \$61,488, respectively.

### **Retiree Medical Benefits**

Effective September 1, 2007, the Board of Trustees approved and adopted a policy to provide medical coverage for a limited number of current and transitional retirees and their dependents up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2009 Social Security Administration Actuarial Period Life Table, annual inflation rate of 1.5% and discount rate of 4.0%. At December 31, 2016 and 2015, the accrued retiree medical benefits liability was \$221,881 and \$232,424, respectively, and is included in non-current deferred compensation on the statements of financial position. The retiree medical expense related to this policy was \$11,960 and \$5,345, respectively, for the years ended December 31, 2016 and 2015.

## **8 Commitments**

### **Operating Leases**

The Corporation leases office space in Washington, D.C. and Atlanta, Georgia under non-cancellable lease agreements, with expiration dates in 2017 and 2022. In 2012 and 2015, the Corporation entered into agreements to expand the amount of leased space in Atlanta, Georgia with an expiration date in 2022, which is coterminous with the term of the lease for the original premises. In 2015, the Corporation entered into an agreement to expand the amount of leased space in Washington, D.C. with an expiration date in 2022, which is coterminous with the term of the lease for the original premises.

In 2011, the Corporation entered into a separate sub-lease agreement for one of the two locations in Washington D.C., with an expiration date of February 2017, which coincides with NERC's lease expiration on the office space. On June 23, 2014, the Corporation and sub-tenant agreed to amend the sublease agreement for the space in Washington D.C., to reduce the amount of space subleased to sub-tenant and to reduce the rate of rent due under the terms of the sublease agreement.

Approximate future minimum payments on office lease space at December 31, 2016 are as follows, net of rental income for sub-leased space and including lease agreements entered into subsequently in January, 2017:

Years Ending December 31	Leased Space	Sub-leased Space	Net
	\$	\$	\$
2017	3,275,000	(36,000)	3,239,000
2018	3,300,000	-	3,300,000
2019	3,386,000	-	3,386,000
2020	3,475,000	-	3,475,000
2021	3,566,000	-	3,566,000
Thereafter	2,407,000	-	2,407,000
Future Obligation Net of Rental Income	19,409,000	(36,000)	19,373,000

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The difference between rent expense calculated ratably over the lease term and actual payments under the agreements are recorded as a deferred rent obligation on the statements of financial position in the amount of \$3,411,905 and \$3,734,314 at December 31, 2016 and 2015, respectively.

Office rent expense, net of sub-lease income of \$188,684, was \$2,931,334 and \$2,761,804 for the years ended December 31, 2016 and 2015, respectively.

### Capital Leases

The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$70,120 for the years ended December 31, 2016 and 2015, respectively.

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

#### December 31, 2016

	\$
Copier leases	280,481
Accumulated depreciation	(146,084)
Net Book Value	134,397

The following is a schedule of future minimum lease payments under these capital leases, together with the future obligation net of interest and maintenance as of December 31, 2016:

Years ending December 31	Future Minimum Payments
	\$
2017	90,516
2018	82,973
Total Minimum Lease Payment	173,489
Less: Amounts representing interest and maintenance	(21,736)
Future Obligation Net of Interest and Maintenance	151,753



### Contractual Commitments

The Corporation has software license, maintenance support and data management service agreements with varying expiration dates through 2021. The following table is a schedule of future commitments under the terms of the agreements:

Years ending December 31	Future Minimum Payments
	\$
2017	187,000
2018	123,000
2019	125,000
2020	104,000
2021	55,000
Total Service Agreements	594,000

### Future Commitments

Effective January 1, 2017, the Corporation entered into agreements to lease certain computers and audio-visual equipment for its two office locations, and will be reflected in the 2017 financial statements. The annual future obligation for these lease transactions is \$343,794 for years 2017 to 2020, and \$307,615 in 2021.

#### 9 Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible employees may elect to contribute up to the Internal Revenue Service Code 402(g)(1) limit. The Corporation contributes a 75% match of the first 6% of a participant's elective contribution, which vests immediately to the employee. The Corporation also makes a discretionary contribution equal to a percentage of the eligible compensation of all qualifying participants, which vests to the employee over a five year period. The additional discretionary contributions are determined annually by the Board of Trustees and are subject to the limitation imposed by the Internal Revenue Service Code 401(a)(17). The Corporation's expenses related to the Plan for the years ended December 31, 2016 and 2015 were \$2,880,369 and \$2,613,168, respectively. The contributions accrued as of December 31, 2016 and 2015 amounted to \$1,903,342 and \$1,878,830, respectively, and are included in accrued retirement liabilities in the statements of financial position.

#### 10 Concentration of Credit Risk

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

## 11 Functional Classification

The Corporation is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. The Corporation groups expenses by operational programs and by administrative programs as defined by FERC. In 2015, the Compliance Operations program was renamed as Compliance Assurance and the Critical Infrastructure program was renamed as the Electricity Information Sharing and Analysis Center (E-ISAC).

The following table shows the functional classification of expenses for the years ended December 31, 2016 and 2015:

<b>For the Years Ended December 31</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Operational Programs:</b>		
Reliability Standards	<b>3,612,941</b>	3,808,015
Compliance Analysis and Certification	<b>1,919,464</b>	2,182,597
Compliance Assurance	<b>3,955,190</b>	3,769,712
Compliance Enforcement	<b>2,340,096</b>	2,201,290
Reliability Assessment and Performance Analysis	<b>6,274,498</b>	5,856,685
Event Analysis	<b>2,583,434</b>	2,275,034
Situation Awareness	<b>2,561,584</b>	3,201,061
Training, Education and Operator Certification	<b>1,830,426</b>	1,891,289
E-ISAC	<b>11,695,297</b>	10,155,644
Total Operational Programs	<b>36,772,930</b>	35,341,327
<b>Administrative Programs:</b>		
General and Administrative	<b>10,991,742</b>	10,616,666
Legal and Regulatory	<b>3,027,924</b>	3,139,268
Information Technology	<b>8,694,255</b>	8,618,303
Human Resources	<b>1,197,930</b>	1,536,533
Finance and Accounting	<b>3,473,689</b>	3,439,325
Total Administrative Programs	<b>27,385,540</b>	27,350,095
Total Expenses	<b>64,158,470</b>	62,691,422

# Supplemental Schedules of Selected Expenses

For the Years Ended December 31,	2016	2015
	\$	\$
<b>Employee costs:</b>		
Payroll taxes (FICA, SUI, FUI, Medicare)	1,734,756	1,727,949
Employee benefits - medical	2,591,197	2,529,766
Employee benefits - life / disability	278,311	166,717
Gym Membership	24,596	17,024
Insurance - workers' compensation	62,902	66,623
Relocation expenses	46,664	151,891
Educational	571,305	553,842
Total Employee Costs	5,309,731	5,213,812
<b>Travel and meetings:</b>		
Meetings	726,877	742,094
Workshops	245,200	267,962
Travel	2,232,853	2,068,939
On-line meetings	267,707	262,905
Total Travel and Meetings	3,472,637	3,341,900
<b>Services:</b>		
Insurance - commercial	224,502	212,909
Contract and consultants	11,696,805	12,156,300
Independent trustee fees	1,126,356	1,049,689
Search fees	106,334	94,336
Outside services	187,670	185,629
Accounting and auditing fees	137,080	111,453
Legal fees	451,795	435,529
Total Services	13,930,542	14,245,845
<b>Office costs:</b>		
Publications and subscriptions	193,569	136,950
Dues	75,651	49,478
Postage	11,360	14,644
UPS, express mail, etc.	19,326	22,698
Telephone	425,589	568,237
Office and equipment repair/services	113,847	69,417
Copying	21,609	29,234
AV Equipment Leases	47,772	-
Computer Leases	3,197	-
Stationery and office forms	90	80
Office supplies	181,958	198,803
Bank charges	69,136	21,056
Card fees	84,071	75,788
Sales & Use Tax	592	-
Internet expenses	339,747	482,921
Total Office Costs	1,587,514	1,669,306

**ATTACHMENT 2**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**



## **FRCC 2016 True Up Actual to Budget Comparison as of December 31, 2016**

### **Regional Entity**

#### **Statutory Summary**

For the twelve months ending December 31, 2016, FRCC is \$808K under budget (11.1%).

#### **Statutory Funding**

- **Workshop fees (Actual - \$12K over budget)**
  - The favorable variance is due to greater attendance than anticipated for the annual SOS seminar.

#### **Statutory Expenses**

- **Personnel Expenses (Actual - \$392K under budget)**
  - The favorable variance is primarily due to salaries being below budget by \$306K and retirement costs by \$120K due to various unfilled positions in the CMEP program area throughout the year and a shift of work from the RE Reliability Assessment program to Member Services to align Eastern Interconnection Model development with NERC's expectations for MOD-032 implementation. These are partially offset by employee education which is over budget by \$51K due to unbudgeted management leadership training.
- **Meeting Expenses (Actual - \$57K under budget)**
  - The favorable variance is mainly due to CMEP travel being below budget by \$58K due to timing differences in travel and the effect of unfilled positions.
- **Operating Expenses (Actual - \$344K under budget)**
  - The favorable variance is primarily due to contracts and consultants which is below budget by \$339K due to lower than budgeted usage of CMEP contractors, shifting of contractor work to the Member Services division to align with NERC's expectations for MOD-032, Guidance software maintenance work that was not needed, and lower SOS seminar costs due to providing some of the training by internal staff.
- **Fixed Assets (Actual - \$15K under budget)**
  - The favorable variance is mainly due to an adjustment made to the scope of work for enhancements to the Compliance software.

# Member Services

## Non-Statutory Summary

For the twelve months ending December 31, 2016, FRCC is \$258K over budget (3.0%).

## Non-Statutory Funding

- **Services & Software (Actual - \$2K over budget)**
  - The favorable variance is due to additional telecommunication pass through billings (with the corresponding increase in expenses).

## Non-Statutory Expenses

- **Personnel Expenses (Actual - \$414K over budget)**
  - The unfavorable variance is primarily due to a shift in time charged to Member Services to align Eastern Interconnection model development with NERC's expectations for MOD-032 that was budgeted as RE Reliability Assessment. In addition, budgeted attrition did not materialize and management leadership classes provided throughout the year were not budgeted.
- **Meeting Expenses (Actual - \$38K over budget)**
  - The unfavorable variance is mainly due to additional travel by Tampa staff to cover the vacant Reliability Coordinator position in Miami.
- **Operating Expenses (Actual - \$16K over budget)**
  - The unfavorable variance is primarily due to higher than budgeted office rent, office costs and professional services, partially offset by lower than budgeted consultants and contracts expense.
- **Fixed Assets (Actual - \$167K under budget)**
  - The favorable variance is mainly due to projects not completed in 2016 but expected to be complete in 2017.

## Statements Concerning Work Completed in 2016:

### Compliance Monitoring & Enforcement Program

Specifically, the Compliance Department verifies that:

1. 5 O&P Compliance Audits and 4 Spot Checks were scheduled for 2016.
  - a. 5 on-site Compliance Audits were completed as scheduled.
  - b. 4 Spot Checks were completed as scheduled.
  - c. 11 entities were monitored via Self-Certification as a result of the risk-based compliance monitoring implementation.
2. 3 CIP Compliance Audits were scheduled for 2016.
  - a. 2 on-site Compliance Audits were completed as scheduled.
  - b. 1 on-site Compliance Audit was led by FERC and observed by FRCC.
  - c. 47 entities were monitored via Self-Certification for CIP-002-51 as a result of risk-based compliance monitoring implementation.
  - d. 18 entities were monitored via Self-Certification for CIP-014 as a result of risk-based compliance monitoring implementation.
3. The Technical Feasibility (TFE) program related to the CIP standards completed its seventh year in 2016. FRCC processed 9 TFEs, 8 were approved and 1 was not approved.
4. Regional Compliance Evaluations were completed for six (6) entity reliability events during 2016, of which five (5) events occurred in 2015.
5. Conducted IRAs for 100% (47) of the Registered Entities in the FRCC region including all those that were on a scheduled Audit during 2016.
6. Completed review of three (3) Formal Mitigation Plans for acceptance or rejection; and completed review for all other non-compliances with identified mitigating activities. No Mitigation Plan Revisions were submitted by registered entities;
7. Verified completion of five (5) Mitigation Plans; and seven (7) non-compliances with mitigating activities.

### Reliability Assessment Program

NERC Reliability Assessments (Summer, Winter, Long Term Reliability and Probabilistic Assessments) were all completed as scheduled. The FRCC continues to support the application of the new Bulk Electric System (BES) definition. The FRCC processed three (3) Self-determined Notifications (SDN) using the NERC BESnet application and no BES Exception Requests (ER) were submitted in the FRCC Region in 2016. In 2016, the FRCC participated on three (3) Technical Review Panels rendering opinions on four (4) ERs originating in other Regions in support of the BES Exception Process (Appendix 5C of the NERC Rules of Procedure) and the ERO enterprise.

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

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

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

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

### **Cash Reserves Statement**

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

### **Statement concerning the use of Statutory Funds for Member Services**

#### **Expenses:**

No Statutory Funds were used to pay for Member Services Functions in 2016 and no Member Services Funds were used to pay for Statutory Functions.



<b>Florida Reliability Coordinating Council, Inc.</b>					
<b>Statement of Activities and Capital Expenditures Based on Audited Financials</b>					
<b>TOTAL COMPANY</b>					
<b>December 31, 2016</b>					
<i>(In Whole Dollars)</i>					
	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%	
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 6,628,457	\$ 6,628,457	\$ -		
Penalty Sanctions	81,000	81,000	\$ -		
<b>Total ERO Funding</b>	<b>\$ 6,709,457</b>	<b>\$ 6,709,457</b>	<b>\$ -</b>		<b>0.0%</b>
Membership Dues	\$ 8,595,503	\$ 8,595,503	-		
Testing Fees	-	-	-		
Services & Software	304,040	301,790	2,250		
Workshops	103,615	92,000	11,615		
Special Assessment	-	-	-		
Non Cash Postretirement	49,676	-	49,676		
<b>Total Funding</b>	<b>\$ 15,762,291</b>	<b>\$ 15,698,750</b>	<b>\$ 63,541</b>		<b>0.4%</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 6,432,354	\$ 6,447,820	(15,466)		
Payroll Taxes	380,169	386,977	(6,808)		
Benefits	1,131,570	967,464	164,106		
Retirement Costs	890,842	1,010,808	(119,966)		
<b>Total Personnel Expenses</b>	<b>\$ 8,834,935</b>	<b>\$ 8,813,069</b>	<b>\$ 21,866</b>		<b>0.2%</b>
<b>Meeting Expenses</b>					
Meetings	\$ 92,918	\$ 92,258	660		
Travel	225,153	260,042	(34,889)		
Conference Calls	60,552	45,984	14,568		
<b>Total Meeting Expenses</b>	<b>\$ 378,623</b>	<b>\$ 398,284</b>	<b>\$ (19,661)</b>		<b>-4.9%</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 4,464,063	\$ 4,835,558	(371,495)		
Office Rent	835,203	813,341	21,862		
Office Costs	610,145	555,172	54,973		
Professional Services	85,820	74,300	11,520		
Miscellaneous	-	-	-		
Depreciation	212,459	257,254	(44,795)		
<b>Total Operating Expenses</b>	<b>\$ 6,207,690</b>	<b>\$ 6,535,625</b>	<b>\$ (327,935)</b>		<b>-5.0%</b>
<b>Total Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ (42,579)</b>	<b>-</b>	<b>\$ (42,579)</b>		
<b>Total Expenses</b>	<b>\$ 15,378,669</b>	<b>\$ 15,746,978</b>	<b>\$ (368,309)</b>		<b>-2.3%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 383,622</b>	<b>\$ (48,228)</b>	<b>\$ 431,850</b>		<b>-895.4%</b>
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (212,459)	\$ (257,254)	\$ 44,795		
Net Non Pension Post Retir. Oblig	92,255	-	92,255		
Software CapEx	60,861	259,100	(198,239)		
Furniture & Fixtures CapEx	2,937	-	2,937		
Equipment & Computers CapEx	81,048	204,700	(123,652)		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 24,642</b>	<b>\$ 206,546</b>	<b>\$ (181,904)</b>		<b>-88.1%</b>
<b>Total Budget</b>	<b>\$ 15,403,311</b>	<b>\$ 15,953,524</b>	<b>\$ (550,213)</b>		<b>-3.4%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 358,980</b>	<b>\$ (254,774)</b>	<b>\$ 613,754</b>		<b>-240.9%</b>
<b>FTEs</b>	45.06	48.65	(3.59)		
Beginning Working Capital 1/1/2016	2,300,352	1,593,234	707,118		
Change in Working Capital	358,980	(254,774)	613,754		
Working Capital at 12/31/2016	2,659,332	1,338,460	1,320,872		

<b>Florida Reliability Coordinating Council, Inc.</b>					
<b>Statement of Activities and Capital Expenditures Based on Audited Financials</b>					
<b>TOTAL Statutory Only</b>					
<b>December 31, 2016</b>					
	<i>(In Whole Dollars)</i>				
	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%	
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 6,628,457	\$ 6,628,457	\$ -		
Penalty Sanctions	81,000	81,000	\$ -		
<b>Total ERO Funding</b>	<b>\$ 6,709,457</b>	<b>\$ 6,709,457</b>	<b>\$ -</b>		0.0%
Membership Dues	\$ -	\$ -	-		
Testing Fees	-	-	-		
Services & Software	24,000	24,000	-		
Workshops	103,615	92,000	11,615		
Special Assessment	-	-	-		
Non Cash Postretirement	-	-	-		
<b>Total Funding</b>	<b>\$ 6,837,072</b>	<b>\$ 6,825,457</b>	<b>\$ 11,615</b>		0.2%
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 3,716,031	\$ 4,021,604	(305,573)		
Payroll Taxes	220,674	243,373	(22,699)		
Benefits	664,797	608,744	56,053		
Retirement Costs	520,396	639,971	(119,575)		
<b>Total Personnel Expenses</b>	<b>\$ 5,121,898</b>	<b>\$ 5,513,692</b>	<b>\$ (391,794)</b>		-7.1%
<b>Meeting Expenses</b>					
Meetings	\$ 60,761	\$ 58,176	2,585		
Travel	127,700	191,445	(63,745)		
Conference Calls	16,933	13,027	3,906		
<b>Total Meeting Expenses</b>	<b>\$ 205,394</b>	<b>\$ 262,648</b>	<b>\$ (57,254)</b>		-21.8%
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 303,047	\$ 641,975	(338,928)		
Office Rent	545,966	568,158	(22,192)		
Office Costs	158,034	132,021	26,013		
Professional Services	27,474	26,406	1,068		
Miscellaneous	-	-	-		
Depreciation	161,005	171,380	(10,375)		
<b>Total Operating Expenses</b>	<b>\$ 1,195,526</b>	<b>\$ 1,539,940</b>	<b>\$ (344,414)</b>		-22.4%
<b>Total Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		0.0%
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>\$ 6,522,818</b>	<b>\$ 7,316,280</b>	<b>\$ (793,462)</b>		-10.8%
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 314,254</b>	<b>\$ (490,823)</b>	<b>\$ 805,077</b>		-164.0%
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (161,005)	\$ (171,380)	\$ 10,375		
Software CapEx	60,861	89,100	(28,239)		
Furniture & Fixtures CapEx	2,937	-	2,937		
Equipment & Computers CapEx	27,582	27,527	55		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (69,625)</b>	<b>\$ (54,753)</b>	<b>\$ (14,872)</b>		27.2%
<b>Total Budget</b>	<b>\$ 6,453,193</b>	<b>\$ 7,261,527</b>	<b>\$ (808,334)</b>		-11.1%
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 383,879</b>	<b>\$ (436,070)</b>	<b>\$ 819,949</b>		-188.0%
<b>FTEs</b>	25.98	30.59	(4.61)		
Beginning Working Capital 1/1/2016	1,474,647	1,041,197	433,450		1/1/2016
Change in Working Capital	383,879	(436,070)	819,949		
Working Capital at 12/31/2016	1,858,526	605,127	1,253,399		12/31/2016

<b>Florida Reliability Coordinating Council, Inc.</b>					
<b>Statement of Activities and Capital Expenditures Based on Audited Financials</b>					
<b>RELIABILITY STANDARDS</b>					
<b>December 31, 2016</b>					
	<i>(In Whole Dollars)</i>				
		2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments		\$ 349,426	\$ 349,426	\$ -	0.0%
Penalty Sanctions		4,373	4,373	\$ -	0.0%
<b>Total ERO Funding</b>		<b>\$ 353,799</b>	<b>\$ 353,799</b>	<b>\$ -</b>	<b>0.0%</b>
Membership Dues		\$ -	\$ -	-	0.0%
Testing Fees		-	-	-	0.0%
Services & Software		-	-	-	0.0%
Workshops		-	-	-	0.0%
Special Assessment		-	-	-	0.0%
Non Cash Postretirement		-	-	-	0.0%
<b>Total Funding</b>		<b>\$ 353,799</b>	<b>\$ 353,799</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries		\$ 228,100	\$ 192,583	35,517	18.4%
Payroll Taxes		13,566	11,218	2,348	20.9%
Benefits		37,236	29,362	7,874	26.8%
Retirement Costs		31,177	28,968	2,209	7.6%
<b>Total Personnel Expenses</b>		<b>\$ 310,079</b>	<b>\$ 262,131</b>	<b>\$ 47,948</b>	<b>18.3%</b>
<b>Meeting Expenses</b>					
Meetings		\$ 2,285	\$ 1,221	1,064	87.1%
Travel		20,300	8,992	11,308	125.8%
Conference Calls		1,664	1,234	430	34.8%
<b>Total Meeting Expenses</b>		<b>\$ 24,249</b>	<b>\$ 11,447</b>	<b>\$ 12,802</b>	<b>111.8%</b>
<b>Operating Expenses</b>					
Consultants & Contracts		\$ 7,462	\$ 6,446	1,016	15.8%
Office Rent		24,246	19,153	5,093	26.6%
Office Costs		6,189	5,187	1,002	19.3%
Professional Services		2,061	1,423	638	44.8%
Miscellaneous		-	-	-	0.0%
Depreciation		1,892	2,168	(276)	-12.7%
<b>Total Operating Expenses</b>		<b>\$ 41,850</b>	<b>\$ 34,377</b>	<b>\$ 7,473</b>	<b>21.7%</b>
<b>Total Indirect Expenses</b>		<b>\$ 70,301</b>	<b>\$ 47,136</b>	<b>\$ 23,165</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>		-	-	\$ -	0.0%
<b>Total Expenses</b>		<b>\$ 446,479</b>	<b>\$ 355,091</b>	<b>\$ 91,388</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>		<b>\$ (92,680)</b>	<b>\$ (1,292)</b>	<b>\$ (91,388)</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>					
Depreciation		\$ (1,892)	\$ (2,168)	\$ 276	-12.7%
Software CapEx		-	-	-	0.0%
Furniture & Fixtures CapEx		-	-	-	0.0%
Equipment & Computers CapEx		1,361	875	486	55.5%
Leasehold Improvements		-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>		<b>\$ (531)</b>	<b>\$ (1,293)</b>	<b>\$ 762</b>	<b>-58.9%</b>
<b>Total Budget</b>		<b>\$ 445,948</b>	<b>\$ 353,798</b>	<b>\$ 92,150</b>	<b>26.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>		<b>\$ (92,149)</b>	<b>\$ 1</b>	<b>\$ (92,150)</b>	<b>-9215000.0%</b>
<b>Direct FTEs</b>		1.59	1.41	0.18	
<b>Indirect FTE's</b>		0.34	0.24	0.10	
<b>Total FTE's</b>		1.93	1.65	0.28	

## **Reliability Standards**

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

- Personnel expenses were 18.3% over budget due to additional staff time spent training an employee who was new to the department.
- Meeting expenses were 111.8% over budget (\$13K) due to unbudgeted staff travel for the employee who was new to the department and being trained.

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**COMPLIANCE**  
**December 31, 2016**

(In Whole Dollars)

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 5,128,474	\$ 5,128,474	\$ -	0.0%
Penalty Sanctions	58,393	58,393	\$ -	0.0%
<b>Total ERO Funding</b>	<b>\$ 5,186,867</b>	<b>\$ 5,186,867</b>	<b>\$ -</b>	<b>0.0%</b>
Membership Dues	\$ -	\$ -	-	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Special Assessment	-	-	-	0.0%
Non Cash Postretirement	-	-	-	0.0%
<b>Total Funding</b>	<b>\$ 5,186,867</b>	<b>\$ 5,186,867</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 2,248,369	\$ 2,415,379	(167,010)	-6.9%
Payroll Taxes	133,319	149,811	(16,492)	-11.0%
Benefits	426,649	395,111	31,538	8.0%
Retirement Costs	317,379	398,362	(80,983)	-20.3%
<b>Total Personnel Expenses</b>	<b>\$ 3,125,716</b>	<b>\$ 3,358,663</b>	<b>\$ (232,947)</b>	<b>-6.9%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 13,169	\$ 13,419	(250)	-1.9%
Travel	61,210	119,571	(58,361)	-48.8%
Conference Calls	13,119	10,055	3,064	30.5%
<b>Total Meeting Expenses</b>	<b>\$ 87,498</b>	<b>\$ 143,045</b>	<b>\$ (55,547)</b>	<b>-38.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 175,276	\$ 434,850	(259,574)	-59.7%
Office Rent	389,929	408,416	(18,487)	-4.5%
Office Costs	96,046	84,471	11,575	13.7%
Professional Services	20,085	19,035	1,050	5.5%
Miscellaneous	-	-	-	0.0%
Depreciation	151,230	160,699	(9,469)	-5.9%
<b>Total Operating Expenses</b>	<b>\$ 832,566</b>	<b>\$ 1,107,471</b>	<b>\$ (274,905)</b>	<b>-24.8%</b>
<b>Total Indirect Expenses</b>	<b>\$ 692,724</b>	<b>\$ 629,488</b>	<b>\$ 63,236</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	-	-	\$ -	0.0%
<b>Total Expenses</b>	<b>\$ 4,738,504</b>	<b>\$ 5,238,667</b>	<b>\$ (500,163)</b>	<b>-9.5%</b>
Change in Assets/Additions (Use) of Reserves	\$ 448,363	\$ (51,800)	\$ 500,163	-965.6%
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (151,230)	\$ (160,699)	\$ 9,469	-5.9%
Software CapEx	60,861	89,100	(28,239)	-31.7%
Furniture & Fixtures CapEx	2,937	-	2,937	0.0%
Equipment & Computers CapEx	21,080	19,797	1,283	6.5%
Leasehold Improvements	-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (66,352)</b>	<b>\$ (51,802)</b>	<b>\$ (14,550)</b>	<b>28.1%</b>
<b>Total Budget</b>	<b>\$ 4,672,152</b>	<b>\$ 5,186,865</b>	<b>\$ (514,713)</b>	<b>-9.9%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 514,715</b>	<b>\$ 2</b>	<b>\$ 514,713</b>	<b>25735650.0%</b>
<b>Direct FTEs</b>	15.76	18.83	(3.07)	-16.3%
<b>Indirect FTE's</b>	3.35	3.22	0.13	
<b>Total FTE's</b>	19.11	22.05	(2.94)	

## **Compliance**

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

- Personnel expenses were 6.9% under budget mainly due to various unfilled positions throughout the year (-3.07 FTE's).
- Meeting expenses were 38.8% under budget due to timing differences in travel and the effect of unfilled positions (-3.07 FTE's).
- Operating expenses were 24.8% under budget mainly due to lower than budgeted usage of Compliance contractors and Guidance software maintenance work that wasn't needed.
- Fixed asset expenses were 28.1% under budget mainly due to an adjustment made to the scope of work for enhancements to the Compliance software.

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**RELIABILITY ASSESSMENT**  
**December 31, 2016**

(In Whole Dollars)

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 1,273,786	\$ 1,273,786	\$ -	0.0%
Penalty Sanctions	14,606	14,606	\$ -	0.0%
<b>Total ERO Funding</b>	<b>\$ 1,288,392</b>	<b>\$ 1,288,392</b>	<b>\$ -</b>	<b>0.0%</b>
Membership Dues	\$ -	\$ -	-	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	24,000	24,000	-	0.0%
Workshops	-	-	-	0.0%
Special Assessment	-	-	-	0.0%
Non Cash Postretirement	-	-	-	0.0%
<b>Total Funding</b>	<b>\$ 1,312,392</b>	<b>\$ 1,312,392</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 462,256	\$ 643,309	(181,053)	-28.1%
Payroll Taxes	27,577	37,473	(9,896)	-26.4%
Benefits	94,747	91,080	3,667	4.0%
Retirement Costs	63,795	96,767	(32,972)	-34.1%
<b>Total Personnel Expenses</b>	<b>\$ 648,375</b>	<b>\$ 868,629</b>	<b>\$ (220,254)</b>	<b>-25.4%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 3,774	\$ 2,080	1,694	81.4%
Travel	36,728	45,532	(8,804)	-19.3%
Conference Calls	367	368	(1)	-0.3%
<b>Total Meeting Expenses</b>	<b>\$ 40,869</b>	<b>\$ 47,980</b>	<b>\$ (7,111)</b>	<b>-14.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 88,336	\$ 150,325	(61,989)	-41.2%
Office Rent	49,081	63,978	(14,897)	-23.3%
Office Costs	15,902	13,131	2,771	21.1%
Professional Services	4,316	4,765	(449)	-9.4%
Miscellaneous	-	-	-	0.0%
Depreciation	6,795	7,354	(559)	-7.6%
<b>Total Operating Expenses</b>	<b>\$ 164,430</b>	<b>\$ 239,553</b>	<b>\$ (75,123)</b>	<b>-31.4%</b>
<b>Total Indirect Expenses</b>	<b>\$ 142,300</b>	<b>\$ 157,458</b>	<b>\$ (15,158)</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	-	-	\$ -	0.0%
<b>Total Expenses</b>	<b>\$ 995,974</b>	<b>\$ 1,313,620</b>	<b>\$ (317,646)</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 316,418</b>	<b>\$ (1,228)</b>	<b>\$ 317,646</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (6,795)	\$ (7,354)	\$ 559	-7.6%
Software CapEx	-	-	-	0.0%
Furniture & Fixtures CapEx	-	-	-	0.0%
Equipment & Computers CapEx	4,372	6,128	(1,756)	-28.7%
Leasehold Improvements	-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (2,423)</b>	<b>\$ (1,226)</b>	<b>\$ (1,197)</b>	<b>97.6%</b>
<b>Total Budget</b>	<b>\$ 993,551</b>	<b>\$ 1,312,394</b>	<b>\$ (318,843)</b>	<b>-24.3%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 318,841</b>	<b>\$ (2)</b>	<b>\$ 318,843</b>	<b>-15942150.0%</b>
<b>Direct FTEs</b>	3.21	4.71	(1.50)	
<b>Indirect FTE's</b>	0.68	0.81	(0.13)	
<b>Total FTE's</b>	3.89	5.52	(1.63)	

## **Reliability Assessment**

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

- Personnel expenses were 25.4% under budget due to a shift of work to Member Services to align Eastern Interconnection Model development with NERC's expectations for MOD-032 implementation which resulted in 1.5 less FTE's.
- Operating expenses were 31.4% under budget mainly due to shifting contractor work to Member Services to align with NERC's expectations for MOD-032, which also resulted in lower office rent charges due to a smaller percentage of time spent in this department causing the department's share of expense to decrease.



**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**TRAINING AND EDUCATION**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 290,996	\$ 290,996	\$ -	0.0%
Penalty Sanctions	3,380	3,380	\$ -	0.0%
<b>Total ERO Funding</b>	<b>\$ 294,376</b>	<b>\$ 294,376</b>	<b>\$ -</b>	<b>0.0%</b>
Membership Dues	\$ -	\$ -	-	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	103,615	92,000	11,615	12.6%
Special Assessment	-	-	-	0.0%
Non Cash Postretirement	-	-	-	0.0%
<b>Total Funding</b>	<b>\$ 397,991</b>	<b>\$ 386,376</b>	<b>\$ 11,615</b>	<b>3.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 119,995	\$ 148,877	(28,882)	-19.4%
Payroll Taxes	7,199	8,672	(1,473)	-17.0%
Benefits	17,001	18,616	(1,615)	-8.7%
Retirement Costs	16,173	22,394	(6,221)	-27.8%
<b>Total Personnel Expenses</b>	<b>\$ 160,368</b>	<b>\$ 198,559</b>	<b>\$ (38,191)</b>	<b>-19.2%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 41,366	\$ 41,423	(57)	-0.1%
Travel	8,845	17,266	(8,421)	-48.8%
Conference Calls	1,779	1,364	415	30.4%
<b>Total Meeting Expenses</b>	<b>\$ 51,990</b>	<b>\$ 60,053</b>	<b>\$ (8,063)</b>	<b>-13.4%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 31,826	\$ 50,002	(18,176)	-36.4%
Office Rent	12,904	14,806	(1,902)	-12.8%
Office Costs	35,594	24,733	10,861	43.9%
Professional Services	972	1,105	(133)	-12.0%
Miscellaneous	-	-	-	0.0%
Depreciation	1,061	1,102	(41)	-3.7%
<b>Total Operating Expenses</b>	<b>\$ 82,357</b>	<b>\$ 91,748</b>	<b>\$ (9,391)</b>	<b>-10.2%</b>
<b>Total Indirect Expenses</b>	<b>\$ 37,562</b>	<b>\$ 36,441</b>	<b>\$ 1,121</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>\$ 332,277</b>	<b>\$ 386,801</b>	<b>\$ (54,524)</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 65,714</b>	<b>\$ (425)</b>	<b>\$ 66,139</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,061)	\$ (1,102)	\$ 41	-3.7%
Software CapEx	-	-	-	0.0%
Furniture & Fixtures CapEx	-	-	-	0.0%
Equipment & Computers CapEx	756	679	77	11.3%
Leasehold Improvements	-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (305)</b>	<b>\$ (423)</b>	<b>\$ 118</b>	<b>-27.9%</b>
<b>Total Budget</b>	<b>\$ 331,972</b>	<b>\$ 386,378</b>	<b>\$ (54,406)</b>	<b>-14.1%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 66,019</b>	<b>\$ (2)</b>	<b>\$ 66,021</b>	<b>-3301050.0%</b>
<b>Direct FTEs</b>	0.85	1.09	(0.24)	
<b>Indirect FTE's</b>	0.18	0.19	(0.01)	
<b>Total FTE's</b>	1.03	1.28	(0.25)	

## **Training and Education**

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

- Personnel expenses were 19.2% under budget due to less staff time than anticipated able to perform outreach due to the effect of unfilled positions in the CMEP program area (-3.07 FTE's).
- Operating expenses were 10.2% under budget mainly due to lower than budgeted SOS seminar consultants and contracts expense due to providing some of the training by internal staff instead of using the consultant for all of it, partially offset by higher office costs due to unbudgeted purchases of computer supplies for the SOS seminar that can be used for several years.

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**SITUATIONAL AWARENESS**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 21,845	\$ 21,845	\$ -	0.0%
Penalty Sanctions	248	248	\$ -	0.0%
<b>Total ERO Funding</b>	<b>\$ 22,093</b>	<b>\$ 22,093</b>	<b>\$ -</b>	<b>0.0%</b>
Membership Dues	\$ -	\$ -	-	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Special Assessment	-	-	-	0.0%
Non Cash Postretirement	-	-	-	0.0%
<b>Total Funding</b>	<b>\$ 22,093</b>	<b>\$ 22,093</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 4,095	\$ 10,927	(6,832)	-62.5%
Payroll Taxes	198	636	(438)	-68.9%
Benefits	693	2,305	(1,612)	-69.9%
Retirement Costs	467	1,644	(1,177)	-71.6%
<b>Total Personnel Expenses</b>	<b>\$ 5,453</b>	<b>\$ 15,512</b>	<b>\$ (10,059)</b>	<b>-64.8%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 167	\$ 33	134	406.1%
Travel	616	84	532	633.3%
Conference Calls	4	6	(2)	-33.3%
<b>Total Meeting Expenses</b>	<b>\$ 787</b>	<b>\$ 123</b>	<b>\$ 664</b>	<b>539.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 147	\$ 352	(205)	-58.2%
Office Rent	439	1,087	(648)	-59.6%
Office Costs	1,463	2,219	(756)	-34.1%
Professional Services	40	78	(38)	-48.7%
Miscellaneous	-	-	-	0.0%
Depreciation	27	57	(30)	-52.6%
<b>Total Operating Expenses</b>	<b>\$ 2,116</b>	<b>\$ 3,793</b>	<b>\$ (1,677)</b>	<b>-44.2%</b>
<b>Total Indirect Expenses</b>	<b>\$ 1,229</b>	<b>\$ 2,673</b>	<b>\$ (1,444)</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	-	-	\$ -	0.0%
<b>Total Expenses</b>	<b>\$ 9,585</b>	<b>\$ 22,101</b>	<b>\$ (12,516)</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 12,508</b>	<b>\$ (8)</b>	<b>\$ 12,516</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (27)	\$ (57)	\$ 30	-52.6%
Software CapEx	-	-	-	0.0%
Furniture & Fixtures CapEx	-	-	-	0.0%
Equipment & Computers CapEx	13	48	(35)	-72.9%
Leasehold Improvements	-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (14)</b>	<b>\$ (9)</b>	<b>\$ (5)</b>	<b>55.6%</b>
<b>Total Budget</b>	<b>\$ 9,571</b>	<b>\$ 22,092</b>	<b>\$ (12,521)</b>	<b>-56.7%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 12,522</b>	<b>\$ 1</b>	<b>\$ 12,521</b>	<b>1252100.0%</b>
<b>Direct FTEs</b>	0.03	0.08	(0.05)	
<b>Indirect FTE's</b>	0.01	0.01	-	
<b>Total FTE's</b>	0.04	0.09	(0.05)	

## **Situational Awareness**

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

- Personnel expenses were 64.8% under budget due to less staff time than anticipated needed for event analysis.

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**GENERAL ADMINISTRATIVE**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ (436,070)	\$ (436,070)	\$ -	0.0%
Penalty Sanctions	-	-	\$ -	0.0%
Total ERO Funding	\$ (436,070)	\$ (436,070)	\$ -	0.0%
Membership Dues	\$ -	\$ -	-	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Special Assessment	-	-	-	0.0%
Non Cash Postretirement	-	-	-	0.0%
<b>Total Funding</b>	<b>\$ (436,070)</b>	<b>\$ (436,070)</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 653,216	\$ 610,529	42,687	7.0%
Payroll Taxes	38,815	35,563	3,252	9.1%
Benefits	88,471	72,270	16,201	22.4%
Retirement Costs	91,405	91,836	(431)	-0.5%
Total Personnel Expenses	<b>\$ 871,907</b>	<b>\$ 810,198</b>	<b>\$ 61,709</b>	<b>7.6%</b>
<b>Meeting Expenses</b>				
Meetings	\$ -	\$ -	-	0.0%
Travel	-	-	-	0.0%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ -	\$ -	-	0.0%
Office Rent	69,368	60,718	8,650	14.2%
Office Costs	2,840	2,280	560	24.6%
Professional Services	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Depreciation	-	-	-	0.0%
Total Operating Expenses	<b>\$ 72,208</b>	<b>\$ 62,998</b>	<b>\$ 9,210</b>	<b>14.6%</b>
<b>Total Indirect Expenses</b>	<b>\$ (944,115)</b>	<b>\$ (873,196)</b>	<b>\$ (70,919)</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ (436,070)</b>	<b>\$ (436,070)</b>	<b>\$ -</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ -	\$ -	\$ -	0.0%
Software CapEx	-	-	-	0.0%
Furniture & Fixtures CapEx	-	-	-	0.0%
Equipment & Computers CapEx	-	-	-	0.0%
Leasehold Improvements	-	-	-	0.0%
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (436,070)</b>	<b>\$ (436,070)</b>	<b>\$ -</b>	<b>0.0%</b>
<b>FTEs</b>	4.55	4.47	0.08	

## **General Administrative**

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

- Benefits were 22.4% over budget due to unbudgeted staff leadership training.

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities and Capital Expenditures Based on Audited Financials**  
**TOTAL MEMBER SERVICES - NON STATUTORY**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	\$ -	
Total ERO Funding	\$ -	\$ -	\$ -	0.0%
Membership Dues	\$ 8,595,503	\$ 8,595,503	-	
Testing Fees	-	-	-	
Services & Software	280,040	277,790	2,250	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	49,676	-	49,676	
<b>Total Funding</b>	<b>\$ 8,925,219</b>	<b>\$ 8,873,293</b>	<b>\$ 51,926</b>	<b>0.6%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 2,716,323	\$ 2,426,216	290,107	
Payroll Taxes	159,495	143,604	15,891	
Benefits	466,773	358,720	108,053	
Retirement Costs	370,446	370,837	(391)	
<b>Total Personnel Expenses</b>	<b>\$ 3,713,037</b>	<b>\$ 3,299,377</b>	<b>\$ 413,660</b>	<b>12.5%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 32,157	\$ 34,082	(1,925)	
Travel	97,453	68,597	28,856	
Conference Calls	43,618	32,957	10,661	
<b>Total Meeting Expenses</b>	<b>\$ 173,228</b>	<b>\$ 135,636</b>	<b>\$ 37,592</b>	<b>27.7%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 4,161,016	\$ 4,193,583	(32,567)	
Office Rent	289,237	245,183	44,054	
1..72055,712 Office Costs	452,111	423,151	28,960	
Professional Services	58,346	47,894	10,452	
Miscellaneous	-	-	-	
Depreciation	51,454	85,874	(34,420)	
<b>Total Operating Expenses</b>	<b>\$ 5,012,164</b>	<b>\$ 4,995,685</b>	<b>\$ 16,479</b>	<b>0.3%</b>
<b>Total Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ (42,579)</b>	<b>-</b>	<b>\$ (42,579)</b>	
<b>Total Expenses</b>	<b>\$ 8,855,850</b>	<b>\$ 8,430,698</b>	<b>\$ 425,152</b>	<b>5.0%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 69,369</b>	<b>\$ 442,595</b>	<b>\$ (373,226)</b>	<b>-84.3%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (51,454)	\$ (85,874)	\$ 34,420	
Net Non Pension Post Retir. Oblig	92,255	-	92,255	
Software CapEx	-	170,000	(170,000)	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	53,467	177,173	(123,706)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 94,268</b>	<b>\$ 261,299</b>	<b>\$ (167,031)</b>	<b>-63.9%</b>
<b>Total Budget</b>	<b>\$ 8,950,118</b>	<b>\$ 8,691,997</b>	<b>\$ 258,121</b>	<b>3.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (24,899)</b>	<b>\$ 181,296</b>	<b>\$ (206,195)</b>	<b>-113.7%</b>
<b>FTEs</b>	19.08	18.06	1.02	
Beginning Working Capital 1/1/2016	825,705	552,037	273,668	
Change in Working Capital	(24,899)	181,296	(206,195)	
Working Capital at 12/31/2016	800,806	733,333	67,473	

**Florida Reliability  
Coordinating Council, Inc.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES**

**December 31, 2016**



**CRI** CARR  
RIGGS &  
INGRAM

CPAs and Advisors

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**Florida Reliability Coordinating Council, Inc.**  
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**December 31, 2016**

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**REPORT**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc., (a nonprofit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of Florida Reliability Coordinating Council, Inc. as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statutory and non-statutory schedules on Pages 19 to 27 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

CARR, RIGGS & INGRAM, LLC

Clearwater, Florida  
January 31, 2017



# FINANCIAL STATEMENTS

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Financial Position**  
**December 31, 2016**

<b>Assets</b>		
Current assets		
Cash	\$	5,489,634
Compliance penalty cash		234,000
Member receivables		3,531,812
Related party receivable		4,336
Prepaid expenses		190,349
Total current assets		9,450,131
Property and equipment - at cost		
Equipment and computers		698,480
Software		1,274,409
Furniture and fixtures		327,019
Leashold improvements		156,061
Total		2,455,969
Less accumulated depreciation and amortization		(2,106,208)
Total property and equipment, net		349,761
Other assets		
Deposits		50,000
457(b) and 457(f) plans		242,718
Total other assets		292,718
Total assets		\$ 10,092,610
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable		264,432
Current portion of accrued postretirement benefit obligation		31,368
457(b) and 457(f) plans		242,718
Deferred revenue		4,120,129
Compliance penalty assessment		278,145
Accrued expenses		2,189,419
Total current liabilities		7,126,211
Long-term liabilities		
Accrued postretirement benefit obligation		300,239
Net assets		
Unrestricted statutory - FERC designated		2,282,535
Unrestricted member services - board designated		383,625
Total net assets		2,666,160
Total liabilities and net assets		\$ 10,092,610

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

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities**  
**December 31, 2016**

<b>Revenue</b>	
Nonstatutory member services	\$ 8,595,503
Statutory member assessments	6,628,457
Services and software	304,040
Training and education fees	103,615
Postretirement benefit gain	49,676
Penalty and sanctions realized	81,000
Gain on deferred compensation plans	21,854
<hr/>	
Total revenue	15,784,145
<b>Expenses</b>	
Salaries	6,432,355
Payroll taxes	380,168
Employee benefits	1,131,568
Retirement and deferred compensation plans	890,841
Meetings	92,919
Travel	225,152
Conference calls	60,552
Contracts and consultants	4,464,064
Facilities rental	835,205
Office costs	584,102
Professional services	111,859
Depreciation and amortization	212,460
Deferred compensation plans	21,854
<hr/>	
Total expenses	15,443,099
<hr/>	
<b>Increase in net assets before change in accumulated postretirement obligation</b>	<b>341,046</b>
<hr/>	
<b>Net periodic change in postretirement obligation</b>	<b>42,579</b>
<hr/>	
<b>Increase in net assets</b>	<b>383,625</b>
<b>Net assets, beginning of year</b>	<b>2,282,535</b>
<hr/>	
<b>Net assets, end of year</b>	<b>\$ 2,666,160</b>
<hr/>	

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

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Cash Flows**  
**December 31, 2016**

<b>Cash flows from operating activities:</b>	
Cash received from members	\$ 15,532,089
Cash paid to suppliers and employees	(14,826,006)
<hr/>	
Net cash provided by operating activities	706,083
<b>Cash flows from investing activities</b>	
Purchases of software and equipment	(145,368)
<hr/>	
Net cash used by investing activities	(145,368)
<hr/>	
<b>Net increase in cash</b>	<b>560,715</b>
<hr/>	
<b>Cash at beginning of year</b>	<b>\$ 5,162,919</b>
<hr/>	
<b>Cash at end of year</b>	<b>\$ 5,723,634</b>
<hr/>	
<b>Reconciliation of increase in net assets to net cash provided by operating activities</b>	
Increase in net assets	\$ 383,625
Depreciation and amortization	212,979
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Increase in receivables, prepaid expenses, and other assets	(256,065)
Increase in accounts payable and accrued expenses	147,410
Decrease in postretirement benefit obligation	(92,255)
Increase in deferred income	310,389
<hr/>	
<b>Net cash provided by operating activities</b>	<b>\$ 706,083</b>
<hr/>	

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



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

***General***

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

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

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

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

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

***Concentration of Credit Risk***

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

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

***Use of Estimates***

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

***Income Taxes***

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

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

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

***Member and Related Party Receivables***

Management evaluates all receivables annually for collectability. As of December 31, 2016 management considers all receivables to be fully collectible, therefore; no allowance for doubtful accounts is considered necessary and no late fees are assessed. If amounts are deemed to be uncollectible, they will be charged to an allowance for doubtful accounts when that determination is made.

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

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

***Property and Equipment***

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

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

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

***Line of Credit***

The Company renewed a line of credit from Bank of America, N.A. for two (2) years in the amount of \$1,500,000. The line of credit is intended to be used for short term needs that arise between budget funding periods as a bridge between budget years. As of December 31, 2016, the company has not drawn on the line of credit and is in full compliance with all covenants.

***Postretirement Benefits Other Than Pensions***

The Company agreed to provide postretirement health care benefits for employees hired before October 1, 2003 (plus the spouse of one retired employee) if the retiree meets certain conditions at the time of retirement as specified in their individual agreement. The current status of these postretirement health care benefits is as follows: effective November 1, 2014, one retiree opted to receive an annual deposit to a Health Retirement Account (HRA) in the amount of \$4,200 per year, in lieu of coverage offered under her agreement. Effective January 1, 2015, the sole retiree spouse began receiving an annual amount funded to a HRA, in the amount of \$7,008 per year, in lieu of the coverage offered in her agreement. Finally, in 2014, three (3) current employees entered into new agreements under which FRCC will provide them with health care coverage if they retire at age 60 or later from active employment from FRCC until age 65 at which time they stop being provided with health care coverage and will then begin to receive an annual amount of \$4,200 funded to an HRA. These plans cease upon the death of the retiree/retiree spouse/employee and all fund balances in each of the HRA accounts revert back to the Company. The individual plans are noncontributory for retirees (see Note 6).

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

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

Management has evaluated events and transactions for potential recognition or disclosure through January 31, 2017, which is the date the financial statements were available to be issued.

**NOTE 2: FAIR VALUE MEASUREMENTS**

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

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

*Level 2* Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies used for the Company's securities invested in the deferred compensation plans measured at fair value as of December 31, 2016:

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

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

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

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

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

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

<b>December 31,</b>	<b>2016</b>			
	<b>Fair Value</b>	Level 1	Level 2	Level 3
Cash and equivalents	\$ 2,818	\$ 2,818	\$ -	\$ -
Mutual funds - fixed income	23,971	23,971	-	-
Mutual funds - equities	215,929	215,929	-	-
<b>Total</b>	<b>\$ 242,718</b>	<b>\$ 242,718</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTE 3: DEFERRED REVENUE**

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2017 budget, thus at December 31, 2016 it would be known whether all members are continuing with their membership.

**NOTE 4: 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 was 36 months at \$3,750 per month and has been renewed for an additional 12-month period each year thereafter. In 2014, the Company renewed this contract for 36 months at an annual cost of \$61,000. The Company also has the option to purchase the system for \$100,000; however, at this time, the Company has no intention of doing so.

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. In 2008, the Company entered into an agreement with several of the other regional entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. In June of 2011, the consortium broke up with certain member regions deciding to change software and vendors and go in a different direction for their Compliance Tracking System. The Company decided to remain with Guidance and has agreed to share costs of software enhancements with two other regions that remain with Guidance. The cost of enhancements added or in progress for 2016 was \$60,861. The Company is obligated for enhancements in progress as of December 31, 2016 from this regional agreement of approximately \$127,000 for enhancements to be completed in 2017.

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

In July 2013, the Company entered into an agreement with TW Telecom Holdings, Inc. (TW Telecom) to provide required redundant telecommunications for the FRCCnet wide area network that provides data to FRCC reliability Coordinator. The initial term of the agreement is 36 months and calls for the Company to make a minimum service commitment of \$68,400 for each contract year of the term. TW Telecom Holdings, Inc. is now known as Level 3 Communications, Inc. In July 2016, the Company renewed this contract for an additional 12 months at the same rate.

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

**NOTE 5: OPERATING LEASES**

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

Year Ended December 31,	
2017	\$ 808,832
2018	831,070
2019	854,008
2020	644,842
	<hr/> <hr/> \$ 3,138,752

Rent expense charged to operations during the year ended December 31, 2016 was \$835,205, including the effects of lease payment escalations over the term of the leases.

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

Year Ended December 31,	
2017	\$ 750,602
2018	750,602
2019	750,602
2020	562,952
	<hr/> <hr/> \$ 2,814,758

**NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS**

The Company adheres to ASC 715, *Defined Benefit Plans - Other Post Retirement*, which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan. The current year effect is a \$42,579 increase to unrestricted net assets.

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

**NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The census for this benefit is as follows: effective November 1, 2014, one retiree opted to receive an annual deposit to a Health Retirement Account (HRA) in the amount of \$4,200 per year, in lieu of coverage offered under her agreement. Effective January 1, 2015, the sole retiree spouse began receiving an annual amount funded to a Health Retirement Account, in the amount of \$7,008 per year, in lieu of the coverage offered in her agreement. Finally, in 2014, three (3) current employees entered into new agreements under which FRCC will provide them with health care coverage if they retire at age 60 or later from active employment from FRCC until age 65 at which time they stop being provided with health care coverage and will then begin to receive an annual amount of \$4,200 funded to an HRA. These plans cease upon the death of the retiree/retiree spouse/employee and all fund balances in each of the HRA accounts revert back to the company.

The 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, 2016:

Accumulated postretirement benefit obligation:	
Plan assets at fair value	\$ 0
Funded status	\$ 0
Accrued postretirement benefit obligation:	
Current portion	\$ 31,368
Long-term portion	300,239
	\$ 331,607

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, 2016.

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

Year Ended December 31,	
2017	\$ 31,368
2018	23,735
2019	24,266
2020	24,735
2021	25,126
Next 5 years	96,818
	\$ 226,048



**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

**NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2016.

Service cost	\$	(6,095)
Interest cost		(16,591)
Amortization of unrecognized prior service cost		30,433
Recognition of net actuarial loss		23,754
<hr/>		
Net periodic postretirement benefit cost		31,501
Benefits paid during 2016		18,175
<hr/>		
Net postretirement benefit loss	\$	49,676
<hr/>		
Items not yet recognized as a component of net periodic postretirement benefit costs		
Unrecognized net gain	\$	360,519
Net unrecognized prior service cost		283,914
<hr/>		
Transitional effect of ASC 715	\$	644,433
<hr/>		
Postretirement effect of ASC 715 as of December 31, 2015	\$	601,854
Net periodic change in postretirement obligation		42,579
Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2016	\$	644,433
<hr/>		

**NOTE 6: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)**

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial loss of approximately (\$30,000) and (\$24,000), respectively. For measurement purposes, an 8% annual rate increase in the per capita cost of covered health care benefits was assumed for 2018; the rate was assumed to be 8% for 2018; 7% for 2019; 6% for 2020 and decrease to 5% thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at December 31, 2016 would be increased \$15,774 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2016 would be increased by \$930.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 4.0%. Mortality was based on the RP-2000 Combined Mortality Tables for Healthy Males and Females. The measurement date of the accumulated postretirement benefit obligation was December 31, 2016.

***Glossary***

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

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

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

**NOTE 7: 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 \$304,049 and a discretionary contribution to the Plan of \$570,265 (net of forfeitures) for the year ending December 31, 2016.

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

**NOTE 7: RETIREMENT PLAN (Continued)**

*Deferred Compensation* – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2016, the Company contributed \$8,492 to benefit the participant in this Plan.

In 2013, the Company adopted a Nonqualified 457(b) Retirement Plan (“Retirement Plan”), to be effective January 1, 2014, intended to benefit key managerial employees of the Company. The Company funded the account in 2016 \$35,112 for the 2015 liability and expensed \$39,111 in 2016 that will be funded in 2017.

The fair value and cost of the Company’s securities invested in the deferred compensation plans, as of December 31, 2016 are as follows:

	Cost Value	Market Value
Cash and equivalents	\$ 2,818	\$ 2,818
Mutual funds - fixed income	25,632	23,971
Mutual funds - equities	180,667	215,929
<b>Total</b>	<b>\$ 209,117</b>	<b>\$ 242,718</b>

**NOTE 8: RELATED PARTIES**

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

The Company has decided to continue providing FCG with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 0.60% of the Company’s administrative expenses in 2016. The service agreement with FCG is a one-year agreement that will automatically renew unless canceled in advance by either party. At December 31, 2016, the Company had billed and collected a total of \$66,682 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$4,336.

The Company is purchasing the services from Florida Power and Light (“FPL”), a member of the Company, to fulfill the responsibilities of reliability coordinator, operations planning coordinator, state capacity emergency coordinator as well as various other services. The Company paid FPL \$3,821,667 for these services in 2016 and at December 31, 2016 had \$391,619 of accrued expenses.

**Florida Reliability Coordinating Council, Inc.**  
**Notes to Financial Statements**

**NOTE 9: CONCENTRATIONS**

Two members make up approximately 55.5% of the member services assessments and dues. The same two members comprise 66.8% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory function.

**NOTE 10: CONTINGENCIES**

As part of the Company's Delegation Agreement with NERC, the Company has the authority to fine entities within its region for violation of reliability standards. During 2016, six (6) notices of penalty were filed and approved by FERC. The penalties totaling \$168,000 were paid by the entities in 2016. The Delegation Agreement from NERC stipulates that any penalty monies collected by June 30 of each year, which is between budget submissions, are to be held until they can be accounted for in a budget submission. At year-end December 31, 2016, a total of \$234,000 penalty assessment is being held for future use of which \$95,000 was accounted for in the 2017 budget submission and will be taken into operating income at the beginning of 2017 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2017 will be held and accounted for in the 2018 budget submission.

**NOTE 11: FUNCTIONAL EXPENSES**

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

<b>Statutory expenses</b>	
Reliability standards development	\$ 446,479
Compliance & enforcement	4,738,504
Reliability assessment & performance analysis	995,974
Training & education	332,277
Situational awareness & infrastructure	9,584
Total statutory expenses	6,522,818
 <b>Member services expenses</b>	
Operating committee	7,328,870
Planning committee	1,569,557
General & administrative	(42,579)
Total member services expenses	8,855,848
<b>Total expenses</b>	\$ 15,378,666

**NOTE 12: 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	\$ 1,930,299
Member services	735,861
<u>Total unrestricted board designated net assets</u>	<u>\$ 2,666,160</u>



**SUPPLEMENTAL INFORMATION**

# Florida Reliability Coordinating Council, Inc. Total Summary

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**TOTAL COMPANY**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 6,628,457	\$ 6,628,457	\$ -	
Penalty Sanctions	81,000	81,000	-	
<b>Total ERO Funding</b>	<b>6,709,457</b>	<b>6,709,457</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	8,595,503	8,595,503	-	
Testing Fees	-	-	-	
Services & Software	304,040	301,790	2,250	
Workshops	103,615	92,000	11,615	
Special Assessment	-	-	-	
Non Cash Postretirement	49,676	-	49,676	
<b>Total Funding</b>	<b>15,762,291</b>	<b>15,698,750</b>	<b>63,541</b>	<b>0.4%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	6,432,355	6,447,820	(15,465)	
Payroll Taxes	380,169	386,977	(6,808)	
Benefits	1,131,570	967,464	164,106	
Retirement Costs	890,842	1,010,808	(119,966)	
<b>Total Personnel Expenses</b>	<b>8,834,936</b>	<b>8,813,069</b>	<b>21,867</b>	<b>0.2%</b>
<b>Meeting Expenses</b>				
Meetings	92,918	92,258	660	
Travel	225,152	260,042	(34,890)	
Conference Calls	60,552	45,984	14,568	
<b>Total Meeting Expenses</b>	<b>378,622</b>	<b>398,284</b>	<b>(19,662)</b>	<b>-4.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	4,464,063	4,835,558	(371,495)	
Office Rent	835,205	813,341	21,864	
Office Costs	610,141	555,172	54,969	
Professional Services	85,819	74,300	11,519	
Miscellaneous	-	-	-	
Depreciation	212,459	257,254	(44,795)	
<b>Total Operating Expenses</b>	<b>6,207,687</b>	<b>6,535,625</b>	<b>(327,938)</b>	<b>-5.0%</b>
<b>Total Indirect Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>(42,579)</b>	<b>-</b>	<b>(42,579)</b>	
<b>Total Expenses</b>	<b>15,378,666</b>	<b>15,746,978</b>	<b>(368,312)</b>	<b>-2.3%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 383,625</b>	<b>\$ (48,228)</b>	<b>\$ 431,853</b>	<b>-895.4%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (212,459)	\$ (257,254)	\$ 44,795	
Net Non Pension Post Retir. Oblig	92,255	-	92,255	
Software CapEx	60,861	259,100	(198,239)	
Furniture & Fixtures CapEx	2,937	-	2,937	
Equipment & Computers CapEx	81,048	204,700	(123,652)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 24,642</b>	<b>\$ 206,546</b>	<b>\$ (181,904)</b>	<b>-88.1%</b>
<b>Total Budget</b>	<b>\$ 15,403,308</b>	<b>\$ 15,953,524</b>	<b>\$ (550,216)</b>	<b>-3.4%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 358,983</b>	<b>\$ (254,774)</b>	<b>\$ 613,757</b>	<b>-240.9%</b>
<b>FTEs</b>	<b>45.06</b>	<b>48.65</b>	<b>(3.59)</b>	
Beginning Working Capital 1/1/2016	\$ 2,300,352	\$ 1,593,234	\$ 707,118	1/1/2016
Change in Working Capital	358,983	(254,774)	613,757	
Working Capital at 12/31/2016	2,659,335	1,338,460	1,320,875	12/31/2016

*See Independent Auditors' Report*

# Florida Reliability Coordinating Council, Inc. Statutory Summary

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**TOTAL Statutory Only**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 6,628,457	\$ 6,628,457	\$ -	
Penalty Sanctions	81,000	81,000	-	
<b>Total ERO Funding</b>	<b>6,709,457</b>	<b>6,709,457</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	24,000	24,000	-	
Workshops	103,615	92,000	11,615	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>6,837,072</b>	<b>6,825,457</b>	<b>11,615</b>	<b>0.2%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	3,716,031	4,021,604	(305,573)	
Payroll Taxes	220,674	243,373	(22,699)	
Benefits	664,797	608,744	56,053	
Retirement Costs	520,396	639,971	(119,575)	
<b>Total Personnel Expenses</b>	<b>5,121,898</b>	<b>5,513,692</b>	<b>(391,794)</b>	<b>-7.1%</b>
<b>Meeting Expenses</b>				
Meetings	60,761	58,176	2,585	
Travel	127,699	191,445	(63,746)	
Conference Calls	16,933	13,027	3,906	
<b>Total Meeting Expenses</b>	<b>205,393</b>	<b>262,648</b>	<b>(57,255)</b>	<b>-21.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	303,047	641,975	(338,928)	
Office Rent	545,967	568,158	(22,191)	
Office Costs	158,034	132,021	26,013	
Professional Services	27,474	26,406	1,068	
Miscellaneous	-	-	-	
Depreciation	161,005	171,380	(10,375)	
<b>Total Operating Expenses</b>	<b>1,195,527</b>	<b>1,539,940</b>	<b>(344,413)</b>	<b>-22.4%</b>
<b>Total Indirect Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>6,522,818</b>	<b>7,316,280</b>	<b>(793,462)</b>	<b>-10.8%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 314,254</b>	<b>\$ (490,823)</b>	<b>\$ 805,077</b>	<b>-164.0%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (161,005)	\$ (171,380)	\$ 10,375	
Software CapEx	60,861	89,100	(28,239)	
Furniture & Fixtures CapEx	2,937	-	2,937	
Equipment & Computers CapEx	27,582	27,527	55	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (69,625)</b>	<b>\$ (54,753)</b>	<b>\$ (14,872)</b>	<b>27.2%</b>
<b>Total Budget</b>	<b>\$ 6,453,193</b>	<b>\$ 7,261,527</b>	<b>\$ (808,334)</b>	<b>-11.1%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 383,879</b>	<b>\$ (436,070)</b>	<b>\$ 819,949</b>	<b>-188.0%</b>
<b>FTEs</b>	25.98	30.59	(4.61)	
Beginning Working Capital 1/1/2016	\$ 1,474,647	\$ 1,041,197	\$ 433,450	1/1/2016
Change in Working Capital	383,879	(436,070)	819,949	
Working Capital at 12/31/2016	1,858,526	605,127	1,253,399	12/31/2016

*See Independent Auditors' Report*



# Florida Reliability Coordinating Council, Inc. Statutory By Program

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**RELIABILITY STANDARDS**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 349,426	\$ 349,426	\$ -	
Penalty Sanctions	4,373	4,373	-	
<b>Total ERO Funding</b>	<b>353,799</b>	<b>353,799</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>353,799</b>	<b>353,799</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	228,100	192,583	35,517	
Payroll Taxes	13,566	11,218	2,348	
Benefits	37,236	29,362	7,874	
Retirement Costs	31,177	28,968	2,209	
<b>Total Personnel Expenses</b>	<b>310,079</b>	<b>262,131</b>	<b>47,948</b>	<b>18.3%</b>
<b>Meeting Expenses</b>				
Meetings	2,285	1,221	1,064	
Travel	20,300	8,992	11,308	
Conference Calls	1,664	1,234	430	
<b>Total Meeting Expenses</b>	<b>24,249</b>	<b>11,447</b>	<b>12,802</b>	<b>111.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	7,462	6,446	1,016	
Office Rent	24,246	19,153	5,093	
Office Costs	6,189	5,187	1,002	
Professional Services	2,061	1,423	638	
Miscellaneous	-	-	-	
Depreciation	1,892	2,168	(276)	
<b>Total Operating Expenses</b>	<b>41,850</b>	<b>34,377</b>	<b>7,473</b>	<b>21.7%</b>
<b>Total Indirect Expenses</b>	<b>70,301</b>	<b>47,136</b>	<b>23,165</b>	<b>49.1%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>446,479</b>	<b>355,091</b>	<b>91,388</b>	<b>25.7%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ (92,680)</b>	<b>\$ (1,292)</b>	<b>\$ (91,388)</b>	<b>7073.4%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,892)	\$ (2,168)	\$ 276	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	1,361	875	486	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (531)</b>	<b>\$ (1,293)</b>	<b>\$ 762</b>	<b>-58.9%</b>
<b>Total Budget</b>	<b>\$ 445,948</b>	<b>\$ 353,798</b>	<b>\$ 92,150</b>	<b>26.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (92,149)</b>	<b>\$ 1</b>	<b>\$ (92,150)</b>	<b>-9215000%</b>
<b>Direct FTEs</b>	<b>1.59</b>	<b>1.41</b>	<b>0.18</b>	
<b>Indirect FTE's</b>	<b>0.34</b>	<b>0.24</b>	<b>0.10</b>	
<b>Total FTE's</b>	<b>1.93</b>	<b>1.65</b>	<b>0.28</b>	

*See Independent Auditors' Report*

## Florida Reliability Coordinating Council, Inc. Statutory By Program (Continued)

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**COMPLIANCE**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 5,128,474	\$ 5,128,474	\$ -	
Penalty Sanctions	58,393	58,393	-	
<b>Total ERO Funding</b>	<b>5,186,867</b>	<b>5,186,867</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>5,186,867</b>	<b>5,186,867</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,248,369	2,415,379	(167,010)	
Payroll Taxes	133,319	149,811	(16,492)	
Benefits	426,649	395,111	31,538	
Retirement Costs	317,379	398,362	(80,983)	
<b>Total Personnel Expenses</b>	<b>3,125,716</b>	<b>3,358,663</b>	<b>(232,947)</b>	<b>-6.9%</b>
<b>Meeting Expenses</b>				
Meetings	13,169	13,419	(250)	
Travel	61,210	119,571	(58,361)	
Conference Calls	13,119	10,055	3,064	
<b>Total Meeting Expenses</b>	<b>87,498</b>	<b>143,045</b>	<b>(55,547)</b>	<b>-38.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	175,276	434,850	(259,574)	
Office Rent	389,929	408,416	(18,487)	
Office Costs	96,046	84,471	11,575	
Professional Services	20,085	19,035	1,050	
Miscellaneous	-	-	-	
Depreciation	151,230	160,699	(9,469)	
<b>Total Operating Expenses</b>	<b>832,566</b>	<b>1,107,471</b>	<b>(274,905)</b>	<b>-24.8%</b>
<b>Total Indirect Expenses</b>	<b>692,724</b>	<b>629,488</b>	<b>63,236</b>	<b>10.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>4,738,504</b>	<b>5,238,667</b>	<b>(500,163)</b>	<b>-9.5%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 448,363</b>	<b>\$ (51,800)</b>	<b>\$ 500,163</b>	<b>-965.6%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (151,230)	\$ (160,699)	\$ 9,469	
Software CapEx	60,861	89,100	(28,239)	
Furniture & Fixtures CapEx	2,937	-	2,937	
Equipment & Computers CapEx	21,080	19,797	1,283	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (66,352)</b>	<b>\$ (51,802)</b>	<b>\$ (14,550)</b>	<b>28.1%</b>
<b>Total Budget</b>	<b>\$ 4,672,152</b>	<b>\$ 5,186,865</b>	<b>\$ (514,713)</b>	<b>-9.9%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 514,715</b>	<b>\$ 2</b>	<b>\$ 514,713</b>	<b>25735650.0%</b>
<b>Direct FTEs</b>	<b>15.76</b>	<b>18.83</b>	<b>(3.07)</b>	
<b>Indirect FTE's</b>	<b>3.35</b>	<b>3.22</b>	<b>0.13</b>	
<b>Total FTE's</b>	<b>19.11</b>	<b>22.05</b>	<b>(2.94)</b>	

*See Independent Auditors' Report*

## Florida Reliability Coordinating Council, Inc. Statutory By Program (Continued)

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**RELIABILITY ASSESSMENT**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 1,273,786	\$ 1,273,786	\$ -	
Penalty Sanctions	14,606	14,606	-	
<b>Total ERO Funding</b>	<b>1,288,392</b>	<b>1,288,392</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	24,000	24,000	-	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>1,312,392</b>	<b>1,312,392</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	462,256	643,309	(181,053)	
Payroll Taxes	27,577	37,473	(9,896)	
Benefits	94,747	91,080	3,667	
Retirement Costs	63,795	96,767	(32,972)	
<b>Total Personnel Expenses</b>	<b>648,375</b>	<b>868,629</b>	<b>(220,254)</b>	<b>-25.4%</b>
<b>Meeting Expenses</b>				
Meetings	3,774	2,080	1,694	
Travel	36,728	45,532	(8,804)	
Conference Calls	367	368	(1)	
<b>Total Meeting Expenses</b>	<b>40,869</b>	<b>47,980</b>	<b>(7,111)</b>	<b>-14.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	88,336	150,325	(61,989)	
Office Rent	49,081	63,978	(14,897)	
Office Costs	15,902	13,131	2,771	
Professional Services	4,316	4,765	(449)	
Miscellaneous	-	-	-	
Depreciation	6,795	7,354	(559)	
<b>Total Operating Expenses</b>	<b>164,430</b>	<b>239,553</b>	<b>(75,123)</b>	<b>-31.4%</b>
<b>Total Indirect Expenses</b>	<b>142,300</b>	<b>157,458</b>	<b>(15,158)</b>	<b>-9.6%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>995,974</b>	<b>1,313,620</b>	<b>(317,646)</b>	<b>-24.2%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 316,418</b>	<b>\$ (1,228)</b>	<b>\$ 317,646</b>	<b>-25866.9%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (6,795)	\$ (7,354)	\$ 559	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	4,372	6,128	(1,756)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (2,423)</b>	<b>\$ (1,226)</b>	<b>\$ (1,197)</b>	<b>97.6%</b>
<b>Total Budget</b>	<b>\$ 993,551</b>	<b>\$ 1,312,394</b>	<b>\$ (318,843)</b>	<b>-24.3%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 318,841</b>	<b>\$ (2)</b>	<b>\$ 318,843</b>	<b>-15942150.0%</b>
<b>Direct FTEs</b>	3.21	4.71	(1.50)	
<b>Indirect FTE's</b>	0.68	0.81	(0.13)	
<b>Total FTE's</b>	3.89	5.52	(1.63)	

*See Independent Auditors' Report*

## Florida Reliability Coordinating Council, Inc. Statutory By Program (Continued)

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**TRAINING AND EDUCATION**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 290,996	\$ 290,996	\$ -	
Penalty Sanctions	3,380	3,380	-	
<b>Total ERO Funding</b>	<b>294,376</b>	<b>294,376</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	103,615	92,000	11,615	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>397,991</b>	<b>386,376</b>	<b>11,615</b>	<b>3.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	119,995	148,877	(28,882)	
Payroll Taxes	7,199	8,672	(1,473)	
Benefits	17,001	18,616	(1,615)	
Retirement Costs	16,173	22,394	(6,221)	
<b>Total Personnel Expenses</b>	<b>160,368</b>	<b>198,559</b>	<b>(38,191)</b>	<b>-19.2%</b>
<b>Meeting Expenses</b>				
Meetings	41,366	41,423	(57)	
Travel	8,845	17,266	(8,421)	
Conference Calls	1,779	1,364	415	
<b>Total Meeting Expenses</b>	<b>51,990</b>	<b>60,053</b>	<b>(8,063)</b>	<b>-13.4%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	31,826	50,002	(18,176)	
Office Rent	12,904	14,806	(1,902)	
Office Costs	35,594	24,733	10,861	
Professional Services	972	1,105	(133)	
Miscellaneous	-	-	-	
Depreciation	1,061	1,102	(41)	
<b>Total Operating Expenses</b>	<b>82,357</b>	<b>91,748</b>	<b>(9,391)</b>	<b>-10.2%</b>
<b>Total Indirect Expenses</b>	<b>37,562</b>	<b>36,441</b>	<b>1,121</b>	<b>3.1%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>332,277</b>	<b>386,801</b>	<b>(54,524)</b>	<b>-14.1%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 65,714</b>	<b>\$ (425)</b>	<b>\$ 66,139</b>	<b>-15562.1%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,061)	\$ (1,102)	\$ 41	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	756	679	77	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (305)</b>	<b>\$ (423)</b>	<b>\$ 118</b>	<b>-27.9%</b>
<b>Total Budget</b>	<b>\$ 331,972</b>	<b>\$ 386,378</b>	<b>\$ (54,406)</b>	<b>-14.1%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 66,019</b>	<b>\$ (2)</b>	<b>\$ 66,021</b>	<b>-3301050.0%</b>
<b>Direct FTEs</b>	<b>0.85</b>	<b>1.09</b>	<b>(0.24)</b>	
<b>Indirect FTE's</b>	<b>0.18</b>	<b>0.19</b>	<b>(0.01)</b>	
<b>Total FTE's</b>	<b>1.03</b>	<b>1.28</b>	<b>(0.25)</b>	

*See Independent Auditors' Report*

## Florida Reliability Coordinating Council, Inc. Statutory By Program (Continued)

Florida Reliability Coordinating Council, Inc.  
Quarterly Statement of Activities - Total Actual To Total Budget  
SITUATIONAL AWARENESS  
December 31, 2016

(In Whole Dollars)

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 21,845	\$ 21,845	\$ -	
Penalty Sanctions	248	248	-	
<b>Total ERO Funding</b>	<b>22,093</b>	<b>22,093</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>22,093</b>	<b>22,093</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	4,095	10,927	(6,832)	
Payroll Taxes	198	636	(438)	
Benefits	693	2,305	(1,612)	
Retirement Costs	467	1,644	(1,177)	
<b>Total Personnel Expenses</b>	<b>5,453</b>	<b>15,512</b>	<b>(10,059)</b>	<b>-64.8%</b>
<b>Meeting Expenses</b>				
Meetings	167	33	134	
Travel	616	84	532	
Conference Calls	4	6	(2)	
<b>Total Meeting Expenses</b>	<b>787</b>	<b>123</b>	<b>664</b>	<b>539.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	147	352	(205)	
Office Rent	439	1,087	(648)	
Office Costs	1,463	2,219	(756)	
Professional Services	40	78	(38)	
Miscellaneous	-	-	-	
Depreciation	27	57	(30)	
<b>Total Operating Expenses</b>	<b>2,116</b>	<b>3,793</b>	<b>(1,677)</b>	<b>-44.2%</b>
<b>Total Indirect Expenses</b>	<b>1,228</b>	<b>2,673</b>	<b>(1,445)</b>	<b>-54.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>9,584</b>	<b>22,101</b>	<b>(12,517)</b>	<b>-56.6%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 12,509</b>	<b>\$ (8)</b>	<b>\$ 12,517</b>	<b>-156450.0%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (27)	\$ (57)	\$ 30	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	13	48	(35)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (14)</b>	<b>\$ (9)</b>	<b>\$ (5)</b>	<b>55.6%</b>
<b>Total Budget</b>	<b>\$ 9,570</b>	<b>\$ 22,092</b>	<b>\$ (12,522)</b>	<b>-56.7%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 12,523</b>	<b>\$ 1</b>	<b>\$ 12,522</b>	<b>1252100.0%</b>
<b>Direct FTEs</b>	<b>0.03</b>	<b>0.08</b>	<b>(0.05)</b>	
<b>Indirect FTE's</b>	<b>0.01</b>	<b>0.01</b>	<b>-</b>	
<b>Total FTE's</b>	<b>0.04</b>	<b>0.09</b>	<b>(0.05)</b>	

See Independent Auditors' Report

# Florida Reliability Coordinating Council, Inc. Statutory By Program (Continued)

Florida Reliability Coordinating Council, Inc.  
Quarterly Statement of Activities - Total Actual To Total Budget  
GENERAL ADMINISTRATIVE  
December 31, 2016

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ (436,070)	\$ (436,070)	\$ -	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>(436,070)</b>	<b>(436,070)</b>	-	0.0%
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	-	-	-	
<b>Total Funding</b>	<b>(436,070)</b>	<b>(436,070)</b>	-	0.0%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	653,216	610,529	42,687	
Payroll Taxes	38,815	35,563	3,252	
Benefits	88,471	72,270	16,201	
Retirement Costs	91,405	91,836	(431)	
<b>Total Personnel Expenses</b>	<b>871,907</b>	<b>810,198</b>	<b>61,709</b>	7.6%
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	-	-	-	0.0%
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Office Rent	69,368	60,718	8,650	
Office Costs	2,840	2,280	560	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>72,208</b>	<b>62,998</b>	<b>9,210</b>	14.6%
<b>Total Indirect Expenses</b>	<b>(944,115)</b>	<b>(873,196)</b>	<b>(70,919)</b>	8.1%
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses</b>	-	-	-	0.0%
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ (436,070)</b>	<b>\$ (436,070)</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ -	\$ -	\$ -	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (436,070)</b>	<b>\$ (436,070)</b>	<b>\$ -</b>	<b>0.0%</b>
<b>FTEs</b>	4.55	4.47	0.08	

*See Independent Auditors' Report*

# Florida Reliability Coordinating Council, Inc. Non-statutory Summary

**Florida Reliability Coordinating Council, Inc.**  
**Quarterly Statement of Activities - Total Actual To Total Budget**  
**TOTAL MEMBER SERVICES - NON STATUTORY**  
**December 31, 2016**

*(In Whole Dollars)*

	2016 YTD Actual	2016 YTD Budget	2016 YTD Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
Membership Dues	8,595,503	8,595,503	-	
Testing Fees	-	-	-	
Services & Software	280,040	277,790	2,250	
Workshops	-	-	-	
Special Assessment	-	-	-	
Non Cash Postretirement	49,676	-	49,676	
<b>Total Funding</b>	<b>8,925,219</b>	<b>8,873,293</b>	<b>51,926</b>	<b>0.6%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,716,324	2,426,216	290,108	
Payroll Taxes	159,495	143,604	15,891	
Benefits	466,773	358,720	108,053	
Retirement Costs	370,446	370,837	(391)	
<b>Total Personnel Expenses</b>	<b>3,713,038</b>	<b>3,299,377</b>	<b>413,661</b>	<b>12.5%</b>
<b>Meeting Expenses</b>				
Meetings	32,157	34,082	(1,925)	
Travel	97,453	68,597	28,856	
Conference Calls	43,619	32,957	10,662	
<b>Total Meeting Expenses</b>	<b>173,229</b>	<b>135,636</b>	<b>37,593</b>	<b>27.7%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	4,161,016	4,193,583	(32,567)	
Office Rent	289,238	245,183	44,055	
Office Costs	452,107	423,151	28,956	
Professional Services	58,345	47,894	10,451	
Miscellaneous	-	-	-	
Depreciation	51,454	85,874	(34,420)	
<b>Total Operating Expenses</b>	<b>5,012,160</b>	<b>4,995,685</b>	<b>16,475</b>	<b>0.3%</b>
<b>Total Indirect Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>
<b>Other Non-Operating Expenses</b>	<b>(42,579)</b>	<b>-</b>	<b>(42,579)</b>	
<b>Total Expenses</b>	<b>8,855,848</b>	<b>8,430,698</b>	<b>425,150</b>	<b>5.0%</b>
<b>Change in Assets/Additions (Use) of Reserves</b>	<b>\$ 69,371</b>	<b>\$ 442,595</b>	<b>\$ (373,224)</b>	<b>-84.3%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (51,454)	\$ (85,874)	\$ 34,420	
Net Non Pension Post Retir. Oblig	92,255	-	92,255	
Software CapEx	-	170,000	(170,000)	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	53,467	177,173	(123,706)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 94,268</b>	<b>\$ 261,299</b>	<b>\$ (167,031)</b>	<b>-63.9%</b>
<b>Total Budget</b>	<b>\$ 8,950,116</b>	<b>\$ 8,691,997</b>	<b>\$ 258,119</b>	<b>3.0%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (24,897)</b>	<b>\$ 181,296</b>	<b>\$ (206,193)</b>	<b>-113.7%</b>
<b>FTEs</b>				
	19.08	18.06	1.02	
Beginning Working Capital 1/1/2016	\$ 825,705	\$ 552,037	\$ 273,668	1/1/2016
Change in Working Capital	(24,897)	181,296	(206,193)	
Working Capital at 12/31/2016	800,808	733,333	67,475	12/31/2016

*See Independent Auditors' Report*



## **REQUIRED COMMUNICATIONS**



January 31, 2017

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

We are pleased to present the results of our audit of the 2016 financial statements of Florida Reliability Coordinating Council, Inc. (the "Company").

This report to the Corporate Compliance, Finance & Audit Committee (the "Committee") summarizes our audit, the report issued and various analyses and observations related to the Company's accounting and reporting. The document also contains the communications required by our professional standards.

Our audit was designed, primarily to express an opinion on the Company's 2016 financial statements. We considered the Company's current and emerging business needs, along with an assessment of risks that could materially affect the financial statements, and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of Florida Reliability Coordinating Council, Inc. (the "Company") personnel.

At Carr, Riggs & Ingram, LLC (CRI), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This report is intended solely for the information and use of the Committee and others within the Company and should not be used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact me at 727-446-0504 or [khauk@cricpa.com](mailto:khauk@cricpa.com).

Very truly yours,



Karen Hauk, CPA  
Partner

## Required Communications

As discussed with the Corporate Compliance, Finance & Audit Committee (the “Committee”) during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Company. Specifically, we planned and performed our audit to:

- Perform audit services, as requested by the Committee, in accordance with auditing standards generally accepted in the United States of America, in order to express an opinion on the Company’s financial statements for the year ended December 31, 2016;
- Communicate directly with the Committee regarding the results of our procedures;
- Address with the Committee any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Committee; and
- Other audit-related projects as they arise and upon request.

## Required Communications

We have audited the financial statements of Florida Reliability Coordinating Council, Inc. for the year ended December 31, 2016, and have issued our report thereon dated January 31, 2017. Professional standards require that we provide you with the following information related to our audit:

<b>MATTER TO BE COMMUNICATED</b>	<b>AUDITORS' RESPONSE</b>
<p><b>Auditors' responsibility under Generally Accepted Auditing Standards</b></p>	<p>As stated in our engagement letter dated July 27, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Company. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<p><b>Client's responsibility</b></p>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the statements of activities, and the statements of financial position, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<p><b>Planned scope and timing of the audit</b></p>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<p><b>Management judgments and accounting estimates</b>  <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.</i></p>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."</p>
<p><b>Potential effect on the financial statements of any significant risks and exposures</b>  <i>Major risks and exposures facing the Fund and how they are disclosed.</i></p>	<p>No such risks or exposures were noted.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles</b></p> <ul style="list-style-type: none"> <li>• <i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i></li> <li>• <i>The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of the Company's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the Company in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations.</i></li> </ul>	None.
<p><b>Significant difficulties encountered in the audit</b>  <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	None.
<p><b>Disagreements with management</b>  <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	None.

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Other findings or issues</b>  <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	None.
<p><b>Matters arising from the audit that were discussed with, or the subject of correspondence with, management</b>  <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	None.
<p><b>Corrected and uncorrected misstatements</b>  <i>All significant audit adjustments arising from the audit, whether or not recorded by the Company, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Committee about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	None.
<p><b>Major issues discussed with management prior to retention</b>  <i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None.
<p><b>Consultations with other accountants</b>  <i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p><b>Written representations</b>  <i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Internal control deficiencies</b></p> <p><i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditors' attention during the audit.</i></p>	<p>None.</p>
<p><b>Fraud and illegal acts</b></p> <p><i>Fraud involving the Company Corporate Compliance, Finance &amp; Audit Committee or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving senior management and any other illegal acts, unless clearly inconsequential.</i></p>	<p>We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.</p>
<p><b>Other information in documents containing audited financial statements</b></p> <p><i>The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> <li>• Such information is materially inconsistent with the financial statements; and</li> <li>• We believe such information represents a material misstatement of fact.</li> </ul> <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

## Accounting Policies, Judgments, & Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Committee may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Fixed Assets	Useful lives of depreciable assets range from 3-7 years and depreciated on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.	X	A sensitive estimate for the Company is the useful lives of fixed assets.	The Company's policies are in accordance with accounting principles generally accepted in the United States of America (GAAP).
Postretirement Benefits Other Than Pensions	Employees hired before 10/1/2003, also meeting additional conditions, are eligible for postretirement health care. The health coverage includes full coverage from age 60 to 65, if retired, and an annual amount of \$4,200 per year funded to an HRA after age 65 in lieu of health coverage.	X	A sensitive estimate for the Company due to the use of Actuarial calculations.	The Company's policies are in accordance with accounting principles generally accepted in the United States of America (GAAP).

## Management Representation Letter



FLORIDA RELIABILITY COORDINATING COUNCIL, INC.  
3000 BAYPORT DRIVE, SUITE 600  
TAMPA, FLORIDA 33607-8410  
PHONE 813.289.5644 • FAX 813.289.5646  
WWW.FRCC.COM

January 31, 2017

Carr, Riggs & Ingram, LLC  
2111 Drew Street  
Clearwater, FL 33765

This representation letter is provided in connection with your audit of the financial statements of Florida Reliability Coordinating Council, Inc., which comprise the statements of financial position as of December 31, 2016, and the related statements of income, retained earnings, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 31, 2017, the following representations made to you during your audit.

### Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 27, 2016, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.



## Management Representation Letter

- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

### Information Provided

- 11) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
- 16) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the Organization's related parties and all the related-party relationships and transactions of which we are aware.
- 19) The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 20) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
- 21) Florida Reliability Coordinating Council, Inc. is an exempt organization under Section 501(c)6 of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 22) We acknowledge our responsibility for presenting the Statutory and Non-statutory schedules ("supplemental information") in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Statutory and Non-statutory schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

## Management Representation Letter

Signature: Stacy Dochoda

Title: Stacy Dochoda, President & CEO

Signature: AS

Title: Angela Erisman, Controller



**INTERNAL CONTROL RECOMMENDATIONS**

## Communication of Internal Control Related Matters

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

In planning and performing our audit of the financial statements of Florida Reliability Coordinating Council, Inc. as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Committee and management of the Company and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, LLC

**ATTACHMENT 3**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**MIDWEST RELIABILITY ORGANIZATION**



*Sue Clarke, VP Finance and Administration*

*P: 651.855.1707*

*F: 651.855.1712*

*E: [sa.clarke@midwestreliability.org](mailto:sa.clarke@midwestreliability.org)*

April 28, 2017

Mr. Michael Walker  
Mr. Scott Jones  
Mr. Andy Sharp  
Ms. Susan Turpen  
North American Electric Reliability Corporation (NERC)

RE: 2016 Budget Variance Explanation Based on Audited Financials

Dear Mr. Walker, Mr. Jones, Mr. Sharp, and Ms. Turpen:

MRO staff reports the audited final numbers for the 2016 budget were 6.2 percent under budget due to a reduction in meeting and travel costs, consultant and contract costs, and a favorable actuarial adjustment to retirement plans for 2016. Staff travel and meeting expenses were lower than budgeted because of an increase in MRO-hosted meetings and webinars. MRO underwent an internal security audit, but postponed its budgeted external security audit to 2017. Additionally, intranet site development costs were under budget. Finally, labor and benefit expense reductions were a result of fluctuations in the number of full-time employees. There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2016 adjustment resulted in a decrease in the deferred liability primarily due to the medical premiums being lower than expected.

While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2016. Some highlights:

- Conducted 11 audits, including 9 combined CIP/operations and planning audits, 1 CIP-only audit, and 1 coordinated operations and planning audit led by another Regional Entity
- Closed 77 instances of noncompliance (violations, remediated issues, or compliance exceptions) in 2016 and completed risk determinations for all pre-2016 noncompliance instances
- Registered 8 new entities, and deregistered 1 entity
- Completed the seasonal and long-term reliability assessments for the year
- Provided analysis of 15 events in the region and worked with registered entities on the completion of reports, recommendations, lessons learned and compliance assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities
- Completed several workshops in support of regional reliability and security, in addition to other outreach activities
- Increased technical outreach by nearly 16 percent with a focus on CIP v5, including over 6,700 staff hours devoted to addressing highly technical questions from groups and individual entities, including those entities new to CIP



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

**Meeting and Travel Expenses (Variance of \$252,055 (32.9%) under budget)**

MRO saw a reduction in meeting and travel costs due to: (1) fluctuations in FTEs; (2) reduced face-to-face working group meetings; and (3) reduced staff travel due to an increase in the use of MRO's facilities to host meetings.

**Consultants & Contracts (Variance of \$195,900 (28.8%) under budget)**

The 2016 budget variance was primarily due to: (1) the timing of implementing a new confidential board of directors website: part of the anticipated 2016 costs will occur in 2017; (2) external security audit was deferred in 2016 due to the timing of an internal security audit in 2016; and (3) SharePoint development projects were less than budgeted.

**Professional Services (Variance of \$32,666 (15.0%) under budget)**

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

**Other Non-Operating Expenses**

As part of its annual audit, an actuarial assessment of the MRO Retiree Medical Plan is required by the auditors. The actuarial adjustment resulted in a \$28,204 reduction to the non-operating expense with a corresponding \$130,000 reduction to the personnel expenses. The non-operating expense also reflects \$6,723 for the partial retirement of a fixed asset.

MRO had no non-statutory activities in 2016; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

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

Thank you,

*Sue Clarke*

Sue Clarke

Cc: Daniel Skaar, MRO President and CEO



Midwest Reliability Organization

# 2016 MRO Budget True-Up

Date: April 28, 2017





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## 2016 Statutory Summary Budget Variance

Consolidated	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	10,891,562	10,891,562	-	
Penalty Sanctions	136,251	136,251	-	
<b>Total ERO Funding</b>	<b>\$ 11,027,813</b>	<b>\$ 11,027,813</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 11,027,813</b>	<b>\$ 11,027,813</b>	<b>\$ -</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	5,661,967	5,682,871	(20,904)	-0.4%
Payroll Taxes	352,173	361,827	(9,654)	-2.7%
Employee Benefits	555,977	582,253	(26,276)	-4.5%
Savings & Retirement	964,511	1,094,515	(130,004)	-11.9%
<b>Total Personnel Expenses</b>	<b>7,534,628</b>	<b>7,721,465</b>	<b>(186,838)</b>	<b>-2.4%</b>
<b>Meeting Expenses</b>				
Meetings	70,386	85,500	(15,114)	-17.7%
Travel	441,993	680,330	(238,337)	-35.0%
Conference Calls	2,296	900	1,396	
<b>Total Meeting Expenses</b>	<b>514,675</b>	<b>766,730</b>	<b>(252,055)</b>	<b>-32.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	483,781	679,681	(195,900)	-28.8%
Rent & Improvements	670,041	648,946	21,095	3.3%
Office Costs	486,847	534,818	(47,971)	-9.0%
Professional Services	185,834	218,500	(32,666)	-15.0%
Miscellaneous	-	-	-	
Depreciation	477,218	480,722	(3,504)	-0.7%
<b>Total Operating Expenses</b>	<b>2,303,721</b>	<b>2,562,667</b>	<b>(258,946)</b>	<b>-10.1%</b>
<b>Indirect Expenses</b>	-	-	-	
<b>Other Non-Operating Expenses</b>	<b>(21,481)</b>	-	<b>(21,481)</b>	
<b>Total Expenses (B)</b>	<b>10,331,543</b>	<b>11,050,862</b>	<b>(719,320)</b>	
<b>Change in Assets (A - B)</b>	<b>696,270</b>	<b>(23,049)</b>	<b>719,320</b>	
<b>Fixed Assets</b>				
Depreciation	(477,218)	(480,722)	3,504	0.7%
Computer & Software CapEx	369,325	317,500	51,825	16.3%
Furniture & Fixtures CapEx	37,323	-	37,323	
Equipment CapEx	-	-	-	
Leasehold Improvements	389,690	467,000	(77,310)	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ 319,120</b>	<b>\$ 303,778</b>	<b>\$ 15,342</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>319,120</b>	<b>303,776</b>	<b>15,342</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>10,650,663</b>	<b>11,354,638</b>	<b>(703,978)</b>	<b>-6.2%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>377,150</b>	<b>(326,825)</b>	<b>703,978</b>	
<b>FTEs</b>	<b>41.56</b>	<b>43.00</b>	<b>(1.44)</b>	
<b>Chk Totals</b>	<b>377,149</b>	<b>326,829</b>	<b>(703,978)</b>	

## Summary of Financials and Resources

MRO staff reports the audited final numbers for the 2016 budget were 6.2 percent under budget due to a reduction in meeting and travel costs, consultant and contract costs, and a favorable actuarial adjustment to retirement plans for 2016. Staff travel and meeting expenses were lower than budgeted because of an increase in MRO-hosted meetings and webinars. MRO underwent an internal security audit, but postponed its budgeted external security audit to 2017. Additionally, intranet site development costs were under budget. Finally, labor and benefit expense reductions were a result of fluctuations in the number of full-time employees. There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2016 adjustment resulted in a decrease in the deferred liability primarily due to the medical premiums being lower than expected.

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

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MRO had no non-statutory activities in 2016; therefore, there were no allocations of costs between statutory and non-statutory activities and no statutory funds were used for non-statutory purposes.

## Section A — Statutory Programs

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

RELIABILITY STANDARDS, REGISTRATION AND CERTIFICATION	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	675,364	675,364	-	
Penalty Sanctions	8,843	8,843	-	
<b>Total ERO Funding</b>	<b>\$ 684,207</b>	<b>\$ 684,207</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>684,207</b>	<b>684,207</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	246,494	235,577	10,917	4.6%
Payroll Taxes	15,437	14,726	711	4.8%
Employee Benefits	27,615	28,571	(956)	-3.3%
Savings & Retirement	46,198	53,266	(7,068)	-13.3%
<b>Total Personnel Expenses</b>	<b>335,744</b>	<b>332,140</b>	<b>3,604</b>	<b>1.1%</b>
<b>Meeting Expenses</b>				
Meetings	951	2,000	(1,049)	-52.5%
Travel	18,430	37,200	(18,770)	-50.5%
Conference Calls	1,787	-	1,787	
<b>Total Meeting Expenses</b>	<b>21,168</b>	<b>39,200</b>	<b>(18,032)</b>	<b>-46.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	2,060	13,236	(11,176)	-84.4%
Rent & Improvements	-	-	-	
Office Costs	4,516	5,658	(1,142)	-20.2%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>6,576</b>	<b>18,894</b>	<b>(12,318)</b>	<b>-65.2%</b>
<b>Indirect Expenses</b>	<b>262,261</b>	<b>274,257</b>	<b>(11,995)</b>	<b>-4.4%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>625,749</b>	<b>664,491</b>	<b>(38,741)</b>	<b>-5.8%</b>
<b>Change in Assets (A - B)</b>	<b>58,457</b>	<b>19,716</b>	<b>38,741</b>	<b>196.5%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	20,263	19,716	547	2.8%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>20,263</b>	<b>19,716</b>	<b>547</b>	<b>2.8%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>646,013</b>	<b>684,207</b>	<b>(38,194)</b>	<b>-5.6%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>38,194</b>	<b>0</b>	<b>(38,194)</b>	
<b>FTEs</b>	<b>1.95</b>	<b>2.11</b>	<b>(0.16)</b>	<b>-7.6%</b>

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

- There were fewer face-to-face meetings, in part because there was less need by the industry for application guides
- Back-up service for conferencing was not a budgeted item

**Operating Expenses***Consultants and Contracts*

MRO eliminated its third party standards software applications.

**Other Non-Operating Expenses**

N/A

## 2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	7,208,209	7,208,209	-	
Penalty Sanctions	89,101	89,101	-	
<b>Total ERO Funding</b>	<b>\$ 7,297,310</b>	<b>\$ 7,297,310</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>7,297,310</b>	<b>7,297,310</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,690,517	2,888,818	(198,301)	-6.9%
Payroll Taxes	174,375	188,646	(14,271)	-7.6%
Employee Benefits	277,529	288,012	(10,483)	-3.6%
Savings & Retirement	413,198	496,769	(83,571)	-16.8%
<b>Total Personnel Expenses</b>	<b>3,555,619</b>	<b>3,862,245</b>	<b>(306,626)</b>	<b>-7.9%</b>
<b>Meeting Expenses</b>				
Meetings	5,418	7,250	(1,832)	-25.3%
Travel	153,321	235,400	(82,079)	-34.9%
Conference Calls	484	-	484	
<b>Total Meeting Expenses</b>	<b>159,223</b>	<b>242,650</b>	<b>(83,427)</b>	<b>-34.4%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	115,979	114,000	1,979	1.7%
Rent & Improvements	-	-	-	
Office Costs	77,009	91,395	(14,386)	-15.7%
Professional Services	-	25,000	(25,000)	-100.0%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>192,988</b>	<b>230,395</b>	<b>(37,407)</b>	<b>-16.2%</b>
<b>Indirect Expenses</b>	<b>2,750,382</b>	<b>2,763,363</b>	<b>(12,981)</b>	<b>-0.5%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>6,658,212</b>	<b>7,098,653</b>	<b>(440,441)</b>	<b>-6.2%</b>
<b>Change in Assets (A - B)</b>	<b>639,098</b>	<b>198,656</b>	<b>440,441</b>	<b>221.7%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	212,504	198,656	13,848	7.0%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>212,504</b>	<b>198,656</b>	<b>13,848</b>	<b>7.0%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>6,870,716</b>	<b>7,297,310</b>	<b>(426,594)</b>	<b>-5.8%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>426,594</b>	<b>(0)</b>	<b>(426,594)</b>	
<b>FTEs</b>	<b>20.45</b>	<b>21.26</b>	<b>(0.81)</b>	<b>-3.8%</b>

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

Annually there is an actuarial assessment of the MRO Retiree Medical Plan. The 2016 adjustment resulted in a decrease in the deferred liability primarily due to the medical premiums being lower than expected.

**Meeting Expenses**

- Reduced travel costs are due to fewer days required for onsite audits, as well as less travel related to less-than-budgeted FTE
- Fewer face-to-face working groups
- Back-up service for conferencing was not a budgeted item

**Operating Expenses***Office Costs*

Lower office costs related to fewer FTEs than budgeted.

*Professional Services*

Hearing training scheduled in 2016 did not take place as MRO determines whether or not to adopt the proposed consolidated hearing process.

**Other Non-Operating Expenses**

N/A



### 3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS Includes Event Analysis	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	2,727,229	2,727,229	-	
Penalty Sanctions	31,516	31,516	-	
<b>Total ERO Funding</b>	<b>\$ 2,758,745</b>	<b>\$ 2,758,745</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>2,758,745</b>	<b>2,758,745</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	915,278	997,720	(82,442)	-8.3%
Payroll Taxes	53,682	64,905	(11,223)	-17.3%
Employee Benefits	84,032	101,421	(17,389)	-17.1%
Savings & Retirement	197,540	229,851	(32,311)	-14.1%
<b>Total Personnel Expenses</b>	<b>1,250,532</b>	<b>1,393,897</b>	<b>(143,365)</b>	<b>-10.3%</b>
<b>Meeting Expenses</b>				
Meetings	5,298	18,600	(13,302)	-71.5%
Travel	155,355	202,000	(46,645)	-23.1%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>160,653</b>	<b>220,600</b>	<b>(59,947)</b>	<b>-27.2%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	59,042	79,435	(20,393)	-25.7%
Rent & Improvements	-	-	-	
Office Costs	17,458	17,100	358	2.1%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>76,500</b>	<b>96,535</b>	<b>(20,035)</b>	<b>-20.8%</b>
<b>Indirect Expenses</b>	<b>847,306</b>	<b>977,445</b>	<b>(130,140)</b>	<b>-13.3%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>2,334,991</b>	<b>2,688,477</b>	<b>(353,487)</b>	<b>-13.1%</b>
<b>Change in Assets (A - B)</b>	<b>423,755</b>	<b>70,268</b>	<b>353,487</b>	<b>503.1%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	65,466	70,268	(4,802)	-6.8%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>65,466</b>	<b>70,268</b>	<b>(4,802)</b>	<b>-6.8%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>2,400,457</b>	<b>2,758,745</b>	<b>(358,289)</b>	<b>-13.0%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>358,289</b>	<b>(0)</b>	<b>(358,289)</b>	
<b>FTEs</b>	<b>6.30</b>	<b>7.52</b>	<b>(1.22)</b>	<b>-16.2%</b>

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

Resources were shifted from this department to Risk Assessment and Mitigation January 1, 2016.

**Meeting Expenses**

MRO hosted fewer NERC and working group meetings than previous years.

**Travel Expenses**

Travel reimbursement for the entities has been trending down in the past few years.

**Operating Expenses***Consultants and Contracts*

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

**Indirect Expenses**

Indirect actual costs were slightly lower than budgeted. Indirect costs are allocated to each program area based on the FTEs in each program. In this program, the FTEs were fewer than budgeted.

**Other Non-Operating Expenses**

N/A

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

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	483,241	483,241	-	0.0%
Penalty Sanctions	5,616	5,616	-	0.0%
<b>Total ERO Funding</b>	<b>\$ 488,857</b>	<b>\$ 488,857</b>	<b>\$ -</b>	<b>0.0%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>488,857</b>	<b>488,857</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	236,966	180,187	56,779	31.5%
Payroll Taxes	15,805	9,800	6,005	61.3%
Employee Benefits	24,084	18,280	5,804	31.8%
Savings & Retirement	40,752	31,896	8,856	27.8%
<b>Total Personnel Expenses</b>	<b>317,607</b>	<b>240,163</b>	<b>77,444</b>	<b>32.2%</b>
<b>Meeting Expenses</b>				
Meetings	23,655	28,800	(5,145)	-17.9%
Travel	25,305	33,200	(7,895)	-23.8%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>48,960</b>	<b>62,000</b>	<b>(13,040)</b>	<b>-21.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Indirect Expenses</b>	<b>228,638</b>	<b>174,172</b>	<b>54,466</b>	<b>31.3%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>595,205</b>	<b>476,335</b>	<b>118,870</b>	<b>25.0%</b>
<b>Change in Assets (A - B)</b>	<b>(106,348)</b>	<b>12,521</b>	<b>(118,870)</b>	<b>-949.4%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	17,665	12,521	5,144	41.1%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>17,665</b>	<b>12,521</b>	<b>5,144</b>	<b>41.1%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>612,870</b>	<b>488,857</b>	<b>124,014</b>	<b>25.4%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(124,014)</b>	<b>-</b>	<b>124,014</b>	
<b>FTEs</b>	<b>1.70</b>	<b>1.34</b>	<b>0.36</b>	<b>26.9%</b>

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

There was more senior management involvement than anticipated with higher-than-budgeted outreach efforts for CIP V5 implementation. An overage in this program area caused a reduction in another program area.

**Indirect Expenses**

Total actual indirect costs were over budget because actual FTEs were greater than budgeted FTEs.

**Other Non-Operating Expenses**

N/A

## 5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection) Funding	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>ERO Funding</b>				
Assessments	124,349	124,349	-	0.0%
Penalty Sanctions	1,173	1,173	-	0.0%
<b>Total ERO Funding</b>	<b>\$ 125,523</b>	<b>\$ 125,523</b>	<b>\$ -</b>	<b>0.0%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>125,523</b>	<b>125,523</b>	<b>-</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	40,081	41,582	(1,501)	-3.6%
Payroll Taxes	3,010	2,763	247	8.9%
Employee Benefits	4,255	3,927	328	8.4%
Savings & Retirement	7,995	9,140	(1,145)	-12.5%
<b>Total Personnel Expenses</b>	<b>55,341</b>	<b>57,412</b>	<b>(2,071)</b>	<b>-3.6%</b>
<b>Meeting Expenses</b>				
Meetings	-	200	(200)	-100.0%
Travel	14,135	22,000	(7,865)	-35.8%
Conference Calls	-	400	(400)	-100.0%
<b>Total Meeting Expenses</b>	<b>14,135</b>	<b>22,600</b>	<b>(8,465)</b>	<b>-37.5%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	6,217	6,500	(283)	-4.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>6,217</b>	<b>6,500</b>	<b>(283)</b>	<b>-4.4%</b>
<b>Indirect Expenses</b>	<b>41,693</b>	<b>36,394</b>	<b>5,299</b>	<b>14.6%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>117,386</b>	<b>122,906</b>	<b>(5,520)</b>	<b>-4.5%</b>
<b>Change in Assets (A - B)</b>	<b>8,137</b>	<b>2,616</b>	<b>5,520</b>	<b>211.0%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	3,221	2,616	605	23.1%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>3,221</b>	<b>2,616</b>	<b>605</b>	<b>23.1%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>120,607</b>	<b>125,523</b>	<b>(4,915)</b>	<b>-3.9%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>4,915</b>	<b>-</b>	<b>(4,915)</b>	
<b>FTEs</b>	<b>0.31</b>	<b>0.28</b>	<b>0.03</b>	<b>10.7%</b>

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

There were no variances greater than \$10,000 and 10 percent.

**Other Non-Operating Expenses**

N/A

## 6. Administrative Services

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

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

## 6a. General and Administrative

GENERAL and ADMINISTRATIVE	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	✓ (326,829)	✓ (326,829)	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ (326,829)</b>	<b>\$ (326,829)</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>(326,829)</b>	<b>(326,829)</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	✓ 576,586	✓ 422,618	153,968	36.4%
Payroll Taxes	✓ 30,712	✓ 21,172	9,540	45.1%
Employee Benefits	✓ 40,329	✓ 35,341	4,988	14.1%
Savings & Retirement	✓ 100,580	✓ 89,526	11,054	12.3%
<b>Total Personnel Expenses</b>	<b>748,207</b>	<b>568,657</b>	<b>179,550</b>	<b>31.6%</b>
<b>Meeting Expenses</b>				
Meetings	✓ 34,930	✓ 28,000	6,930	24.8%
Travel	✓ 60,982	✓ 113,000	(52,018)	-46.0%
Conference Calls	✓ 25	✓ 500	(475)	-95.0%
<b>Total Meeting Expenses</b>	<b>95,937</b>	<b>141,500</b>	<b>(45,563)</b>	<b>-32.2%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	✓ 43,197	✓ 75,000	(31,803)	-42.4%
Rent & Improvements	-	-	-	
Office Costs	28,218	32,000	(3,782)	-11.8%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>71,415</b>	<b>107,000</b>	<b>(35,585)</b>	<b>-33.3%</b>
<b>Indirect Expenses</b>	<b>(915,559)</b>	<b>(817,157)</b>	<b>(98,402)</b>	<b>-12.0%</b>
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets (A - B)</b>	<b>(326,829)</b>	<b>(326,829)</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>(326,829)</b>	<b>326,829</b>	<b>-</b>	
<b>FTEs</b>	<b>2.70</b>	<b>2.61</b>	<b>0.09</b>	<b>3.4%</b>



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

The President and CEO's actual time exceeded the budgeted amounts spent on the ERO Enterprise activities and the MRO committee interactions. An overage of time here is offset by a reduction in other program areas.

**Travel Expenses**

There was a shift of travel to Risk Assessment and Mitigation related to the Inherent Risk Assessment base case activities.

**Operating Expenses***Consultants and Contracts*

The underage in this program area was partially offset by an overage in Human Resources, Finance and Accounting, which included two unbudgeted remuneration studies. These studies were requested by the President and CEO but more directly relate to Human Resources.

**Other Non-Operating Expenses**

N/A

**6b. Legal and Regulatory**

LEGAL and REGULATORY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments				-
Penalty Sanctions				-
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	-	-	-	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	201,447	193,551	7,896	4.1%
Payroll Taxes	10,229	9,185	1,044	11.4%
Employee Benefits	12,999	11,780	1,219	10.3%
Savings & Retirement	35,560	36,383	(823)	-2.3%
<b>Total Personnel Expenses</b>	260,235	250,899	9,336	3.7%
<b>Meeting Expenses</b>				
Meetings	79	150	(71)	-47.3%
Travel	11,168	23,500	(12,332)	-52.5%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	11,247	23,650	(12,403)	-52.4%
<b>Operating Expenses</b>				
Consultants & Contracts	525	10,000	(9,475)	-94.8%
Rent & Improvements	-	-	-	
Office Costs	4,253	8,065	(3,812)	-47.3%
Professional Services	143,769	140,000	3,769	2.7%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	148,547	158,065	(9,518)	-6.0%
<b>Indirect Expenses</b>	(420,029)	(432,614)	12,585	2.9%
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	-	-	-	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	-	-	-	
<b>FTEs</b>	<b>0.92</b>	<b>0.87</b>	0.05	<b>5.7%</b>

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

MRO budgeted for increased board member presence at NERC and FERC meetings; however, members have not submitted expenses for reimbursement.

**Other Non-Operating Expenses**

N/A

## 6c. Information Technology

INFORMATION TECHNOLOGY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments				-
Penalty Sanctions				-
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	-	-	-	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	362,790	334,488	28,302	8.5%
Payroll Taxes	22,655	24,454	(1,799)	-7.4%
Employee Benefits	38,112	44,143	(6,031)	-13.7%
Savings & Retirement	51,762	69,198	(17,436)	-25.2%
<b>Total Personnel Expenses</b>	475,319	472,283	3,036	0.6%
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	55	8,000	(7,945)	-99.3%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	55	8,000	(7,945)	-99.3%
<b>Operating Expenses</b>				
Consultants & Contracts	219,726	359,200	(139,474)	-38.8%
Rent & Improvements	-	-	-	
Office Costs	210,725	209,550	1,175	0.6%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	477,218	480,722	(3,504)	-0.7%
<b>Total Operating Expenses</b>	907,669	1,049,472	(141,803)	-13.5%
<b>Indirect Expenses</b>	(1,383,043)	(1,529,755)	146,712	9.6%
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	-	-	-	
<b>Fixed Assets</b>				
Depreciation	(477,218.00)	(480,722.00)	3,504	0.7%
Computer & Software CapEx	369,325	317,500	51,825	16.3%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	(107,893)	(163,222)	55,329	33.9%
Allocation of Fixed Assets	107,893	163,222	(55,329)	-33.9%
<b>Total Inc(Dec) in Fixed Assets ©</b>	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	-	-	-	
<b>FTEs</b>	<b>3.65</b>	<b>3.26</b>	<b>0.39</b>	<b>12.0%</b>

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

Annually there is an actuarial assessment of the MRO Retiree Medical Plan. The 2016 adjustment resulted in a decrease in the deferred liability primarily due to the medical premiums being lower than expected.

**Operating Expenses***Consultants and Contracts*

The 2016 budget variance was due primarily due to (1) the timing of implementing a new confidential board of directors website: part of the costs will occur in 2017; (2) the external security audit was deferred in 2016 due to the timing of an internal security audit in 2016; and (3) SharePoint development projects were less than budgeted.

**Other Non-Operating Expenses**

N/A

**Fixed Asset Additions**

- Accelerated fixed asset costs associated with an approved facility reconfiguration, offset by under budget variances in the leasehold improvements accounted for in the area of Human Resources, Finance and Accounting
- Total actual fixed costs were over budget; therefore there were more asset costs than budgeted allocated to this program

**6d. Human Resources**

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

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

HUMAN RESOURCES, FINANCE and ACCOUNTING	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-		-	
Penalty Sanctions	-		-	
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	-	-	-	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	391,808	388,330	3,478	0.9%
Payroll Taxes	26,268	26,176	92	0.4%
Employee Benefits	47,022	50,778	(3,756)	-7.4%
Savings & Retirement	70,926	78,486	(7,560)	-9.6%
<b>Total Personnel Expenses</b>	536,024	543,770	(7,746)	-1.4%
<b>Meeting Expenses</b>				
Meetings	55	500	(445)	-89.0%
Travel	3,242	6,030	(2,788)	-46.2%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	3,297	6,530	(3,233)	-49.5%
<b>Operating Expenses</b>				
Consultants & Contracts	43,252	28,810	14,442	50.1%
Rent & Improvements	670,041	648,946	21,095	3.3%
Office Costs	138,451	164,550	(26,099)	-15.9%
Professional Services	42,065	53,500	(11,435)	-21.4%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	893,809	895,806	(1,997)	-0.2%
<b>Indirect Expenses</b>	(1,411,649)	(1,446,106)	34,457	2.4%
<b>Other Non-Operating Expenses</b>	(21,481)	-	(21,481)	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	-	-	-	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	37,323	-	37,323	
Equipment CapEx	-	-	-	
Leasehold Improvements	389,690	467,000	(77,310)	-16.6%
<b>(Inc)Dec in Fixed Assets</b>	427,013	467,000	(39,987)	
Allocation of Fixed Assets	(427,013)	(467,000)	39,987	-8.6%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	-	-	-	
<b>FTEs</b>	<b>3.58</b>	<b>3.75</b>	<b>(0.17)</b>	<b>-4.5%</b>

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

MRO expected to be fully staffed in 2016 and had not budgeted any hiring costs. Actuals also included two unbudgeted remuneration studies.

*Office Costs*

2016 tuition assistance included staff that did not pursue approved training that had been budgeted for the year.

*Professional Services*

Actual costs for discrimination testing varies year to year and the costs for 2016 came in lower than expected.

**Other Non-Operating Expenses**

As part of its annual audit, an actuarial assessment of the MRO Retiree Medical Plan is required by the auditors. The actuarial adjustment resulted in a \$28,204 reduction to the non-operating expense with a corresponding \$130,000 reduction to the personnel expenses. The non-operating expense also reflects \$6,723 for the partial retirement of a fixed asset.

**Fixed Asset Additions**

- Accelerated fixed asset costs associated with an approved facility reconfiguration, offset by under budget variances in leasehold improvements
- In 2015 there were accelerated fixed asset costs associated with an approved facility expansion, creating an under budget impact in 2016 partially used in the acceleration of the reconfiguration of the existing facility



Section B – Supplemental Financial Information

Statement of Activities and Capital Expenditures by Program 2016 Actual	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 600 & 900)	Situation Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
<b>Funding</b>															
<b>ERO Funding</b>															
NERC Assessments	10,891,562	10,891,562	-	10,891,562	675,364	7,208,209	2,727,229	483,241	124,349		(326,829)				
Penalty Sanctions	136,250	136,250	-	136,250	8,843	89,101	31,516	5,616	1,173						
<b>Total NERC Funding</b>	<b>11,027,812</b>	<b>11,027,812</b>	-	<b>11,027,812</b>	<b>684,207</b>	<b>7,297,310</b>	<b>2,758,745</b>	<b>488,857</b>	<b>125,523</b>		<b>(326,829)</b>				
Membership Dues	-	-	-	-	-	-	-	-	-						
Testing Fees	-	-	-	-	-	-	-	-	-						
Services & Software	-	-	-	-	-	-	-	-	-						
Workshops	-	-	-	-	-	-	-	-	-						
Interest	-	-	-	-	-	-	-	-	-						
Miscellaneous	-	-	-	-	-	-	-	-	-						
<b>Total Funding (A)</b>	<b>11,027,812</b>	<b>11,027,812</b>	-	<b>11,027,812</b>	<b>684,207</b>	<b>7,297,310</b>	<b>2,758,745</b>	<b>488,857</b>	<b>125,523</b>		<b>(326,829)</b>				
<b>Expenses</b>															
<b>Personnel Expenses</b>															
Salaries	5,661,967	5,661,967	-	5,661,967	246,494	2,690,517	915,278	236,966	40,081	-	576,586	201,447	362,790	-	391,808
Payroll Taxes	352,173	352,173	-	352,173	15,437	174,375	53,682	15,805	3,010	-	30,712	10,229	22,655	-	26,268
Benefits	555,977	555,977	-	555,977	27,615	277,529	84,032	24,084	4,255	-	40,329	12,999	38,112	-	47,022
Retirement Costs	964,511	964,511	-	964,511	46,198	413,198	197,540	40,752	7,995	-	100,580	35,560	51,762	-	70,926
<b>Total Personnel Expenses</b>	<b>7,534,628</b>	<b>7,534,628</b>	-	<b>7,534,628</b>	<b>335,744</b>	<b>3,555,619</b>	<b>1,250,532</b>	<b>317,607</b>	<b>55,341</b>	-	<b>748,207</b>	<b>260,235</b>	<b>475,319</b>	-	<b>536,024</b>
<b>Meeting Expenses</b>															
Meetings	70,386	70,386	-	70,386	951	5,418	5,298	23,655	-	-	34,930	79	-	-	55
Travel	441,993	441,993	-	441,993	18,430	153,321	155,355	25,305	14,135	-	60,982	11,168	55	-	3,242
Conference Calls	2,296	2,296	-	2,296	1,787	484	-	-	-	-	25	-	-	-	-
<b>Total Meeting Expenses</b>	<b>514,675</b>	<b>514,675</b>	-	<b>514,675</b>	<b>21,168</b>	<b>159,223</b>	<b>160,653</b>	<b>48,960</b>	<b>14,135</b>	-	<b>95,937</b>	<b>11,247</b>	<b>55</b>	-	<b>3,297</b>
<b>Operating Expenses</b>															
Consultants & Contracts	483,781	483,781	-	483,781	2,060	115,979	59,042	-	-	-	43,197	525	219,726	-	43,252
Office Rent	670,041	670,041	-	670,041	-	-	-	-	-	-	-	-	-	-	670,041
Office Costs	486,847	486,847	-	486,847	4,516	77,009	17,458	-	6,217	-	28,218	4,253	210,725	-	138,451
Professional Services	185,834	185,834	-	185,834	-	-	-	-	-	-	-	143,769	-	-	42,065
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	477,218	477,218	-	477,218	-	-	-	-	-	-	-	-	477,218	-	-
<b>Total Operating Expenses</b>	<b>2,303,721</b>	<b>2,303,721</b>	-	<b>2,303,721</b>	<b>6,576</b>	<b>192,988</b>	<b>76,500</b>	<b>-</b>	<b>6,217</b>	-	<b>71,415</b>	<b>148,547</b>	<b>907,669</b>	-	<b>893,809</b>
<b>Total Direct Expenses</b>	<b>10,353,024</b>	<b>10,353,024</b>	-	<b>10,353,024</b>	<b>363,488</b>	<b>3,907,830</b>	<b>1,487,685</b>	<b>366,567</b>	<b>75,693</b>	-	<b>915,559</b>	<b>420,029</b>	<b>1,383,043</b>	-	<b>1,433,130</b>
<b>Indirect Expenses</b>															
	-	-	-	-	262,261	2,750,382	847,306	228,638	41,693	-	(915,559)	(420,029)	(1,383,043)	-	(1,411,649)
<b>Other Non-Operating Expenses</b>	<b>(21,481)</b>	<b>(21,481)</b>	-	<b>(21,481)</b>											<b>(21,481)</b>
<b>Total Expenses (B)</b>	<b>10,331,543</b>	<b>10,331,543</b>	-	<b>10,331,543</b>	<b>625,749</b>	<b>6,658,212</b>	<b>2,334,991</b>	<b>595,205</b>	<b>117,386</b>	-	-	-	-	-	-
<b>Change in Assets</b>	<b>696,269</b>	<b>696,269</b>	-	<b>696,269</b>	<b>58,457</b>	<b>639,098</b>	<b>423,755</b>	<b>(106,348)</b>	<b>8,137</b>	-	<b>(326,829)</b>	-	-	-	-
<b>Fixed Assets</b>															
Depreciation	(477,218)	(477,218)	-	(477,218)	-	-	-	-	-	-	-	-	(477,218)	-	-
Computer & Software CapEx	369,325	369,325	-	369,325	-	-	-	-	-	-	-	-	369,325	-	-
Furniture & Fixtures CapEx	37,323	37,323	-	37,323	-	-	-	-	-	-	-	-	-	-	37,323
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	389,690	389,690	-	389,690	-	-	-	-	-	-	-	-	-	-	389,690
Allocation of Fixed Assets	-	-	-	-	20,263	212,504	65,466	17,665	3,221	-	-	-	107,893	-	(427,013)
<b>Inc(Dec) in Fixed Assets (C)</b>	<b>319,120</b>	<b>319,120</b>	-	<b>319,120</b>	<b>20,263</b>	<b>212,504</b>	<b>65,466</b>	<b>17,665</b>	<b>3,221</b>	-	-	-	-	-	-
<b>TOTAL BUDGET (=B + C)</b>	<b>10,650,663</b>	<b>10,650,663</b>	-	<b>10,650,663</b>	<b>646,013</b>	<b>6,870,716</b>	<b>2,400,457</b>	<b>612,870</b>	<b>120,607</b>	-	-	-	-	-	-
<b>TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)</b>	<b>377,149</b>	<b>377,149</b>	-	<b>377,149</b>	<b>38,194</b>	<b>426,594</b>	<b>358,289</b>	<b>(124,014)</b>	<b>4,915</b>	-	<b>(326,829)</b>	-	-	-	-
<b>FTEs</b>	<b>41.56</b>	<b>41.56</b>	-	<b>41.56</b>	<b>1.95</b>	<b>20.45</b>	<b>6.30</b>	<b>1.70</b>	<b>0.31</b>	-	<b>2.70</b>	<b>0.92</b>	<b>3.65</b>	-	<b>3.58</b>
<b>Indirect Costs Allocation</b>															
Allocation of Fixed Assets	-	-	-	-	262,261	2,750,382	847,306	228,638	41,693	-	(915,559)	(420,029)	(1,383,043)	-	(1,411,649)
Penalty Sanctions Allocation	-	-	-	-	136,250	8,651	90,730	27,951	7,542	1,375	-	-	(107,893)	-	427,013
Interest Income Allocation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	670,041
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**Midwest Reliability Organization**  
For the Twelve Months Ending December 31, 2016

<b>Statement of Expenses</b> For the Twelve Months Ending December 31, 2016				
	2015 YTD Actual	2016 YTD Budget	2016 YTD Actual	2016 YTD Variance
<b>Revenues (Funding)</b>				
Assessments	\$9,426,018	\$10,891,562	\$10,891,563	--
Services & software	-	-	-	-
Workshops	-	-	-	-
Penalty Sanctions	395,000	136,250	136,249	-
<b>Total Revenues (Funding)</b>	<b>\$9,821,018</b>	<b>\$11,027,812</b>	<b>\$11,027,812</b>	<b>\$ -</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$5,367,268	\$5,682,871	\$5,661,968	(\$20,903)
Payroll taxes	333,772	361,827	352,174	(9,653)
Employee Benefits	487,099	582,253	555,977	(26,276)
Retirement Benefits	915,147	1,094,515	964,511	(130,004)
<b>Total Personnel Expenses</b>	<b>\$7,103,286</b>	<b>\$7,721,466</b>	<b>\$7,534,629</b>	<b>(\$186,837)</b>
<b>Meeting Expense</b>				
Meetings	\$117,399	\$85,500	\$70,386	(\$15,114)
Travel-Staff Business Travel	275,390	389,030	285,101	(103,929)
Travel-Member Reimbursement	227,528	291,300	156,893	(134,407)
Conference Calls	1,993	900	2,296	1,396
<b>Total Meeting Expense</b>	<b>\$622,310</b>	<b>\$766,730</b>	<b>\$514,675</b>	<b>(\$252,055)</b>
<b>Operating Expenses</b>				
Consulting	\$247,068	\$353,500	\$216,616	(\$136,884)
Contracts	284,294	326,181	267,164	(59,017)
Building Rent & Facilities	513,352	648,946	670,041	21,095
Office Costs	498,158	534,818	486,847	(47,971)
Professional Services	149,466	218,500	185,834	(32,666)
Depreciation	416,610	480,722	477,218	(3,504)
<b>Total Operating Expenses</b>	<b>\$2,108,950</b>	<b>\$2,562,667</b>	<b>\$2,303,721</b>	<b>(\$258,946)</b>
<b>Other Non-Operating Expenses</b>	<b>\$56,236</b>	<b>\$0</b>	<b>(\$21,481)</b>	<b>\$21,481</b>
<b>Total Expense</b>	<b>\$9,890,781</b>	<b>\$11,050,863</b>	<b>\$10,331,545</b>	<b>(\$676,357)</b>
<b>Net Revenues</b>	<b>(\$69,763)</b>	<b>(\$23,051)</b>	<b>\$696,267</b>	<b>\$676,357</b>
<b>Head Count</b>	<b>42.00</b>	<b>43.00</b>	<b>41.50</b>	<b>(1.50)</b>
<b>FTE</b>	<b>40.36</b>	<b>43.00</b>	<b>41.56</b>	<b>(1.44)</b>

<b>Statement of Capital Expenditures</b> For the Twelve Months Ending December 31, 2016				
	2015 YTD Actual	2016 YTD Budget	2016 YTD Actual	2016 YTD Variance
<b>Fixed Assets as of January 1</b>	\$1,024,357	\$1,547,314	\$1,547,314	-
Purchases of Computer Equipment	\$692,993	\$317,500	\$363,890	(\$46,390)
Purchases of Capitalized Software	38,312	-	5,435	(5,435)
Purchases of Furniture and Equipment	177,580	-	37,323	(37,323)
Purchases of Leasehold Improvements	30,682	467,000	389,690	77,310
Purchases of property, improvements, equipment, software	\$939,567	\$784,500	\$796,339	(\$11,839)
Depreciation and Software Amortization	(416,610)	(480,722)	(483,941)	3,219
<b>Net Fixed Assets</b>	<b>\$1,547,314</b>	<b>\$1,851,092</b>	<b>\$1,859,712</b>	<b>(\$8,620)</b>

<b>Statement of Financial Position</b> For the Twelve Months Ending December 31, 2016			
	<b>ASSETS</b>		
	12/31/2015	12/31/2016	\$ Chg
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 3,630,789	\$ 3,755,883	\$ 125,094
Restricted cash	-	-	-
Accounts receivable	-	317	317
Prepaid expenses	257,080	345,447	88,367
Total Current Assets	3,887,869	4,101,647	213,778
<b>PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET</b>	1,424,863	1,786,765	361,902
<b>OTHER ASSETS</b>			
Restricted cash - non-current	284,525	166,275	(118,250)
Restricted accounts receivable - non-current	-	-	-
Security Deposit - non-current	39,858	39,858	-
Capitalized software costs, net of accumulated amortization	82,593	33,088	(49,505)
<b>TOTAL ASSETS</b>	<b>\$ 5,719,708</b>	<b>\$ 6,127,633</b>	<b>\$ 407,925</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable - trade	\$ 689,962	\$ 414,886	\$ (275,076)
Accrued liabilities	754,679	791,037	36,358
Retirement plan contribution	491,336	511,177	19,841
Deferred assessments	-	-	-
Deferred rent	-	-	-
Total Current Liabilities	\$ 1,935,977	\$ 1,717,100	\$ (218,877)
<b>OTHER LIABILITIES</b>			
Postretirement medical benefit obligation	521,702	507,557	(14,145)
Deferred assessments - non-current	284,525	166,275	(118,250)
Deferred rent - non-current	437,394	500,325	62,931
Total Liabilities	<b>3,179,598</b>	<b>2,891,257</b>	<b>(288,341)</b>
<b>MEMBERS' EQUITY</b>	2,540,110	3,236,376	696,266
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 5,719,708</b>	<b>\$ 6,127,633</b>	<b>\$ 407,925</b>

<b>Statement of Cash Flows</b> For the Twelve Months Ending December 31, 2016		
	12/31/2015	12/31/2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in members' equity	\$ (69,765)	\$ 696,266
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and software amortization	416,610	483,941
Amortization of deferred rent	(15,547)	62,931
Postretirement benefit obligation	111,406	(14,145)
Change in assets and liabilities:		
Accounts Receivable	6,762	(317)
Prepaid expenses	(68,544)	(88,367)
Security Deposit	-	-
Accounts payable - trade	474,017	(275,076)
Accrued liabilities	21,595	36,358
Retirement plan contribution	38,108	19,841
Deferred assessments	(205,527)	(118,250)
Change from Operating Activities	709,115	803,182
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in restricted cash	205,527	118,250
Purchases of property, improvements and equipment and software	(939,567)	(796,339)
Change from Investing Activities	(734,040)	(678,089)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of long-term debt	-	-
Payments on debt	-	-
Withdrawal on L/T Deferred Rent	-	-
<b>Net Change in Cash and Cash Equivalents</b>	(24,925)	125,093
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>3,655,712</b>	<b>3,630,790</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$3,630,787</b>	<b>\$3,755,883</b>

# **MIDWEST RELIABILITY ORGANIZATION**

Saint Paul, Minnesota

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

**MIDWEST RELIABILITY ORGANIZATION**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Midwest Reliability Organization (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
March 16, 2017

**MIDWEST RELIABILITY ORGANIZATION**

**STATEMENTS OF FINANCIAL POSITION**

As of December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,755,883	\$ 3,630,789
Restricted cash	166,275	136,275
Accounts receivable	317	-
Prepaid expenses	345,447	257,080
Total Current Assets	<u>4,267,922</u>	<u>4,024,144</u>
<b>PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET</b>	1,786,766	1,424,863
<b>OTHER ASSETS</b>		
Restricted cash - non-current	-	148,250
Security deposit - non-current	39,858	39,858
Capitalized software costs, net of accumulated amortization of \$417,285 and \$585,367, respectively	<u>33,088</u>	<u>82,593</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,127,634</u>	<u>\$ 5,719,708</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 414,885	\$ 689,959
Accrued liabilities	791,037	754,680
Retirement plan contribution	511,177	491,336
Deferred assessments	<u>166,275</u>	<u>136,275</u>
Total Current Liabilities	1,883,374	2,072,250
<b>OTHER LIABILITIES</b>		
Postretirement medical benefit obligation	507,557	521,702
Deferred assessments - non-current	-	148,250
Deferred rent - non-current	<u>500,325</u>	<u>437,394</u>
Total Liabilities	<u>2,891,256</u>	<u>3,179,596</u>
<b>NET ASSETS (UNRESTRICTED)</b>	<u>3,236,378</u>	<u>2,540,112</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 6,127,634</u>	<u>\$ 5,719,708</u>

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF ACTIVITIES  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>REVENUE</b>		
Assessments	\$ 10,891,562	\$ 9,426,018
Penalty sanctions	136,249	395,000
Total Revenue	11,027,811	9,821,018
<b>EXPENSES</b>		
Personnel expenses		
Salaries	5,661,968	5,367,268
Payroll taxes	352,174	333,772
Employee benefits	555,977	487,099
Retirement benefits	964,511	915,147
Total personnel expenses	7,534,630	7,103,286
Meeting expenses		
Conference calls	2,296	1,993
Meetings	70,385	117,399
Travel	441,994	502,918
Total meeting expenses	514,675	622,310
Operating expenses		
Building rent and facilities	670,041	513,352
Consulting	483,780	531,363
Office costs	970,789	914,768
Professional services	185,834	149,466
Total operating expenses	2,310,444	2,108,949
Total Expenses	10,359,749	9,834,545
<b>CHANGE IN UNRESTRICTED NET ASSETS BEFORE POSTRETIREMENT RELATED CHANGES</b>	668,062	(13,527)
<b>POSTRETIREMENT-RELATED CHANGES</b>		
Postretirement medical benefit obligation changes other than net periodic cost	(28,204)	56,236
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	696,266	(69,763)
UNRESTRICTED NET ASSETS - Beginning of Year	2,540,112	2,609,875
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	\$ 3,236,378	\$ 2,540,112

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 696,266	\$ (69,763)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	422,278	354,082
Software amortization	54,940	62,528
Loss on disposition of property, improvements and equipment	6,723	-
Change in assets and liabilities:		
Accounts receivable	(317)	6,762
Prepaid expenses	(88,367)	(68,544)
Accounts payable - trade	9,700	(20,929)
Accrued liabilities	36,357	21,596
Retirement plan contribution	19,841	38,108
Deferred assessments	118,250	205,527
Deferred rent	62,931	(15,547)
Postretirement medical benefit obligation	(14,145)	111,406
Net Cash Flows From Operating Activities	1,324,457	625,226
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in restricted cash	(118,250)	(205,527)
Purchases of property, improvements and equipment and software	(1,081,113)	(444,622)
Net Cash Flows From Investing Activities	(1,199,363)	(650,149)
 <b>Net Change in Cash and Cash Equivalents</b>	125,094	(24,923)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,630,789	3,655,712
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,755,883	\$ 3,630,789
 <b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Equipment and software additions included in accounts payable	\$ 224,446	\$ 509,220

See accompanying notes to financial statements.



## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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##### *Services*

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

##### *Financial Statement Presentation*

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

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

##### *Cash and Cash Equivalents*

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

##### *Receivables*

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

## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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##### *Property, Improvements and Equipment*

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding \$3,000 are capitalized for the years ended December 31, 2016 and 2015, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts, and the resulting gain or loss is included in operations.

##### *Capitalized Software Costs*

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled \$54,940 and \$65,528 for the years ended December 31, 2016 and 2015, respectively.

##### *Deferred Assessments*

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

##### *Tax Status*

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

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2016 and 2015. The Organization's tax returns are subject to review and examination by federal and state authorities.

##### *Revenue and Assessments*

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

##### *Use of Estimates*

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

## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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##### *New Accounting Pronouncements*

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

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

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

##### *Subsequent Events*

The Organization has evaluated subsequent events through March 16, 2017, which is the date that the financial statements were approved and available to be issued.

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#### **NOTE 2 - NERC TRANSACTIONS**

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

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted revenues from NERC were \$10,891,562 and \$9,426,018 for the years ended December 31, 2016 and 2015, respectively, which agree with the amounts received.

## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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#### NOTE 3 - LEASE COMMITMENTS

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The Organization executed an operating lease for office space in St Paul, Minnesota on January 20, 2012. On July 13, 2015 the Second Amendment to the Office Lease was executed which expanded the premises and extended the terms. Rent expense was \$337,187 and \$250,968 for the years ended December 31, 2016 and 2015, respectively.

Future expected minimum lease payments under the lease as of December 31, 2016 are as follows:

Years Ending December 31	
2017	\$ 284,644
2018	390,705
2019	402,483
2020	414,600
2021	426,971
Thereafter	<u>1,758,767</u>
	<u>\$ 3,678,170</u>

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#### NOTE 4 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Equipment	\$ 2,041,723	\$ 2,515,581
Furniture	564,351	580,218
Leasehold improvements	<u>748,509</u>	<u>358,818</u>
	3,354,583	3,454,617
Less: Accumulated depreciation	<u>(1,567,817)</u>	<u>(2,029,754)</u>
Net Property, Improvements and Equipment	<u>\$ 1,786,766</u>	<u>\$ 1,424,863</u>

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#### NOTE 5 - LINE OF CREDIT

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The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of \$2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2020. There were no outstanding balances at December 31, 2016 or 2015.

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

**NOTE 6 - RETIREMENT PLANS**

*Postretirement Health Plan*

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

	2016	2015
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 1,398,216	\$ 1,247,648
Service cost	191,183	196,209
Interest cost	60,794	49,920
Actuarial gain	(75,463)	(88,212)
Benefits paid	(22,901)	(7,349)
Benefit obligation at end of year	1,551,829	1,398,216
Change in plan assets		
Fair value of plan assets at beginning of year	876,514	837,352
Actual return on plan assets	39,146	(56,275)
Employer contribution	151,513	102,786
Benefits paid	(22,901)	(7,349)
Fair value of plan assets at end of year	1,044,272	876,514
Unfunded status recognized as a noncurrent liability	\$ (507,557)	\$ (521,702)
Weighted average assumptions used to calculate the benefit obligation-discount rate	4.19%	4.39%

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

	2016	2015
Components of net periodic benefit cost		
Service cost	\$ 191,183	\$ 196,209
Interest cost	60,794	49,920
Expected return on plan assets	(51,638)	(53,104)
Amortization of prior service credit	(38,601)	(38,601)
Amortization of actuarial loss	3,834	3,532
Net periodic benefit cost	\$ 165,572	\$ 157,956

Weighted-average assumptions used to calculate the net periodic benefit cost		
Discount rate	4.39%	4.01%
Expected return on plan assets	5.50%	6.00%
Rate of compensation increases	N/A	N/A

The mortality assumptions for the plan were based on RP 2014 mortality tables under scales MP-2016 and MP-2015 during the years ended December 31, 2016 and 2015, respectively.

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

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

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

	2016	2015
Health care cost trend rate assumed for next year	6.6%	6.8%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2025	2025

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

	One-Percentage Point	
	Increase	Decrease
Effect on total of service cost and interest cost	\$ 71,378	\$ (52,905)
Effect on postretirement benefit obligation	358,969	(273,889)

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

	2016	2015
Actuarial (gain) loss arising during the year	\$ (66,805)	\$ 17,635
Amortization of prior year service cost	38,601	38,601
	\$ (28,204)	\$ 56,236

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.

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

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

	2016	2015
Equity Securities	52%	47%
Debt Securities	42%	44%
Other	6%	9%

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

	2016	2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category		
Cash equivalents	\$ 62,695	\$ 11,294
Mutual funds-bonds	540,896	386,117
Mutual funds-equities	440,681	413,861
Mutual funds-balanced	-	65,242
	\$ 1,044,272	\$ 876,514

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

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

There have been no changes in the fair market valuation techniques and inputs as of December 31, 2016 and 2015.

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.

## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

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

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Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2016 are as follows:

Years Ending December 31	
2017	\$ 24,732
2018	25,036
2019	27,319
2020	39,566
2021	41,503
2022 - 2026	318,073

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 \$129,414 to the plan in 2017.

#### *Defined Contribution Pension Plan*

The Organization has a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. For employees to receive the non-elective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$268,115 and \$250,463 of employee deferrals as of December 31, 2016 and 2015, respectively. In addition, the Organization elected to make an employer contribution in the amount of \$475,951 and \$448,962 for the years ended December 31, 2016 and 2015, respectively.

The Organization also has a 457B plan. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were \$37,000 and \$24,000 for the years ended December 31, 2016 and 2015, respectively. The Organization matched \$20,500 and \$14,000 of employee deferrals for the years ended December 31, 2016 and 2015, respectively.

The Organization also has a 457F plan. Employer contribution amounts for employees in excess of IRS contribution limits are deposited to the 457F. The Organization contributed in the amounts of \$35,226 and \$42,374, for the years ended December 31, 2016 and 2015, respectively.



**ATTACHMENT 4**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**NORTHEAST POWER COORDINATING COUNCIL, INC.**



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

May 1, 2017

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

Subject: NPCC 2016 True Up Actual vs. Budget Variance Analysis  
True Up Filing Based on Audited 2016 Financial Statements

Dear Scott:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2016 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 16, 2017 and forwarded to NERC for its information and provision to FERC.

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

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 95/5 split for 2016 based upon total corporate FTEs of 36.86 in the RE division and 2.14 in the CS division. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses and fixed asset expenditures for NPCC's RE division for 2016 were \$13,646,717 which is \$1,426,278 or 9.5% under the 2016 operating budget of \$15,072,998. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2016 were \$865,017 which is \$292,049 or 25.2% under the 2016 operating budget of \$1,157,066. In the aggregate, actual total expenses and fixed asset expenditures for the NPCC RE and CS divisions were \$14,511,734 which is \$1,718,329 or 10.6% under the 2016 total corporate expense budget of \$16,230,063. Indirect expenses are allocated to the direct programs based on FTE ratio.

Variances from budget in total for NPCC, total non-statutory, total statutory and total by statutory program area are provided using the template provided by NERC which presents actual and budgeted costs on program-by-program format. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2016 Business Plan and Budget. Explanations of significant expense variances are provided for the Regional Entity division in total and by program area where the explanation differs from that for the Regional Entity total.

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

Sincerely,

*Jessica Hala*

Jessica Hala  
Manager, Finance and Accounting

Enclosures

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

Northeast Power Coordinating Council, Inc.  
2016 Statement of Activities Summary  
Total NPCC (RE and CS Divisions)

	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	14,349,196	14,349,196	-
Penalty Sanctions	67,000	67,000	-
<b>Total ERO Funding</b>	<b>14,416,196</b>	<b>14,416,196</b>	<b>-</b>
Federal Grants	-	-	-
Non-Statutory Assessments	1,060,542	1,060,542	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	64,540	64,000	540
Interest	5,158	-	5,158
Miscellaneous	-	-	-
<b>Total Funding (A)</b>	<b>15,546,436</b>	<b>15,540,738</b>	<b>5,698</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	6,719,742	6,955,352	(235,610)
Payroll Taxes	411,926	422,332	(10,406)
Employee Benefits	1,287,903	1,453,211	(165,308)
Savings & Retirement	816,461	978,068	(161,606)
<b>Total Personnel Expenses</b>	<b>9,236,032</b>	<b>9,808,963</b>	<b>(572,930)</b>
<b>Meeting Expenses</b>			
Meetings	246,257	400,500	(154,243)
Travel	823,071	953,100	(130,029)
Conference Calls	34,450	47,000	(12,550)
<b>Total Meeting Expenses</b>	<b>1,103,778</b>	<b>1,400,600</b>	<b>(296,822)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	1,736,292	2,248,500	(512,208)
Rent & Improvements	767,678	802,500	(34,822)
Office Costs	504,886	639,500	(134,614)
Professional Services	942,132	1,011,000	(68,868)
Miscellaneous	44,319	43,000	1,319
Depreciation	259,512	240,327	19,185
<b>Total Operating Expenses</b>	<b>4,254,819</b>	<b>4,984,827</b>	<b>(730,008)</b>
<b>Indirect Expenses</b>	-	-	-
<b>Other Non-Operating Expenses</b>	-	-	-
<b>Total Expenses (B)</b>	<b>14,594,629</b>	<b>16,194,390</b>	<b>(1,599,760)</b>
<b>Change in Assets (A - B)</b>	<b>951,807</b>	<b>(653,652)</b>	<b>1,605,458</b>
<b>Fixed Assets</b>			
Depreciation	(259,512)	(240,327)	(19,185)
Computer & Software CapEx	75,517	276,000	(200,483)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	101,100	-	101,100
Leasehold Improvements	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>(82,895)</b>	<b>35,673</b>	<b>(118,568)</b>
Allocation of Fixed Assets	-	-	(0)
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(82,895)</b>	<b>35,673</b>	<b>(118,569)</b>
<b>TOTAL BUDGET (B + C)</b>	<b>14,511,734</b>	<b>16,230,063</b>	<b>(1,718,329)</b>
<b>Change in Working Capital (A-B-C)</b>	<b>1,034,702</b>	<b>(689,325)</b>	<b>1,724,027</b>
<b>FTE's</b>	<b>38.75</b>	<b>39.00</b>	<b>(0.25)</b>

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

TOTAL STATUTORY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	14,349,196	14,349,196	-	0.00%
Penalty Sanctions	67,000	67,000	-	0.00%
<b>Total ERO Funding</b>	<b>14,416,196</b>	<b>14,416,196</b>	<b>-</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	64,540	64,000	540	
Interest	4,875	-	4,875	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>14,485,611</b>	<b>14,480,196</b>	<b>5,415</b>	<b>0.04%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	6,366,235	6,561,470	(195,235)	-2.98%
Payroll Taxes	389,133	399,057	(9,924)	-2.49%
Employee Benefits	1,237,226	1,364,799	(127,573)	-9.35%
Savings & Retirement	780,695	833,118	(52,422)	-6.29%
<b>Total Personnel Expenses</b>	<b>8,773,289</b>	<b>9,158,445</b>	<b>(385,154)</b>	<b>-4.21%</b>
<b>Meeting Expenses</b>				
Meetings	245,357	394,000	(148,643)	-37.73%
Travel	773,688	907,100	(133,412)	-14.71%
Conference Calls	34,450	47,000	(12,550)	-26.70%
<b>Total Meeting Expenses</b>	<b>1,053,495</b>	<b>1,348,100</b>	<b>(294,605)</b>	<b>-21.85%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	1,734,569	2,223,500	(488,931)	-21.99%
Rent & Improvements	767,678	802,500	(34,822)	-4.34%
Office Costs	503,312	639,500	(136,188)	-21.30%
Professional Services	942,132	1,011,000	(68,868)	-6.81%
Miscellaneous	43,823	41,000	2,823	6.89%
Depreciation	249,466	231,821	17,645	7.61%
<b>Total Operating Expenses</b>	<b>4,240,980</b>	<b>4,949,321</b>	<b>(708,341)</b>	<b>-14.31%</b>
<b>Indirect Expenses</b>	<b>(341,268)</b>	<b>(427,047)</b>	<b>85,781</b>	<b>-20.09%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>13,726,496</b>	<b>15,028,819</b>	<b>(1,302,319)</b>	<b>-8.67%</b>
<b>Change in Assets (A - B)</b>	<b>759,115</b>	<b>(548,622)</b>	<b>1,307,734</b>	<b>-238.37%</b>
<b>Fixed Assets</b>				
Depreciation	(249,466)	(231,821)	(17,645)	7.61%
Computer & Software CapEx	74,173	276,000	(201,827)	-73.13%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	95,514	-	95,514	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>(79,779)</b>	<b>44,179</b>	<b>(123,958)</b>	
Allocation of Fixed Assets	-	-	(0)	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(79,779)</b>	<b>44,179</b>	<b>(123,959)</b>	<b>-280.58%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>13,646,717</b>	<b>15,072,998</b>	<b>(1,426,278)</b>	<b>-9.46%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>838,894</b>	<b>(592,801)</b>	<b>1,431,693</b>	<b>-241.51%</b>
<b>FTE's</b>	<b>36.61</b>	<b>36.86</b>	<b>(0.25)</b>	<b>-0.68%</b>

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

NON-STATUTORY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	1,060,542	1,060,542	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	283	-	283	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>1,060,825</b>	<b>1,060,542</b>	<b>283</b>	<b>0.03%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	353,507	393,882	(40,375)	-10.25%
Payroll Taxes	22,793	23,275	(482)	-2.07%
Employee Benefits	50,677	88,412	(37,735)	-42.68%
Savings & Retirement	35,766	144,950	(109,184)	-75.33%
<b>Total Personnel Expenses</b>	<b>462,743</b>	<b>650,519</b>	<b>(187,776)</b>	<b>-28.87%</b>
<b>Meeting Expenses</b>				
Meetings	900	6,500	(5,600)	-86.15%
Travel	49,383	46,000	3,383	7.35%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>50,283</b>	<b>52,500</b>	<b>(2,217)</b>	<b>-4.22%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	1,723	25,000	(23,277)	-93.11%
Rent & Improvements	-	-	-	
Office Costs	1,574	-	1,574	
Professional Services	-	-	-	
Miscellaneous	496	2,000	(1,504)	-75.20%
Depreciation	10,046	8,506	1,540	18.10%
<b>Total Operating Expenses</b>	<b>13,839</b>	<b>35,506</b>	<b>(21,667)</b>	<b>-61.02%</b>
<b>Indirect Expenses</b>	<b>341,268</b>	<b>427,047</b>	<b>(85,779)</b>	<b>-20.09%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>868,133</b>	<b>1,165,572</b>	<b>(297,439)</b>	<b>-25.52%</b>
<b>Change in Assets (A - B)</b>	<b>192,692</b>	<b>(105,030)</b>	<b>297,722</b>	<b>-283.46%</b>
<b>Fixed Assets</b>				
Depreciation	(10,046)	(8,506)	(1,540)	18.10%
Computer & Software CapEx	1,344	-	1,344	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	5,586	-	5,586	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>(3,116)</b>	<b>(8,506)</b>	<b>5,390</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(3,116)</b>	<b>(8,506)</b>	<b>5,390</b>	<b>-63.37%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>865,017</b>	<b>1,157,066</b>	<b>(292,049)</b>	<b>-25.24%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>195,808</b>	<b>(96,524)</b>	<b>292,332</b>	<b>-302.86%</b>
<b>FTE's</b>	<b>2.14</b>	<b>2.14</b>	<b>-</b>	<b>0.00%</b>

## **TOTAL NPCC**

### **Personnel Expenses**

In 2016, NPCC started the year with an open position that was filled in April. Staff was reallocated to continue to meet its Regional Delegation Agreement (RDA) responsibilities. This partial year vacancy resulted in lower salary and associated incentive compensation accruals. A staff reallocation from IT to Situation Awareness and Infrastructure Security (SAIS) also resulted in lower than budgeted indirect expenses. Despite being down one FTE for the first three months of the year, NPCC performed all of its 2016 delegated responsibilities as well as exceeding target attainment of its corporate goals and objectives. In the benefits area, medical insurance coverage was waived by approximately 33% of NPCC employees who have superior coverage from a former employer. Additionally, premiums were lower than budgeted which contributed to the year-end underage.

### **Meeting Expenses**

Continued efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite or via webinar where effective and have kept meeting, travel and conference call expenses under budget. Comparative proposals for NPCC's larger meetings have yielded significant discounting.

### **Consultants and Contracts**

This significant under budget variance is primarily due to the efficiencies that continue to be gained through the Entity Risk Assessment (ERA) sub-program within Compliance. Risk-based compliance monitoring utilizing Inherent Risk Assessments and Internal Control Evaluations resulted in lower costs than projected in the 2016 budget. NPCC is currently sharing many of its ERA processes and procedures with other Regional Entities to assist them in achieving similar savings. Contract expenditures were also reduced through the increased utilization of staff for compliance monitoring, offsetting previously budgeted independent contractor support. Additionally, within the Reliability Assessments and Performance Analysis (RAPA) and SAIS program areas increased staff efforts lessened utilization of outside contractors.

### **Office Costs**

Lower computer and software expenses resulted from purchasing rather than leasing computer equipment. The 2016 budget assumed a three-year lease, however, it was more economic to purchase the equipment. The purchase costs are reflected under capital expenditures as opposed to office costs where the lease payments were budgeted.

### **Professional Services**

Underage in legal fees is due to both General Counsel and NPCC's Sr. Compliance Attorney taking on greater workloads rather than having outside counsel perform certain consultations.

### **Indirect Expenses**

Lower than budgeted Administrative Services expenses, including the reallocation of one FTE from IT (admin services) to SAIS (direct program area), resulted in under budget indirect expenses.

### **Fixed Assets**

Computer & Software capital expenditures were under budget due to timing of CMEP Data Administration Application (CDAA) software development project. Additionally, NPCC had budgeted for a document management system building upon NERC's system, but found that such leveraging would not be cost efficient for NPCC on a Regional Entity level. Document management development and implementation are expected for the 2017 budget year. Overage in equipment capital expenditures is due to purchasing computer equipment rather than entering a three year leasing agreement as budgeted. The purchase decision was an economic one. This overage is partially offset by an underage in office costs. Full cost savings resulting from the elimination of financing costs will be realized over the three-year useful life of the laptop computer equipment.

### **Compliance Hearings**

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



**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

RELIABILITY STANDARDS	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	1,480,373	1,480,373	-	0.00%
Penalty Sanctions	7,046	7,046	-	0.00%
<b>Total ERO Funding</b>	<b>1,487,419</b>	<b>1,487,419</b>	<b>-</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>1,487,419</b>	<b>1,487,419</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	310,683	548,639	(237,956)	-43.37%
Payroll Taxes	20,558	32,229	(11,671)	-36.21%
Employee Benefits	88,001	116,140	(28,139)	-24.23%
Savings & Retirement	25,397	61,950	(36,553)	-59.00%
<b>Total Personnel Expenses</b>	<b>444,639</b>	<b>758,958</b>	<b>(314,319)</b>	<b>-41.41%</b>
<b>Meeting Expenses</b>				
Meetings	807	20,000	(19,193)	-95.97%
Travel	88,975	125,000	(36,025)	-28.82%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>89,782</b>	<b>145,000</b>	<b>(55,218)</b>	<b>-38.08%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	8,482	10,000	(1,518)	-15.18%
Rent & Improvements	-	-	-	
Office Costs	296	-	296	
Professional Services	-	-	-	
Miscellaneous	297	-	297	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>9,075</b>	<b>10,000</b>	<b>(925)</b>	<b>-9.25%</b>
<b>Indirect Expenses</b>	<b>308,131</b>	<b>584,695</b>	<b>(276,564)</b>	<b>-47.30%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>851,627</b>	<b>1,498,653</b>	<b>(647,026)</b>	<b>-43.17%</b>
<b>Change in Assets (A - B)</b>	<b>635,792</b>	<b>(11,234)</b>	<b>647,026</b>	<b>-5759.53%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(14,826)	(11,234)	(3,592)	31.98%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(14,826)</b>	<b>(11,234)</b>	<b>(3,592)</b>	<b>31.98%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>836,801</b>	<b>1,487,419</b>	<b>(650,618)</b>	<b>-43.74%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>650,618</b>	<b>-</b>	<b>650,618</b>	
<b>FTE's</b>	<b>1.93</b>	<b>2.93</b>	<b>(1.00)</b>	<b>-34.13%</b>

## **RELIABILITY STANDARDS**

### **Personnel**

Staff reallocation due to reprioritization and lower than budgeted medical premiums resulted in lower than budgeted personnel expenses.

### **Meeting Expenses**

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

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

**COMPLIANCE OPERATIONS, ENFORCEMENT and  
ORGANIZATION REGISTRATION**

	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	8,611,718	8,611,718	-	0.00%
Penalty Sanctions	38,478	38,478	-	0.00%
<b>Total ERO Funding</b>	<b>8,650,196</b>	<b>8,650,196</b>	<b>-</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>8,650,196</b>	<b>8,650,196</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,848,162	2,494,251	353,911	14.19%
Payroll Taxes	176,723	166,018	10,705	6.45%
Employee Benefits	471,136	491,904	(20,768)	-4.22%
Savings & Retirement	302,339	268,494	33,845	12.61%
<b>Total Personnel Expenses</b>	<b>3,798,360</b>	<b>3,420,667</b>	<b>377,693</b>	<b>11.04%</b>
<b>Meeting Expenses</b>				
Meetings	6,428	32,000	(25,572)	-79.91%
Travel	287,497	355,000	(67,503)	-19.01%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>293,925</b>	<b>387,000</b>	<b>(93,075)</b>	<b>-24.05%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	1,291,195	1,560,000	(268,805)	-17.23%
Rent & Improvements	-	-	-	
Office Costs	12,712	-	12,712	
Professional Services	-	-	-	
Miscellaneous	1,831	-	1,831	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>1,305,738</b>	<b>1,560,000</b>	<b>(254,262)</b>	<b>-16.30%</b>
<b>Indirect Expenses</b>	<b>2,712,340</b>	<b>3,192,876</b>	<b>(480,536)</b>	<b>-15.05%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>8,110,363</b>	<b>8,560,543</b>	<b>(450,180)</b>	<b>-5.26%</b>
<b>Change in Assets (A - B)</b>	<b>539,833</b>	<b>89,653</b>	<b>450,180</b>	<b>502.14%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	61,197	151,000	(89,803)	-59.47%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>61,197</b>	<b>151,000</b>	<b>(89,803)</b>	
Allocation of Fixed Assets	(80,962)	(61,347)	(19,615)	31.97%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(19,766)</b>	<b>89,653</b>	<b>(109,419)</b>	<b>-122.05%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>8,090,597</b>	<b>8,650,196</b>	<b>(559,599)</b>	<b>-6.47%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>559,599</b>	<b>-</b>	<b>559,599</b>	
<b>FTE's</b>	<b>16.75</b>	<b>16.00</b>	<b>0.75</b>	<b>4.69%</b>

## **COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION**

### **Total Expenses**

Despite the under budget variance in total expenses NPCC's Compliance Operations, Enforcement and Organization Registration program area performed all of its 2016 delegated responsibilities as well as exceeding target attainment of its goals and objectives, including:

- Conducted 33 off-site Operations & Planning (O&P) audits, seven on-site O&P audits, three off-site O&P spot checks and six on-site CIP audits;
- Performed 184 Inherent Risk Assessments (IRA);
- Performed 14 Internal Control Evaluations (ICE);
- Processed 156 Technical Feasibility Exception (TFE) submittals from 20 registered entities: 74 new TFEs, 40 Material Change Reports(MCRs) and 119 Terminations for TFEs (additional 77 TFEs for 22 Registered Entities due to the implementation of CIP V5 Standards effective July 1, 2016);
- Closed 80 Violations;
- Accepted 4 Mitigation Plans;
- Accepted 66 Mitigation Activities;
- Processed nine new entity registrations, 23 deactivations, six entity name changes and seven certification reviews.

### **Personnel Expenses**

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

### **Consultants and Contracts**

This significant under budget variance is primarily due to the early and aggressive implementation of risk-based compliance monitoring utilizing Inherent Risk Assessments and Internal Control Evaluations in a newly formed Entity Risk Assessment (ERA) program. These cost savings were earlier than anticipated. NPCC is currently sharing many of its ERA processes and procedures with other Regional Entities to assist them in achieving similar efficiencies. Contract expenditures were also reduced through the increased utilization of staff for compliance monitoring offsetting previously budgeted independent contractor support.

### **Meeting Expenses**

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

### **Fixed Assets**

Computer & Software capital expenditures were under budget primarily due to timing of CMEP Data Administration Application (CDAA) software development project. The scope of work continues to be as budgeted.

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	3,157,554	3,157,554	-	0.00%
Penalty Sanctions	14,020	14,020	-	0.00%
<b>Total ERO Funding</b>	<b>3,171,574</b>	<b>3,171,574</b>	<b>-</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>3,171,574</b>	<b>3,171,574</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	1,018,116	1,031,149	(13,033)	-1.26%
Payroll Taxes	62,083	64,284	(2,201)	-3.42%
Employee Benefits	209,514	212,345	(2,831)	-1.33%
Savings & Retirement	125,787	116,395	9,392	8.07%
<b>Total Personnel Expenses</b>	<b>1,415,500</b>	<b>1,424,173</b>	<b>(8,673)</b>	<b>-0.61%</b>
<b>Meeting Expenses</b>				
Meetings	18,233	45,000	(26,767)	-59.48%
Travel	208,193	186,850	21,343	11.42%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>226,426</b>	<b>231,850</b>	<b>(5,424)</b>	<b>-2.34%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	312,591	374,500	(61,909)	-16.53%
Rent & Improvements	-	-	-	
Office Costs	1,947	-	1,947	
Professional Services	-	-	-	
Miscellaneous	1,444	-	1,444	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>315,982</b>	<b>374,500</b>	<b>(58,518)</b>	<b>-15.63%</b>
<b>Indirect Expenses</b>	<b>930,327</b>	<b>1,163,404</b>	<b>(233,077)</b>	<b>-20.03%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>2,888,235</b>	<b>3,193,927</b>	<b>(305,692)</b>	<b>-9.57%</b>
<b>Change in Assets (A - B)</b>	<b>283,339</b>	<b>(22,353)</b>	<b>305,692</b>	<b>-1367.57%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(29,501)	(22,353)	(7,148)	31.98%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(29,501)</b>	<b>(22,353)</b>	<b>(7,148)</b>	<b>31.98%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>2,858,734</b>	<b>3,171,574</b>	<b>(312,840)</b>	<b>-9.86%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>312,840</b>	<b>-</b>	<b>312,840</b>	
<b>FTE's</b>	<b>5.83</b>	<b>5.83</b>	<b>-</b>	<b>0.00%</b>

## **RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS**

### **Personnel Expenses**

In the benefits area, medical insurance coverage was waived by several employees who have superior coverage from a former employer. Additionally, medical premiums were lower than budgeted.

### **Meetings and Travel Expenses**

Increased travel expenses were the result of staff attending off-site meetings on NPCC's behalf rather than contractors. These additional travel expenses were offset by underages in consultants and contracts expenses and on-site meeting expenses.

### **Consultants and Contracts**

Increased staff efforts lessened utilization of outside consultants and contractors.

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	155,715	155,715	-	0.00%
Penalty Sanctions	240	240	-	0.00%
<b>Total ERO Funding</b>	<b>155,955</b>	<b>155,955</b>	<b>-</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	64,540	64,000	540	0.84%
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>220,495</b>	<b>219,955</b>	<b>540</b>	<b>0.25%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	17,660	19,073	(1,413)	-7.41%
Payroll Taxes	1,044	1,311	(267)	-20.37%
Employee Benefits	4,325	5,452	(1,127)	-20.67%
Savings & Retirement	2,254	2,397	(143)	-5.97%
<b>Total Personnel Expenses</b>	<b>25,283</b>	<b>28,233</b>	<b>(2,950)</b>	<b>-10.45%</b>
<b>Meeting Expenses</b>				
Meetings	125,369	157,000	(31,631)	-20.15%
Travel	1,679	15,150	(13,471)	-88.92%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>127,048</b>	<b>172,150</b>	<b>(45,102)</b>	<b>-26.20%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	226	-	226	
Professional Services	-	-	-	
Miscellaneous	1,920	-	1,920	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>2,146</b>	<b>-</b>	<b>2,146</b>	
<b>Indirect Expenses</b>	<b>15,827</b>	<b>19,955</b>	<b>(4,128)</b>	<b>-20.69%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>170,304</b>	<b>220,338</b>	<b>(50,034)</b>	<b>-22.71%</b>
<b>Change in Assets (A - B)</b>	<b>50,191</b>	<b>(383)</b>	<b>50,574</b>	<b>-13204.70%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(506)	(383)	(123)	32.12%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(506)</b>	<b>(383)</b>	<b>(123)</b>	<b>32.12%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>169,798</b>	<b>219,955</b>	<b>(50,157)</b>	<b>-22.80%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>50,697</b>	<b>-</b>	<b>50,697</b>	
<b>FTE's</b>	<b>0.10</b>	<b>0.10</b>	<b>-</b>	<b>0.00%</b>

## **TRAINING, EDUCATION and OPERATOR CERTIFICATION**

### **Meeting expenses**

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



**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	1,536,637	1,536,637	-	0.00%
Penalty Sanctions	7,215	7,215	-	0.00%
<b>Total ERO Funding</b>	<u>1,543,852</u>	<u>1,543,852</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>1,543,852</u>	<u>1,543,852</u>	<u>-</u>	<u>0.00%</u>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	716,622	516,951	199,671	38.62%
Payroll Taxes	42,612	32,630	9,982	30.59%
Employee Benefits	119,118	116,230	2,888	2.48%
Savings & Retirement	80,596	53,880	26,716	49.58%
<b>Total Personnel Expenses</b>	<u>958,948</u>	<u>719,691</u>	<u>239,257</u>	<u>33.24%</u>
<b>Meeting Expenses</b>				
Meetings	7,101	15,000	(7,899)	-52.66%
Travel	70,718	65,000	5,718	8.80%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<u>77,819</u>	<u>80,000</u>	<u>(2,181)</u>	<u>-2.73%</u>
<b>Operating Expenses</b>				
Consultants & Contracts	30,000	157,000	(127,000)	-80.89%
Rent & Improvements	-	-	-	
Office Costs	625	-	625	
Professional Services	-	-	-	
Miscellaneous	551	-	551	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<u>31,176</u>	<u>157,000</u>	<u>(125,824)</u>	<u>-80.14%</u>
<b>Indirect Expenses</b>	<u>638,023</u>	<u>598,664</u>	<u>39,359</u>	<u>6.57%</u>
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Expenses (B)</b>	<u>1,705,966</u>	<u>1,555,355</u>	<u>150,611</u>	<u>9.68%</u>
<b>Change in Assets (A - B)</b>	<u>(162,114)</u>	<u>(11,503)</u>	<u>(150,611)</u>	<u>1309.32%</u>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	(15,180)	(11,503)	(3,677)	31.97%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>(15,180)</u>	<u>(11,503)</u>	<u>(3,677)</u>	<u>31.97%</u>
<b>TOTAL BUDGET (B + C)</b>	<u>1,690,786</u>	<u>1,543,852</u>	<u>146,934</u>	<u>9.52%</u>
<b>Change in Working Capital (A-B-C)</b>	<u>(146,934)</u>	<u>-</u>	<u>(146,934)</u>	
<b>FTE's</b>	<u>4.00</u>	<u>3.00</u>	<u>1.00</u>	<u>33.33%</u>

## **SITUATION AWARENESS and INFRASTRUCTURE SECURITY**

### **Personnel**

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

### **Consultants and Contracts**

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

**Northeast Power Coordinating Council, Inc.**  
**2016 Statement of Activities Summary**

ADMINISTRATIVE SERVICES	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	(592,801)	(592,801)	-	0.00%
Penalty Sanctions	-	-		
<b>Total ERO Funding</b>	<u>(592,801)</u>	<u>(592,801)</u>	-	0.00%
Federal Grants	-	-		
Non-Statutory Assessments	-	-		
Testing	-	-		
Services & Software	-	-		
Workshop Fees	-	-		
Interest	4,875	-	4,875	
Miscellaneous	-	-		
<b>Total Funding (A)</b>	<u>(587,926)</u>	<u>(592,801)</u>	4,875	-0.82%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	1,454,992	1,951,407	(496,415)	-25.44%
Payroll Taxes	86,113	102,585	(16,472)	-16.06%
Employee Benefits	345,132	422,728	(77,596)	-18.36%
Savings & Retirement	244,322	330,001	(85,679)	-25.96%
<b>Total Personnel Expenses</b>	<u>2,130,559</u>	<u>2,806,721</u>	<u>(676,162)</u>	<u>-24.09%</u>
<b>Meeting Expenses</b>				
Meetings	87,419	125,000	(37,581)	-30.06%
Travel	116,626	160,100	(43,474)	-27.15%
Conference Calls	34,450	47,000	(12,550)	-26.70%
<b>Total Meeting Expenses</b>	<u>238,495</u>	<u>332,100</u>	<u>(93,605)</u>	<u>-28.19%</u>
<b>Operating Expenses</b>				
Consultants & Contracts	92,301	122,000	(29,699)	-24.34%
Rent & Improvements	767,678	802,500	(34,822)	-4.34%
Office Costs	487,506	639,500	(151,994)	-23.77%
Professional Services	942,132	1,011,000	(68,868)	-6.81%
Miscellaneous	37,780	41,000	(3,220)	-7.85%
Depreciation	249,466	231,821	17,645	7.61%
<b>Total Operating Expenses</b>	<u>2,576,863</u>	<u>2,847,821</u>	<u>(270,958)</u>	<u>-9.51%</u>
<b>Indirect Expenses</b>	<u>(4,945,916)</u>	<u>(5,986,644)</u>	<u>1,040,728</u>	<u>-17.38%</u>
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Assets (A - B)</b>	<u>(587,926)</u>	<u>(592,801)</u>	<u>4,875</u>	<u>-0.82%</u>
<b>Fixed Assets</b>				
Depreciation	(249,466)	(231,821)	(17,645)	7.61%
Computer & Software CapEx	12,976	125,000	(112,024)	-89.62%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	95,514	-	95,514	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>(140,976)</u>	<u>(106,821)</u>	<u>(34,155)</u>	
Allocation of Fixed Assets	140,976	106,821	34,155	31.97%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	<u>(587,926)</u>	<u>(592,801)</u>	<u>4,875</u>	<u>-0.82%</u>
<b>FTE's</b>	<b>8.00</b>	<b>9.00</b>	<b>(1.00)</b>	<b>-11.11%</b>

## **ADMINISTRATIVE SERVICES**

### **Interest Income**

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

### **Personnel**

Under budget primarily due to reallocation of staff. Medical premium savings related to lower premiums and employees continuing to waive coverage also contributed to the under budget variance.

### **Meeting Expenses**

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

### **Consultants and Contracts**

Remuneration study expenses were lower than budgeted due to a narrowed scope.

### **Office Costs**

Lower computer and software expenses resulted from purchasing rather than leasing computer equipment. The 2016 budget assumed a three-year lease, however, it was more economic to purchase the equipment. The purchase costs are reflected under capital expenditures as opposed to office costs where the lease payments were budgeted.

### **Professional Services**

Underage in legal fees is due to both General Counsel and NPCC's Compliance Attorney took on greater workloads rather than having outside counsel perform certain consultations.

### **Fixed Assets**

Computer & Software capital expenditures were under budget due to timing of CMEP Data Administration Application (CDAA) software development project. Additionally, NPCC's plans to leverage the NERC document management system were found to be inappropriate at the Regional Entity level. While budgeted for 2016, document management development and implementation are expected for the 2017 budget year. Overage in equipment capital expenditures is due to purchasing computer equipment rather than entering a three year leasing agreement as budgeted. The purchase decision was an economic one. This overage is partially offset by an underage in office costs. Full cost savings resulting from the elimination of financing costs will be realized over the three-year useful life of the laptop computer equipment.

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

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

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

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc., which comprise the Statements of Financial Position as of December 31, 2016 and December 31, 2015, and the related change in net assets and cash flows for the years then ended.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. at December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

New York, New York  
March 16, 2017

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

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

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



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

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

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

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

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

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

# Northeast Power Coordinating Council, Inc.

## Notes to Financial Statements

### December 31, 2016 and 2015

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#### 1. Background

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

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

#### 2. Summary of Significant Accounting Policies

##### **Basis of Accounting**

For the years ended December 31, 2016 and 2015, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

##### **Cash**

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

##### **Restricted Cash**

Restricted cash represents amounts in deposit accounts funded with penalties levied and received for noncompliance within NPCC U.S., which are required to be used for statutory activities in years subsequent to which the penalty was received, and amounts in deposit accounts for collateralizing a letter of credit as security for NPCC’s office lease. At times, cash balances may be in excess of depository insurance limits.

##### **Equipment and Leasehold Improvements**

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

# Northeast Power Coordinating Council, Inc.

## Notes to Financial Statements

### December 31, 2016 and 2015

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#### **Revenue Recognition**

For the Criteria Services division, membership in the Company is on a calendar year basis. There are no fees assessed to full members other than those members that are Independent System Operators or Balancing Authority Areas. Criteria Services assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. For the Regional Entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Regional Entity assessments received are recorded as income in the year to which they were applied within the NPCC Business Plan and Budget irrespective of when billed or collected. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

#### **Rent Expense**

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2016 is approximately \$264,000.

#### **Income Taxes**

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

#### **Use of Estimates**

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

### **3. Investments**

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

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

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

At December 31, 2016 and 2015, the Company owned 1,811,039 and 1,811,014 units of \$1 par value per unit, respectively. In 2016 and 2015, the funds earned average yields of 0%. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis.

**4. Equipment and Leasehold Improvements**

Equipment and leasehold improvements at December 31, 2016 and 2015 consists of the following:

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

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

**5. Pension Plan**

The Company had a trustee, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. In November 2014, the Company decided to terminate the Plan effective January 31, 2015 and freeze all benefits accruals for the Plan's participants effective December 31, 2014. The termination of the plan was approved by the IRS and PBGC, with an effective date of January 31, 2015. The plan assets, totalling \$14,382,657, were fully distributed to plan participants by December 31, 2015. The Company's plan contributions were \$0 and \$1,645,291 for the years 2016 and 2015, respectively. The amount of pension expense included in salaries and employee benefits in the Statements of Activities is \$0 and \$1,626,514 for the years ended December 31, 2016 and 2015, respectively.

**6. Savings and Supplemental Plans**

The Company maintains a 401(k) plan for which all employees are immediately eligible upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Company contributions to the 401(k) plan were \$226,578 and \$218,427 for 2016 and 2015, respectively. Additionally, for those employees joining the Company after February 6, 2007, and upon completion of a full calendar year of service, such employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. Starting with 2015, due to the termination of the defined benefit pension plan, those employees who were participants in the defined benefit plan are eligible for the discretionary contribution as well. In addition, for years 2015 through 2017 there is a 2% supplemental

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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contribution for those employees. The discretionary contribution for 2016 and 2015 was 8% of base compensation and totaled \$452,018 and \$429,558, respectively. The 2% supplemental contribution totaled \$36,879 and \$35,916 for 2016 and 2015, respectively. During 2010, the Company adopted a supplemental plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS compensation limits. The Company contributed \$36,000 to this supplemental plan for each of the years 2016 and 2015. During 2013, the Company adopted a 457(f) plan for the President and CEO to provide benefits not provided under the Pension Plan as a result of IRS code limitations. The Company contributed \$37,100 to this plan for each of the years 2016 and 2015.

**7. Leases**

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC executed office and equipment leases with effective rental dates starting in 2009 coordinated with its relocation of offices within New York City. NPCC's office lease provides for additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$500,000 at lease inception and reduced to \$150,000 at December 31, 2015 and for future years. NPCC executed various computer and equipment leases with expiration dates through 2020. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$723,732 and \$766,600 for 2016 and 2015, respectively.

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

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

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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**8. Functional Expenses**

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

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

**9. Other Expenses**

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

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

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

**10. Related Party Transactions**

The NERC, through agreements with the FERC in the U.S. and Canadian Provincial regulatory and/or governmental agreements within Canada, delegates enforcement authority to eight Regional Entities. NPCC is the cross-border Regional Entity for Northeastern North America. NERC was certified as the "Electric Reliability Organization" by the FERC on July 20, 2006. As of June 18, 2007, the U.S. FERC granted NERC the legal authority to enforce reliability standards with all U.S. users, owners, and operators of the bulk power system, and made compliance with those standards mandatory and enforceable. NERC relies on the diverse and collective expertise of industry participants to improve the reliability of the bulk power system. These entities account for virtually all the electricity supplied in the United States, Canada, and a portion of Baja California Norte, Mexico. NERC is subject to audit by the U.S. FERC and governmental and/or regulatory authorities in Canada. NERC funded the Regional Entities based upon Business Plans and Budgets submitted to and approved by FERC in the U.S. and Canadian regulatory and/or governmental authorities.

NPCC's Criteria Services division was fully funded by regional independent system operator or balancing authority areas and operated on Criteria Services assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2016 and

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

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

**11. Line of Credit**

On March 18, 2013, pursuant to an agreement with a lender, the Company obtained a line of credit in the amount of \$1,000,000. The line of credit, which had an initial term of 18 months, was renewed on September 18, 2014 for one year and on September 21, 2015 for nine months. On June 18, 2016, the line was renewed for one year until June 18, 2017. Outstanding borrowings are secured by all of the Company's assets. There were no borrowings against the line of credit as of December 31, 2016 and 2015.

**12. Subsequent Events**

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



**ATTACHMENT 5**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**RELIABILITYFIRST CORPORATION**



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

May 4, 2017

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

**ReliabilityFirst's 2016 Actual Cost-To-Budget Comparison**

Dear Mr. Scott Jones:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year 2016 Actual Cost-To-Budget Comparison. A summary of significant variances are explained in the Introduction Section, while more detailed explanations of variances are provided by program area.

For more information, please contact me at 216.503.0600 or [jill.lewton@rfirst.org](mailto:jill.lewton@rfirst.org).

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Jill Lewton*

Jill Lewton  
Controller

## **Introduction**

This Actual Cost-To-Budget Comparison includes a summary of significant variances, followed by more detailed analyses by program area. In 2016, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the ERO. The financial information included in this comparison is based on the results of ReliabilityFirst's 2016 independent audit that was performed by RSM US LLP and completed on April 10, 2017. For the year ending December 31, 2016, ReliabilityFirst Corporation was \$761K (4%) under budget.

## **Cost Allocation**

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

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

## **Funding**

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

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

## **Budget Expenses**

### **Personnel Expenses**

Employee Benefits was under budget as a result of variances in Medical Benefits and Training. Medical Benefits was under budget due to personnel being below approved staffing levels, along with the difference between the medical plans that were included in the budget and the plans that were actually selected by the employees. Training was under budget due to employees not taking advantage of training opportunities.

### **Meeting Expenses**

Meetings was primarily over budget due to the increase costs associated with the Reliability, CIP, and Protection Systems Workshops.

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

### **Operating Expenses**

Consultants and Contracts was under budget as a result of the cost to complete the vulnerability and penetration testing being less than originally anticipated, and more effective utilization of staff resources, resulting in less need to utilize contractors for compliance monitoring, and risk and mitigation activities. These variances were offset by the costs associated with the expertise management services being conducted to elicit knowledge from key personnel and the financial internal controls evaluation, which were not budgeted.

Office Costs was under budget as a result of experiencing less upgrades than anticipated for the compliance portal and the audit management software.

Professional Services is under budget due to the reduction in use of outside legal counsel, along with not needing to conduct a search for a new independent director.

### **Fixed Assets**

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

Furniture & Fixtures was under budget due to the replacement of the remaining office furniture in 2015, requiring no office furniture purchases in 2016.

Leasehold Improvements was over budget due to the replacement of the main office exit doors, as a result of a defect with the electronic locking devices.

**Allocation of Fixed Assets**

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

**Cash Reserves**

**Working Capital Reserve**

ReliabilityFirst Working Capital Reserve of \$645,255 was established in 2016 to provide the capability to stabilize future years' assessments.

**Operating Reserve**

ReliabilityFirst's Operating Reserve of \$1,000,000, which is designated each year with the intention of providing for unbudgeted and unexpected expenditures, was not utilized in 2016.

# ReliabilityFirst Corporation's 2016 Actual Cost-To-Budget Comparison

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
ReliabilityFirst Corporation				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 19,367,209	\$ 19,367,209	\$ (0)	0.00%
Penalty Sanctions	748,250	748,250	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 20,115,458</b>	<b>\$ 20,115,458</b>	<b>\$ (0)</b>	<b>0.00%</b>
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	17,322	-	17,322	0.00%
Miscellaneous	27,076	-	27,076	0.00%
<b>Total Funding</b>	<b>\$ 20,159,856</b>	<b>\$ 20,115,458</b>	<b>\$ 44,398</b>	<b>0.22%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 11,372,504	\$ 11,427,306	\$ (54,802)	-0.48%
Payroll Taxes	663,645	699,887	(36,242)	-5.18%
Employee Benefits	1,540,444	1,786,698	(246,254)	-13.78%
Retirement Costs	1,722,126	1,860,244	(138,118)	-7.42%
<b>Total Personnel Expenses</b>	<b>\$ 15,298,719</b>	<b>\$ 15,774,135</b>	<b>\$ (475,416)</b>	<b>-3.01%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 264,006	\$ 222,750	\$ 41,256	18.52%
Travel	637,045	836,800	(199,755)	-23.87%
Conference Calls	47,802	42,000	5,802	13.81%
<b>Total Meeting Expenses</b>	<b>\$ 948,853</b>	<b>\$ 1,101,550</b>	<b>\$ (152,697)</b>	<b>-13.86%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 484,749	\$ 540,110	\$ (55,361)	-10.25%
Office Rent	518,422	534,619	(16,197)	-3.03%
Office Costs	642,722	717,183	(74,461)	-10.38%
Professional Services	374,440	488,989	(114,549)	-23.43%
Miscellaneous	43,291	34,640	8,651	24.97%
Depreciation	375,233	352,668	22,565	6.40%
<b>Total Operating Expenses</b>	<b>\$ 2,438,857</b>	<b>\$ 2,668,209</b>	<b>\$ (229,352)</b>	<b>-8.60%</b>
<b>Total Direct Expenses</b>	<b>\$ 18,686,429</b>	<b>\$ 19,543,894</b>	<b>\$ (857,465)</b>	<b>-4.39%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Non-Operating Expenses</b>	<b>67</b>	<b>2,483</b>	<b>(2,416)</b>	<b>-97.30%</b>
<b>Total Expenses</b>	<b>\$ 18,686,496</b>	<b>\$ 19,546,377</b>	<b>\$ (859,881)</b>	<b>-4.40%</b>
<b>Change in Assets</b>	<b>\$ 1,473,360</b>	<b>\$ 569,081</b>	<b>\$ 904,279</b>	<b>158.90%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (375,233)	\$ (352,668)	\$ (22,565)	6.40%
Computer Hardware & Software CapEx	283,278	133,500	149,778	112.19%
Furniture & Fixtures CapEx	-	40,000	(40,000)	-100.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	11,500	-	11,500	0.00%
	\$ (80,455)	\$ (179,168)	\$ 98,713	-55.10%
Allocation of Fixed Assets	-	(1)	\$ 1	-100.00%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (80,455)</b>	<b>\$ (179,169)</b>	<b>\$ 98,714</b>	<b>-55.10%</b>
<b>Total Budget</b>	<b>\$ 18,606,041</b>	<b>\$ 19,367,208</b>	<b>\$ (761,167)</b>	<b>-3.93%</b>
<b>Total Change in Working Capital</b>	<b>\$ 1,553,815</b>	<b>\$ 748,251</b>	<b>\$ 805,565</b>	<b>107.66%</b>
WC - 12/31/2015	1,663,072	(590,176)	2,253,248	
Less: Adjustment for future liabilities	(1,078,718)	-	(1,078,718)	
Available Working Capital	584,354	(590,176)	1,174,530	
Change in reserves from current year operations	1,553,815	748,251	805,564	
Other Adjustments to Reserves	(158,007)	(158,074)	67	
<b>Total Working Capital</b>	<b>1,980,163</b>	<b>1</b>	<b>1,980,161</b>	
Working Capital Reserve	645,255	645,255	-	
Operating Reserve	1,000,000	1,000,000	-	
<b>Total Working Capital and Operating Reserve</b>	<b>3,625,418</b>	<b>1,645,256</b>	<b>1,980,161</b>	
<b>FTEs</b>	<b>71.27</b>	<b>72.20</b>	<b>(0.93)</b>	<b>-1.29%</b>

## Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Identified high-priority risks within the ReliabilityFirst region (Regional Risk Elements), along with a list of associated Reliability Standards and Requirements that help to mitigate these risks
- Performed 67 Inherent Risk Assessments (IRA), including IRAs for all Balancing Authorities, Reliability Coordinators, and Transmission Operators in the ReliabilityFirst footprint
- Worked with Registered Entities on 97 event analysis reports
- Performed summer and winter seasonal assessments, near term and long term transmission assessments, a long-term resource assessment, and four confidential extreme power flow analyses
- Completed 30 Operations & Planning Audits and 11 CIP audits, all of which were specifically scoped and tailored around the identified Risk Elements
- Served as the Lead Region for 34% of the 193 Multi-Regional Registered Entities (MRRE) in North America and took the lead in processing 59 MRRE violations
- Conducted 35 assist visits, the majority of which focused heavily on CIP Standards
- Held Spring and Fall, Reliability and CIP Workshops, which included sessions on supply chain risk management challenges and internal controls; common trends and themes in CIP violations; implementing a continuous improvement plan; strategies to foster a culture of compliance and reliability; and numerous other topics beneficial to industry stakeholders
- Conducted a case study webinar to share themes and root causes associated with an entity's recent systemic CIP compliance issues, and pathways to successful CIP security and compliance, which was attended by 362 participants from across the country and around the world
- Held a Substation Protection Workshop for Field Personnel that focused on protection system commissioning and testing
- Sponsored a training session from Schweitzer Engineering Laboratories University on setting ground relays
- Hosted the first annual Generator Owner/Operator Workshop for Plant Personnel which focused on generating plant issues
- Conducted on-site generation plant visits, reviewed records related to the entity's winterization plan implementation, and conducted a walk-through of selected areas of their facilities that may be exposed to extreme weather conditions
- Created a Generator Subcommittee, in response to an overwhelming interest from Generator Owners and Operators

For more information on these major accomplishments see ReliabilityFirst's 2016 Annual Report.

## **Explanation of Variances - Reliability Standards**

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



## Reliability Assurance and Compliance Monitoring

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Reliability Assurance and Compliance Monitoring				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 12,711,363	\$ 12,711,363	\$ (0)	0.00%
Penalty Sanctions	487,142	487,142	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 13,198,505</b>	<b>\$ 13,198,505</b>	<b>\$ (0)</b>	<b>0.00%</b>
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	10,890	-	10,890	0.00%
Miscellaneous	17,022	-	17,022	0.00%
<b>Total Funding</b>	<b>\$ 13,226,417</b>	<b>\$ 13,198,505</b>	<b>\$ 27,913</b>	<b>0.21%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 6,004,301	\$ 6,157,443	\$ (153,142)	-2.49%
Payroll Taxes	353,617	383,693	(30,076)	-7.84%
Employee Benefits	746,168	924,660	(178,492)	-19.30%
Retirement Costs	868,368	963,975	(95,607)	-9.92%
<b>Total Personnel Expenses</b>	<b>\$ 7,972,454</b>	<b>\$ 8,429,771</b>	<b>\$ (457,317)</b>	<b>-5.43%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 19,122	\$ 21,850	\$ (2,728)	-12.49%
Travel	426,220	564,000	(137,780)	-24.43%
Conference Calls	-	-	-	0.00%
<b>Total Meeting Expenses</b>	<b>\$ 445,342</b>	<b>\$ 585,850</b>	<b>\$ (140,508)</b>	<b>-23.98%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 194,048	\$ 243,600	\$ (49,552)	-20.34%
Office Rent	-	-	-	0.00%
Office Costs	261,236	336,287	(75,051)	-22.32%
Professional Services	-	-	-	0.00%
Miscellaneous	407	1,400	(993)	-70.93%
Depreciation	25,067	22,345	2,722	12.18%
<b>Total Operating Expenses</b>	<b>\$ 480,758</b>	<b>\$ 603,632</b>	<b>\$ (122,874)</b>	<b>-20.36%</b>
<b>Total Direct Expenses</b>	<b>\$ 8,898,554</b>	<b>\$ 9,619,253</b>	<b>\$ (720,699)</b>	<b>-7.49%</b>
<b>Indirect Expenses</b>	<b>\$ 3,543,216</b>	<b>\$ 3,703,042</b>	<b>\$ (159,826)</b>	<b>-4.32%</b>
<b>Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>\$ 12,441,770</b>	<b>\$ 13,322,295</b>	<b>\$ (880,525)</b>	<b>-6.61%</b>
<b>Change in Assets</b>	<b>\$ 784,647</b>	<b>\$ (123,790)</b>	<b>\$ 908,437</b>	<b>-733.85%</b>
<b>Fixed Assets</b>				
Depreciation	(25,067)	(22,345)	(2,722)	12.18%
Computer Hardware & Software CapEx	18,225	-	18,225	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	(6,842)	(22,345)	15,503	-69.38%
Allocation of Fixed Assets	\$ (40,687)	\$ (101,445)	\$ 60,758	-59.89%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (47,529)</b>	<b>\$ (123,790)</b>	<b>\$ 76,261</b>	<b>-61.61%</b>
<b>Total Budget</b>	<b>\$ 12,394,241</b>	<b>\$ 13,198,505</b>	<b>\$ (804,264)</b>	<b>-6.09%</b>
<b>Total Change in Working Capital</b>	<b>\$ 832,176</b>	<b>\$ (0)</b>	<b>\$ 832,176</b>	<b>-1141270015.03%</b>
<b>FTEs</b>	<b>35.54</b>	<b>37.50</b>	<b>(1.96)</b>	<b>-5.23%</b>

## **Explanation of Variances – Reliability Assurance and Compliance Monitoring**

### **Personnel Expenses**

Employee Benefits was under budget as a result of variances in Medical Benefits and Training. Medical Benefits was under budget due to personnel being below approved staffing levels, along with the difference between the medical plans that were included in the budget and the plans that were actually selected by the employees. Training was under budget due to employees not taking advantage of training opportunities.

Retirement Costs was under budget due to personnel being below approved staffing levels, along with the unpaid retirement contributions for those employees who did not meet the plan requirements.

### **Meeting Expenses**

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

### **Operating Expenses**

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

Office Costs was under budget as a result of having less upgrades for the compliance portal and the audit management software than anticipated. Furthermore, additional licenses were purchased for the audit management software. These licenses were budgeted as an expense, however, due to their cost they were recorded as a fixed asset.

### **Fixed Assets**

Computer Hardware and Software was over budget due to the additional licenses that were purchased for the audit management software. These licenses were budgeted as an expense rather than a fixed asset.

## Enforcement Management

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Enforcement Management				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 2,075,389	\$ 2,075,389	\$ (0)	0.00%
Penalty Sanctions	107,171	107,171	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 2,182,560</b>	<b>\$ 2,182,560</b>	<b>\$ (0)</b>	<b>0.00%</b>
Membership Dues	-	-	-	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	2,801	-	2,801	0.00%
Miscellaneous	4,378	-	4,378	0.00%
<b>Total Funding</b>	<b>\$ 2,189,738</b>	<b>\$ 2,182,560</b>	<b>\$ 7,178</b>	<b>0.33%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 994,691	\$ 944,027	\$ 50,664	5.37%
Payroll Taxes	69,125	67,401	1,724	2.56%
Employee Benefits	127,801	173,031	(45,230)	-26.14%
Retirement Costs	136,121	150,897	(14,776)	-9.79%
<b>Total Personnel Expenses</b>	<b>\$ 1,327,738</b>	<b>\$ 1,335,356</b>	<b>\$ (7,618)</b>	<b>-0.57%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 2,391	\$ 5,500	\$ (3,109)	-56.53%
Travel	19,522	40,000	(20,478)	-51.20%
Conference Calls	-	-	-	0.00%
<b>Total Meeting Expenses</b>	<b>\$ 21,913</b>	<b>\$ 45,500</b>	<b>\$ (23,587)</b>	<b>-51.84%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 4,000	\$ -	\$ 4,000	0.00%
Office Rent	-	-	-	0.00%
Office Costs	7,863	8,853	(990)	-11.18%
Professional Services	-	-	-	0.00%
Miscellaneous	-	500	(500)	-100.00%
Depreciation	-	-	-	0.00%
<b>Total Operating Expenses</b>	<b>\$ 11,863</b>	<b>\$ 9,353</b>	<b>\$ 2,510</b>	<b>26.84%</b>
<b>Total Direct Expenses</b>	<b>\$ 1,361,514</b>	<b>\$ 1,390,209</b>	<b>\$ (28,695)</b>	<b>-2.06%</b>
<b>Indirect Expenses</b>	<b>\$ 911,227</b>	<b>\$ 814,669</b>	<b>\$ 96,558</b>	<b>11.85%</b>
<b>Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>\$ 2,272,741</b>	<b>\$ 2,204,878</b>	<b>\$ 67,863</b>	<b>3.08%</b>
<b>Change in Assets</b>	<b>\$ (83,002)</b>	<b>\$ (22,318)</b>	<b>\$ (60,684)</b>	<b>271.91%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	0.00%
Computer Hardware & Software CapEx	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Allocation of Fixed Assets	\$ (10,464)	\$ (22,318)	\$ 11,854	-53.12%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (10,464)</b>	<b>\$ (22,318)</b>	<b>\$ 11,854</b>	<b>-53.12%</b>
<b>Total Budget</b>	<b>\$ 2,262,277</b>	<b>\$ 2,182,560</b>	<b>\$ 79,717</b>	<b>3.65%</b>
<b>Total Change in Working Capital</b>	<b>\$ (72,539)</b>	<b>\$ 0</b>	<b>\$ (72,539)</b>	<b>-32389436.09%</b>
<b>FTEs</b>	<b>9.14</b>	<b>8.25</b>	<b>0.89</b>	<b>10.79%</b>

## **Explanation of Variances – Enforcement Management**

### **Personnel Expenses**

Salaries was over budget due to the utilization of interns that were hired throughout the year to assist with violation processing by reviewing Mitigation Plan verification documents, drafting violation dispositions, and reviewing and revising certain enforcement processes and templates.

Employee Benefits was under budget as a result of variances in Medical Benefits and Training. Medical Benefits was under budget due to the difference between the medical plans that were included in the budget and the plans that were actually selected by the employees. Training was under budget due to employees not taking advantage of training opportunities.

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

### **Meeting Expenses**

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

### **Operating Expenses**

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

**Reliability Assessment and Performance Analysis**

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Reliability Assessment and Performance Analysis				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 2,589,189	\$ 2,589,189	\$ 0	0.00%
Penalty Sanctions	108,470	108,470	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 2,697,660</b>	<b>\$ 2,697,659</b>	<b>\$ 0</b>	<b>0.00%</b>
Membership Dues	-	-	-	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	2,559	-	2,559	0.00%
Miscellaneous	3,999	-	3,999	0.00%
<b>Total Funding</b>	<b>\$ 2,704,218</b>	<b>\$ 2,697,659</b>	<b>\$ 6,558</b>	<b>0.24%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 1,282,192	\$ 1,251,776	\$ 30,416	2.43%
Payroll Taxes	77,793	80,732	(2,939)	-3.64%
Employee Benefits	135,394	133,015	2,379	1.79%
Retirement Costs	200,224	199,898	326	0.16%
<b>Total Personnel Expenses</b>	<b>\$ 1,695,603</b>	<b>\$ 1,665,421</b>	<b>\$ 30,182</b>	<b>1.81%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 8,693	\$ 11,500	\$ (2,807)	-24.41%
Travel	89,444	92,500	(3,056)	-3.30%
Conference Calls	-	-	-	0.00%
<b>Total Meeting Expenses</b>	<b>\$ 98,137</b>	<b>\$ 104,000</b>	<b>\$ (5,863)</b>	<b>-5.64%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 84,109	\$ 91,280	\$ (7,171)	-7.86%
Office Rent	-	-	-	0.00%
Office Costs	38,668	34,883	3,785	10.85%
Professional Services	-	-	-	0.00%
Miscellaneous	71	120	(49)	-40.83%
Depreciation	3,452	-	3,452	0.00%
<b>Total Operating Expenses</b>	<b>\$ 126,300</b>	<b>\$ 126,283</b>	<b>\$ 17</b>	<b>0.01%</b>
<b>Total Direct Expenses</b>	<b>\$ 1,920,040</b>	<b>\$ 1,895,704</b>	<b>\$ 24,336</b>	<b>1.28%</b>
<b>Indirect Expenses</b>	<b>\$ 832,466</b>	<b>\$ 824,544</b>	<b>\$ 7,922</b>	<b>0.96%</b>
<b>Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>\$ 2,752,506</b>	<b>\$ 2,720,248</b>	<b>\$ 32,258</b>	<b>1.19%</b>
<b>Change in Assets</b>	<b>\$ (48,289)</b>	<b>\$ (22,589)</b>	<b>\$ (25,700)</b>	<b>113.77%</b>
<b>Fixed Assets</b>				
Depreciation	(3,452)	-	(3,452)	0.00%
Computer Hardware & Software CapEx	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	(3,452)	-	(3,452)	0.00%
Allocation of Fixed Assets	\$ (9,559)	\$ (22,589)	\$ 13,030	-57.68%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (13,011)</b>	<b>\$ (22,589)</b>	<b>\$ 9,578</b>	<b>-42.40%</b>
<b>Total Budget</b>	<b>\$ 2,739,495</b>	<b>\$ 2,697,659</b>	<b>\$ 41,836</b>	<b>1.55%</b>
<b>Total Change in Working Capital</b>	<b>\$ (35,278)</b>	<b>\$ 0</b>	<b>\$ (35,278)</b>	<b>-13109729.43%</b>
<b>FTEs</b>	<b>8.35</b>	<b>8.35</b>	<b>0.00</b>	<b>0.00%</b>

## **Explanation of Variances - Reliability Assessment and Performance Analysis**

### **Personnel Expenses**

Payroll Taxes was under budget due to the actual FICA wage base limit being lower than the budgeted limit.

### **Fixed Assets**

The variance in Depreciation Expense was due to the depreciation relating to the server designated for study work and the plotter printer that were purchased in the prior year and not budgeted.

## Training and Education

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Training and Education				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 967,126	\$ 967,126	\$ -	0.00%
Penalty Sanctions	38,971	38,971	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 1,006,097</b>	<b>\$ 1,006,097</b>	<b>\$ -</b>	<b>0.00%</b>
Membership Dues	-	-	-	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	919	-	919	0.00%
Miscellaneous	1,437	-	1,437	0.00%
<b>Total Funding</b>	<b>\$ 1,008,453</b>	<b>\$ 1,006,097</b>	<b>\$ 2,356</b>	<b>0.23%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 381,249	\$ 444,686	\$ (63,437)	-14.27%
Payroll Taxes	27,077	31,103	(4,026)	-12.94%
Employee Benefits	49,980	58,287	(8,307)	-14.25%
Retirement Costs	60,679	70,894	(10,215)	-14.41%
<b>Total Personnel Expenses</b>	<b>\$ 518,985</b>	<b>\$ 604,970</b>	<b>\$ (85,985)</b>	<b>-14.21%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 143,530	\$ 105,000	\$ 38,530	36.70%
Travel	586	8,000	(7,414)	-92.68%
Conference Calls	-	-	-	0.00%
<b>Total Meeting Expenses</b>	<b>\$ 144,116</b>	<b>\$ 113,000</b>	<b>\$ 31,116</b>	<b>27.54%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	0.00%
Office Rent	-	-	-	0.00%
Office Costs	-	-	-	0.00%
Professional Services	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
Depreciation	-	-	-	0.00%
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Direct Expenses</b>	<b>\$ 663,101</b>	<b>\$ 717,970</b>	<b>\$ (54,869)</b>	<b>-7.64%</b>
<b>Indirect Expenses</b>	<b>\$ 299,090</b>	<b>\$ 296,243</b>	<b>\$ 2,847</b>	<b>0.96%</b>
<b>Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>\$ 962,191</b>	<b>\$ 1,014,213</b>	<b>\$ (52,022)</b>	<b>-5.13%</b>
<b>Change in Assets</b>	<b>\$ 46,262</b>	<b>\$ (8,116)</b>	<b>\$ 54,378</b>	<b>-670.02%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	0.00%
Computer Hardware & Software CapEx	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
Allocation of Fixed Assets	\$ (3,434)	\$ (8,116)	\$ 4,682	-57.68%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (3,434)</b>	<b>\$ (8,116)</b>	<b>\$ 4,682</b>	<b>-57.68%</b>
<b>Total Budget</b>	<b>\$ 958,756</b>	<b>\$ 1,006,097</b>	<b>\$ (47,341)</b>	<b>-4.71%</b>
<b>Total Change in Working Capital</b>	<b>\$ 49,697</b>	<b>\$ -</b>	<b>\$ 49,697</b>	<b>0.00%</b>
<b>FTEs</b>	<b>3.00</b>	<b>3.00</b>	<b>0.00</b>	<b>0.00%</b>

## **Explanation of Variances – Training and Education**

### **Personnel Expenses**

Personnel Expenses was under budget due to staffing changes in this program which impacted Personnel Expenses without impacting total FTEs.

### **Meeting Expenses**

Meetings was over budget due to the increased costs associated with the Reliability, CIP and Protection Systems Workshops.



## Situation Awareness and Infrastructure Security

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Situation Awareness and Infrastructure Security				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirst Funding</b>				
ERO Assessments	\$ 275,892	\$ 275,892		0.00%
Penalty Sanctions	6,495	6,495	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 282,387</b>	<b>\$ 282,387</b>	<b>\$ -</b>	<b>0.00%</b>
Membership Dues	\$ -	\$ -	\$ -	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	153	-	153	0.00%
Miscellaneous	239	-	239	0.00%
<b>Total Funding</b>	<b>\$ 282,780</b>	<b>\$ 282,387</b>	<b>\$ 393</b>	<b>0.14%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 111,896	\$ 109,593	\$ 2,303	2.10%
Payroll Taxes	5,449	5,717	(268)	-4.69%
Employee Benefits	14,769	12,883	1,886	14.64%
Retirement Costs	15,284	17,448	(2,164)	-12.40%
<b>Total Personnel Expenses</b>	<b>\$ 147,398</b>	<b>\$ 145,641</b>	<b>\$ 1,757</b>	<b>1.21%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 1,752	\$ 2,000	\$ (248)	-12.40%
Travel	17,744	23,000	(5,256)	-22.85%
Conference Calls	-	-	-	0.00%
<b>Total Meeting Expenses</b>	<b>\$ 19,496</b>	<b>\$ 25,000</b>	<b>\$ (5,504)</b>	<b>-22.02%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 32,593	\$ 60,000	\$ (27,407)	-45.68%
Office Rent	-	-	-	0.00%
Office Costs	1,799	3,725	(1,926)	-51.70%
Professional Services	-	-	-	0.00%
Miscellaneous	709	-	709	0.00%
Depreciation	5,445	1,003	4,442	442.87%
<b>Total Operating Expenses</b>	<b>\$ 40,546</b>	<b>\$ 64,728</b>	<b>\$ (24,182)</b>	<b>-37.36%</b>
<b>Total Direct Expenses</b>	<b>\$ 207,440</b>	<b>\$ 235,369</b>	<b>\$ (27,929)</b>	<b>-11.87%</b>
<b>Indirect Expenses</b>	<b>\$ 49,848</b>	<b>\$ 49,374</b>	<b>\$ 474</b>	<b>0.96%</b>
<b>Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>\$ 257,288</b>	<b>\$ 284,743</b>	<b>\$ (27,455)</b>	<b>-9.64%</b>
<b>Change in Assets</b>	<b>\$ 25,491</b>	<b>\$ (2,356)</b>	<b>\$ 27,847</b>	<b>-1181.96%</b>
<b>Fixed Assets</b>				
Depreciation	(5,445)	(1,003)	(4,442)	442.87%
Computer Hardware & Software CapEx	-	-	-	0.00%
Furniture & Fixtures CapEx	-	-	-	0.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	-	-	-	0.00%
	(5,445)	(1,003)	(4,442)	442.87%
Allocation of Fixed Assets	\$ (572)	\$ (1,353)	\$ 781	-57.69%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ (6,017)</b>	<b>\$ (2,356)</b>	<b>\$ (3,661)</b>	<b>155.41%</b>
<b>Total Budget</b>	<b>\$ 251,271</b>	<b>\$ 282,387</b>	<b>\$ (31,116)</b>	<b>-11.02%</b>
<b>Total Change in Working Capital</b>	<b>\$ 31,509</b>	<b>\$ (0)</b>	<b>\$ 31,509</b>	<b>-84326065.59%</b>
<b>FTEs</b>	<b>0.50</b>	<b>0.50</b>	<b>0.00</b>	<b>0.00%</b>

## **Explanation of Variances - Situation Awareness and Infrastructure Security**

### **Personnel Expenses**

Payroll Taxes was under budget due to the actual FICA wage base limit being lower than the budgeted limit.

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

### **Operating Expenses**

Consultants and Contracts was under budget due to the cost to complete the vulnerability and penetration testing being less than originally anticipated.

Miscellaneous Expenses was over budget due to our recognition program rewarding employees who exhibit strong security awareness.

### **Fixed Assets**

The variance in Depreciation Expense was due to the depreciation relating to the hardware for the Situational Awareness room that was purchased in the prior year and not budgeted.

## Administrative Services

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2016 - December 31, 2016				
Administrative Services				
	2016 Actual	2016 Budget	2016 Variance Over/(Under)	% Variance
<b>Funding</b>				
<b>ReliabilityFirstFunding</b>				
ERO Assessments	\$ 748,250	\$ 748,250	\$ -	0.00%
Penalty Sanctions	-	-	-	0.00%
<b>Total ReliabilityFirst Funding</b>	<b>\$ 748,250</b>	<b>\$ 748,250</b>	<b>\$ -</b>	<b>0.00%</b>
Membership Dues	-	-	-	0.00%
Federal Grants	-	-	-	0.00%
Services & Software	-	-	-	0.00%
Workshops	-	-	-	0.00%
Investment	-	-	-	0.00%
Miscellaneous	-	-	-	0.00%
<b>Total Funding</b>	<b>\$ 748,250</b>	<b>\$ 748,250</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 2,598,175	\$ 2,519,781	\$ 78,394	3.11%
Payroll Taxes	130,584	131,241	(657)	-0.50%
Employee Benefits	466,332	484,822	(18,490)	-3.81%
Retirement Costs	441,450	457,132	(15,682)	-3.43%
<b>Total Personnel Expenses</b>	<b>\$ 3,636,541</b>	<b>\$ 3,592,976</b>	<b>\$ 43,565</b>	<b>1.21%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 88,518	\$ 76,900	\$ 11,618	15.11%
Travel	83,529	109,300	(25,771)	-23.58%
Conference Calls	47,802	42,000	5,802	13.81%
<b>Total Meeting Expenses</b>	<b>\$ 219,849</b>	<b>\$ 228,200</b>	<b>\$ (8,351)</b>	<b>-3.66%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 169,999	\$ 145,230	\$ 24,769	17.06%
Office Rent	518,422	534,619	(16,197)	-3.03%
Office Costs	333,156	333,435	(279)	-0.08%
Professional Services	374,440	488,989	(114,549)	-23.43%
Miscellaneous	42,104	32,620	9,484	29.07%
Depreciation	341,269	329,320	11,949	3.63%
<b>Total Operating Expenses</b>	<b>\$ 1,779,390</b>	<b>\$ 1,864,213</b>	<b>\$ (84,823)</b>	<b>-4.55%</b>
<b>Total Direct Expenses</b>	<b>\$ 5,635,780</b>	<b>\$ 5,685,389</b>	<b>\$ (49,609)</b>	<b>-0.87%</b>
<b>Indirect Expenses</b>	<b>\$ (5,635,847)</b>	<b>\$ (5,687,872)</b>	<b>\$ 52,025</b>	<b>-0.91%</b>
<b>Non-Operating Expenses</b>	<b>\$ 67</b>	<b>\$ 2,483</b>	<b>\$ (2,416)</b>	<b>-97.30%</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Change in Assets</b>	<b>\$ 748,250</b>	<b>\$ 748,250</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Fixed Assets</b>				
Depreciation	(341,269)	(329,320)	(11,949)	3.63%
Computer Hardware & Software	265,053	133,500	131,553	98.54%
Furniture & Fixtures CapEx	-	40,000	(40,000)	-100.00%
Equipment CapEx	-	-	-	0.00%
Leasehold Improvements	11,500	-	11,500	0.00%
	(64,716)	(155,820)	91,104	-58.47%
Allocation of Fixed Assets	\$ 64,716	\$ 155,820	\$ (91,104)	-58.47%
<b>Inc/(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Change in Working Capital</b>	<b>\$ 748,250</b>	<b>\$ 748,250</b>	<b>\$ -</b>	<b>0.00%</b>
<b>FTEs</b>	<b>14.74</b>	<b>14.60</b>	<b>0.14</b>	<b>0.96%</b>

## **Explanation of Variances – Administrative Services**

### **Personnel Expenses**

Payroll Taxes was under budget due to the actual FICA wage base limit being lower than the budgeted limit.

Employee Benefits was under budget as a result of a variance in Medical Benefits. Medical Benefits was under budget due to the difference between the medical plans that were included in the budget and the plans that were actually selected by the employees.

Retirement Expenses was under budget due to some employees satisfying IRS contribution limits, along with employees not taking full advantage of the company plan benefits.

### **Meeting Expenses**

Meetings was over budget due to multiple unplanned team building and training activities. In addition, there was an increase in the number of management and department meetings.

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

### **Operating Expense**

Consultants and Contracts was over budget due to the use of an expertise management service to elicit knowledge from key personnel and a financial internal control evaluation that were not budgeted. In addition, there were increased costs associated with the compensation analysis and recruiting activities. These expenses were offset by the amount budgeted to support the advanced customization of the internal website, which was never utilized. Instead of customizing the current internal website a decision was made to redesign and develop a new corporate internal website. The costs associated with the redesign and development of the new corporate internal website were recorded to the Computer Software - Fixed Asset account.

Professional Services was under budget due to the reduction in use of outside legal counsel, along with not needing to conduct a search for a new independent director.

Miscellaneous Expense was over budget due to the purchase of ReliabilityFirst apparel for the staff, in an effort to present a professional and consistent appearance across the company.

### **Fixed Assets**

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

The variance in Furniture & Fixtures was due to replacing all of the remaining office furniture in 2015, requiring no office furniture purchases in 2016.

The variance in Leasehold Improvements was due to the replacement of the main office exit doors, as a result of a defect with the electronic locking devices.

# **ReliabilityFirst Corporation**

Financial Report  
December 31, 2016

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RSM US LLP

## Independent Auditor's Report

To the Finance and Audit Committee  
ReliabilityFirst Corporation  
Cleveland, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of ReliabilityFirst Corporation which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ReliabilityFirst Corporation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

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

*RSM US LLP*

Chicago, Illinois  
April 10, 2017



ReliabilityFirst Corporation

Statements of Financial Position  
December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Current assets:		
Cash	\$ 4,161,404	\$ 4,218,740
Investments	6,564,948	3,673,096
Accounts receivable	230,573	38,748
Prepaid expenses	212,464	139,052
<b>Total current assets</b>	<b>11,169,389</b>	<b>8,069,636</b>
Fixed assets:		
Furniture and equipment	363,276	363,276
Leasehold improvements	1,899,608	1,888,108
Computer software and hardware	2,656,535	2,385,868
	4,919,419	4,637,252
Less accumulated depreciation and amortization	2,591,549	2,228,860
	2,327,870	2,408,392
<b>Total assets</b>	<b>\$ 13,497,259</b>	<b>\$ 10,478,028</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 117,975	\$ 148,880
Accrued expenses (current portion)	3,786,897	3,412,178
Deferred rent (current portion)	171,304	144,680
<b>Total current liabilities</b>	<b>4,076,176</b>	<b>3,705,738</b>
Long-term liabilities:		
Deferred revenue	350,000	350,000
Accrued expenses (net of current portion)	448,279	473,171
Deferred rent (net of current portion)	2,054,717	2,226,021
	2,852,996	3,049,192
<b>Total liabilities</b>	<b>6,929,172</b>	<b>6,754,930</b>
Net assets:		
Unrestricted:		
Undesignated	2,350,955	1,772,848
Operating reserve fund	1,000,000	750,000
Working capital reserve fund	645,255	-
Temporarily restricted	2,571,877	1,200,250
<b>Total net assets</b>	<b>6,568,087</b>	<b>3,723,098</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,497,259</b>	<b>\$ 10,478,028</b>

See notes to financial statements.

**ReliabilityFirst Corporation**

**Statements of Activities**

**Years Ended December 31, 2016 and 2015**

	2016	2015
Unrestricted net assets:		
Revenues:		
Quarterly assessments	\$ 19,367,209	\$ 18,713,897
Investment income	17,322	23,133
Penalty sanctions released from restriction	748,250	570,000
Miscellaneous	27,076	3,535
	<u>20,159,857</u>	<u>19,310,565</u>
Expenses:		
Program:		
Reliability Assurance and Compliance Monitoring	8,898,554	8,324,300
Enforcement	1,361,514	1,151,155
Assessment	1,920,041	1,820,073
Training and Education	663,101	684,075
Situational Awareness	207,440	196,695
Total program expenses	<u>13,050,650</u>	<u>12,176,298</u>
General:		
General and administrative	2,518,179	2,427,382
Legal and regulatory	670,764	651,337
Information technology	1,260,123	1,227,042
Human resources	879,773	789,563
Finance	307,006	302,083
Total general expenses	<u>5,635,845</u>	<u>5,397,407</u>
Total expenses	<u>18,686,495</u>	<u>17,573,705</u>
<b>Increase in unrestricted net assets</b>	<u>1,473,362</u>	<u>1,736,860</u>
Temporarily restricted net assets:		
Penalty sanctions	2,119,877	407,750
Penalty sanctions released from restriction	(748,250)	(570,000)
<b>Increase (decrease) in temporarily restricted net assets</b>	<u>1,371,627</u>	<u>(162,250)</u>
<b>Increase in total net assets</b>	<u>2,844,989</u>	<u>1,574,610</u>
Net assets at beginning of year	<u>3,723,098</u>	<u>2,148,488</u>
Net assets at end of year	<u>\$ 6,568,087</u>	<u>\$ 3,723,098</u>

See notes to financial statements.

**ReliabilityFirst Corporation**

**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,844,989	\$ 1,574,610
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	375,232	350,614
Loss on disposal of fixed assets	67	14,405
Unrealized loss on investments	134,317	92,132
Realized gain on investments	(43)	(233)
Changes in assets and liabilities:		
Accounts receivable	(191,825)	166,047
Prepaid expenses	(73,412)	(25,610)
Accounts payable	(30,905)	110,386
Accrued expenses	349,827	361,247
Deferred revenue	-	100,000
Deferred rent	(144,680)	(48,863)
<b>Net cash provided by operating activities</b>	<b>3,263,567</b>	<b>2,694,735</b>
Cash flows from investing activities:		
Purchase of investments	(4,775,643)	(1,170,478)
Sale of investments	1,749,517	1,055,446
Purchases of fixed assets	(294,777)	(400,213)
<b>Net cash used in investing activities</b>	<b>(3,320,903)</b>	<b>(515,245)</b>
Cash flows from financing activities:		
Payments on notes payable	-	(138,131)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(138,131)</b>
<b>Net (decrease) increase in cash</b>	<b>(57,336)</b>	<b>2,041,359</b>
Cash at beginning of year	4,218,740	2,177,381
Cash at end of year	<b>\$ 4,161,404</b>	<b>\$ 4,218,740</b>
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ -	\$ 3,724

See notes to financial statements.

## ReliabilityFirst Corporation

### Notes to Financial Statements

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#### Note 1. Organization and Significant Accounting Policies

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

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

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

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

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

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

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

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

Receivables are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of doubtful accounts and historical collection experience. Receivables are written off when deemed uncollectible. Management has determined that no allowance for doubtful accounts is necessary at December 31, 2016 and 2015.

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

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

## ReliabilityFirst Corporation

### Notes to Financial Statements

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

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

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

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

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

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

The Corporation currently files the form 990 in the U.S. federal jurisdiction. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

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

**Net assets:** Of the unrestricted net asset balance, \$1,000,000 and \$750,000 has been designated by the Board of Directors for the Corporation's operating reserve fund at December 31, 2016 and 2015, respectively. The operating reserve is designated each year with the intention of providing for unbudgeted and unexpected expenditures. Beginning in 2016, an additional \$645,255, of the unrestricted net asset balance, was designated by the Board of Directors for the Corporation's working capital reserve fund. The working capital reserve fund was established in 2016 in an effort to enhance day to day cash flow management of expenditures and provide capabilities to stabilize future assessments.

Temporarily restricted net assets result from the receipt of penalty sanctions which are restricted based on timing conditions as described in the Corporation's revenue recognition policy. Penalty monies are governed by a restriction by NERC as to when the funds can be used. Temporarily restricted net assets at December 31, 2016 and 2015, were \$2,571,877 and \$1,200,250, respectively.

**Reclassifications:** Certain amounts in the 2015 financial statements have been reclassified, with no effect on net assets or the change in net assets as previously reported, in order to conform to the current year presentation.

## ReliabilityFirst Corporation

### Notes to Financial Statements

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

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

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

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

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

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

#### Note 2. Investments and Fair Value Measurements

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

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

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

## ReliabilityFirst Corporation

### Notes to Financial Statements

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

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

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

The Corporation assesses the levels at each measurement date, and transfers between levels are recognized on the date of the actual event or change in the circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. For the years ended December 31, 2016 and 2015, there were no such transfers.

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ 1,563,491	\$ -	\$ -	\$ 1,563,491
Corporate bonds	-	4,641,727	-	4,641,727
	<u>\$ 1,563,491</u>	<u>\$ 4,641,727</u>	<u>\$ -</u>	<u>6,205,218</u>
Cash and cash equivalents				359,730
				<u>\$ 6,564,948</u>

  

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ 860,053	\$ -	\$ -	\$ 860,053
Corporate bonds	-	2,657,318	-	2,657,318
	<u>\$ 860,053</u>	<u>\$ 2,657,318</u>	<u>\$ -</u>	<u>3,517,371</u>
Cash and cash equivalents				155,725
				<u>\$ 3,673,096</u>

## ReliabilityFirst Corporation

### Notes to Financial Statements

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

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

	2016	2015
Interest/dividends	\$ 151,596	\$ 115,032
Realized gain	43	233
Unrealized loss	(134,317)	(92,132)
	<u>\$ 17,322</u>	<u>\$ 23,133</u>

#### Note 3. Line of Credit

The Corporation has a \$750,000 line of credit with an expiration date of July 1, 2017. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 4.50 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2016 or 2015. As there were no drawdowns made, no corresponding interest was paid in 2016 and 2015. The Corporation intends to renew the line when it becomes due on July 1, 2017.

#### Note 4. Notes Payable

The Corporation entered into a note payable with a bank in a previous year for \$159,110 to fund the purchase of laptop computers. The note had an interest rate of 3.950 percent per annum and was collateralized by the laptops that were purchased. The note was paid in full on September 22, 2015.

#### Note 5. Operating Leases

The Corporation leases its office and data center from unrelated third parties. The leases expire in February 2027 and February 2019, respectively. Rental expense for operating leases amounted to \$501,319 for the years ended December 31, 2016 and 2015. Rent expense in 2016 and 2015 includes \$156,961 and \$123,276, respectively, in accelerated straight-line amortization of a previous deferred rent liability due to the early termination of a previous lease and a tenant improvement allowance. The deferred rent liability was \$2,226,021 and \$2,370,701 as of December 31, 2016 and 2015, respectively.

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

2017	\$ 604,193
2018	615,387
2019	626,580
2020	637,775
2021	648,968
Thereafter	3,530,546
	<u>\$ 6,663,449</u>



## ReliabilityFirst Corporation

### Notes to Financial Statements

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#### **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 a 100 percent match of their first 6 percent of voluntary salary deferral savings and the 3 percent Safe Harbor provision of the plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the plan (7 percent in 2016 and 2015). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2016 and 2015. The Corporation's contributions to the plan for 2016 and 2015 were approximately \$1,722,000 and \$1,610,000, respectively.

#### **Note 7. Grant from City of Independence, Ohio**

In connection with the Corporation's office move in a previous year, the City of Independence (City) awarded a \$350,000 grant to the Corporation. The grant agreement provides for the Corporation to meet minimum annual payroll tax requirements as well as a requirement that the Corporation will maintain its principal place of business within the City for a period of not less than 12 years. ReliabilityFirst moved its principal place of business into the City in 2014. If the 12 year requirement is not met by the Corporation, the full \$350,000 will be required to be returned to the City upon default. The Corporation received \$250,000 of this grant in a previous year and \$100,000 in 2015, and has recorded this amount in deferred revenue due to the requirements of the grant not being met as of December 31, 2016.

ReliabilityFirst Corporation

Schedule of Expenses  
Year Ended December 31, 2016

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

ReliabilityFirst Corporation

Schedule of Expenses  
Year Ended December 31, 2015

	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Finance	Total
Personnel expenses:											
Salaries	\$ 5,567,510	\$ 826,332	\$ 1,190,248	\$ 413,577	\$ 108,054	\$ 1,086,302	\$ 466,175	\$ 417,853	\$ 253,489	\$ 144,663	\$ 10,474,203
Payroll taxes	324,971	63,593	71,875	27,904	5,168	26,883	20,752	29,835	18,426	11,384	600,791
Employee benefits	717,705	133,126	127,066	55,514	12,151	66,171	35,548	76,514	191,004	23,968	1,438,767
Savings and retirement	840,681	102,395	194,017	70,576	17,800	126,067	69,410	65,699	99,581	23,434	1,609,660
Total personnel expenses	7,450,867	1,125,446	1,583,206	567,571	143,173	1,305,423	591,885	589,901	562,500	203,449	14,123,421
Meeting expenses:											
Meetings	11,415	1,115	15,137	103,065	1,538	33,607	1,784	1,090	24,920	-	193,671
Travel	373,560	10,883	99,929	13,439	16,609	31,559	29,433	7,448	3,232	2,121	588,213
Conference calls	-	-	-	-	-	-	-	52,734	-	-	52,734
Total meeting expenses	384,975	11,998	115,066	116,504	18,147	65,166	31,217	61,272	28,152	2,121	834,618
Operating expenses:											
Rent and improvements	-	-	-	-	-	442,590	-	63,789	-	-	506,379
Contracts	203,501	5,036	87,095	-	30,090	34,701	-	13,044	58,117	27,185	458,769
Office costs	54,606	8,675	10,687	-	1,862	31,375	15,614	65,348	2,906	1,645	192,718
Professional services	-	-	-	-	-	244,180	12,586	-	118,961	53,340	429,067
Computer purchase and maintenance	201,465	-	23,840	-	1,998	37,763	-	256,766	2,091	13,445	537,368
Furniture and equipment	-	-	-	-	-	81,468	-	-	-	-	81,468
Miscellaneous	2,315	-	-	-	-	19,590	35	3,177	16,037	-	41,154
Interest expense	-	-	-	-	-	-	-	3,724	-	-	3,724
Depreciation and amortization	26,571	-	179	-	1,425	158,962	-	161,780	799	898	350,614
Loss on disposal of assets	-	-	-	-	-	6,164	-	8,241	-	-	14,405
Total operating expenses	488,458	13,711	121,801	-	35,375	1,056,793	28,235	575,869	198,911	96,513	2,615,666
Total	\$ 8,324,300	\$ 1,151,155	\$ 1,820,073	\$ 684,075	\$ 196,695	\$ 2,427,382	\$ 651,337	\$ 1,227,042	\$ 789,563	\$ 302,083	\$ 17,573,705

**ATTACHMENT 6**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**SERC RELIABILITY CORPORATION**

May 18, 2017

Mike Walker  
Chief Financial Officer  
North American Electric Reliability Corporation

## **SERC 2016 Budget vs. Actual Variance Analysis**

Enclosed is SERC's response to your request for information on variances between the 2016 SERC budget and year-end financials.

Overall, SERC exceeded 2016 budgeted revenues by \$31,505 and overspent its 2016 budgeted expenses of \$16,143,014 by \$699,077. The net impact was a \$667,572 negative variance on SERC's cash position for the year.

During 2016, SERC conducted 33 audits. Seventeen audits were Operations and Planning (O&P) audits. Five of the O&P audits were Multi-Region Registered Entity (MRRE) audits led by SERC, and a sixth was an MRRE audit on which SERC was an Affected Regional Entity (ARE). Sixteen audits were Critical Infrastructure Protection (CIP) audits. Five of the CIP audits were MRRE audits led by SERC and two additional CIP audits were MRRE audits on which SERC was an ARE. SERC conducted one CIP-related Guided Self-Certification. SERC conducted no O&P-related Guided Self-Certifications, and conducted no spot checks.

SERC received 244 new potential violations and processed 188 issues to closure. Of these 188 issues, 50 were dismissed. In addition, SERC completed all budgeted reliability assessments for the year.

There are several mitigating circumstances, as explained below:

- The primary income in Miscellaneous relates to the reimbursement from the other regional entities for the costs associated with the cross-regional monitoring activities.
- During 2016, total personnel costs were higher than budget, primarily due to the fact that SERC was successful in filling several director-level positions toward the end of 2015 and early 2016. Some of these positions were not fully accounted for during the budgeting process. One-time personnel expenses not anticipated in the budget also impacted the 2016 budget. Additionally, SERC incurred costs associated with executive management searches for open positions.
- Payroll Taxes and Employee Benefits were under budget in 2016 resulting from an over estimation of taxes, and fluctuations in benefits due to variations in relocation, training and education cost.
- Retirement expenses are lower than expected due to the level of participation in the employee 401K program.
- SERC used contractors in lieu of full-time equivalents (FTEs) in some instances, causing an overrun in Consultants and Contractors.



- SERC continues to host meetings in-house or at members' facilities, substantially reducing the hotel hosting costs and decreasing Total Meeting Expense.
- Professional Services were over budget due to additional costs for legal services related to corporate matters and HR outside Consultant training for managers and executives.
- SERC either cancelled or deferred several planned Computer and Software Cap Ex projects in 2016, causing it to come in under budget.
- SERC signed a new lease for the office expansion project, with a commencement date of April 1, 2016. Generally accepted accounting principles (GAAP) require rent to be recorded on a straight-line basis, accounting for the three months of free rent. The budget was developed based on actual rent expense. Due to accounting principles, rent is being recorded on a straight-line basis, causing the overrun.
- As noted above, SERC expanded its office space in 2016, but did not anticipate the construction costs in the 2016 budget. During 2016, SERC incurred construction costs for additional renovations, purchased equipment and office furniture, which were not budgeted, causing an overrun in leasehold improvements, capital expenditures and Office Cost.

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 expense in the administrative cost centers.

SERC performs the Compliance Enforcement Authority activities for Florida Reliability Coordinating Council (FRCC) and Southwest Power Pool (SPP) registered functions. The Regional Entities reimburse 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 that reads "Napoleon Johnson".

Napoleon Johnson

cc: Gary Taylor, President/CEO



**SERC Reliability Corporation**  
**Statement of Activities**  
**From 1/1/2016 through 12/31/2016**

<b>Total Statutory</b>	<b>2016</b>	<b>2016</b>	<b>2016 Variance</b>	
	<b>Actual</b>	<b>Budget</b>	<b>from Budget</b>	
			<b>Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	13,730,986	13,730,986	-	0.00%
Penalty Sanctions	648,500	648,500	-	0.00%
<b>Total ERO Funding</b>	<b>\$14,379,486</b>	<b>\$ 14,379,486</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	201,135	210,075	(8,940)	-4.26%
Interest	4,376	1,000	3,376	337.60%
Miscellaneous	481,069	444,000	37,069	8.35%
<b>Total Funding (A)</b>	<b>\$15,066,066</b>	<b>\$ 15,034,561</b>	<b>\$ 31,505</b>	<b>0.21%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	9,802,321	9,457,718	344,603	3.64%
Payroll Taxes	560,651	642,524	(81,873)	-12.74%
Employee Benefits	958,338	993,030	(34,692)	-3.49%
Savings & Retirement	1,187,505	1,299,662	(112,157)	-8.63%
<b>Total Personnel Expenses</b>	<b>12,508,815</b>	<b>12,392,934</b>	<b>115,881</b>	<b>0.94%</b>
<b>Meeting Expenses</b>				
Meetings	251,568	247,421	4,147	1.68%
Travel	423,897	488,466	(64,569)	-13.22%
Conference Calls	38,386	44,544	(6,158)	-13.82%
<b>Total Meeting Expenses</b>	<b>713,851</b>	<b>780,431</b>	<b>(66,580)</b>	<b>-8.53%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	2,033,635	1,497,173	536,462	35.83%
Rent & Improvements	586,001	517,917	68,084	13.15%
Office Costs	402,337	310,879	91,458	29.42%
Professional Services	191,808	155,200	36,608	23.59%
Miscellaneous	18,174	5,000	13,174	263.48%
Depreciation	387,470	483,480	(96,010)	-19.86%
<b>Total Operating Expenses</b>	<b>3,619,425</b>	<b>2,969,649</b>	<b>649,776</b>	<b>21.88%</b>
<b>Indirect Expenses</b>	-	-	-	
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	<b>16,842,091</b>	<b>16,143,014</b>	<b>699,077</b>	<b>4.33%</b>
<b>Change in Assets (A - B)</b>	<b>(1,776,025)</b>	<b>(1,108,453)</b>	<b>(667,572)</b>	<b>60.23%</b>
<b>Fixed Assets</b>				
Depreciation	(387,470)	(483,480)	96,010	-19.86%
Computer & Software CapEx	59,292	207,311	(148,019)	-71.40%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	30,000	-	30,000	
Leasehold Improvements	131,308	-	131,308	
<b>Incr(Dec) in Fixed Assets</b>	<b>166,870</b>	<b>276,169</b>	<b>(109,299)</b>	<b>-39.58%</b>
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>166,870</b>	<b>276,169</b>	<b>(109,299)</b>	<b>-39.58%</b>
<b>TOTAL BUDGET (B - C)</b>	<b>16,675,221</b>	<b>15,866,845</b>	<b>808,376</b>	<b>5.09%</b>
<b>Change in Working Capital (A-B+C)</b>	<b>(1,609,155)</b>	<b>(832,284)</b>	<b>(776,871)</b>	<b>93.34%</b>
<b>FTE's</b>	<b>65.00</b>	<b>78.12</b>	<b>(13.12)</b>	<b>-16.79%</b>



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

RELIABILITY STANDARDS	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	588,776	588,776	-	0.00%
Penalty Sanctions	25,115	25,115	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 613,891</b>	<b>\$ 613,891</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>613,891</b>	<b>613,891</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	267,424	264,723	2,701	1.02%
Payroll Taxes	13,486	19,590	(6,104)	-31.16%
Employee Benefits	26,038	31,619	(5,581)	-17.65%
Savings & Retirement	39,039	37,277	1,762	4.73%
<b>Total Personnel Expenses</b>	<b>345,987</b>	<b>353,209</b>	<b>(7,222)</b>	<b>-2.04%</b>
<b>Meeting Expenses</b>				
Meetings	125	-	125	
Travel	1,083	1,063	20	1.88%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>1,208</b>	<b>1,063</b>	<b>145</b>	<b>13.64%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Indirect Expenses	397,039	270,314	126,725	46.88%
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>744,234</b>	<b>624,586</b>	<b>119,648</b>	<b>19.16%</b>
<b>Change in Assets (A - B)</b>	<b>(130,343)</b>	<b>(10,695)</b>	<b>(119,648)</b>	<b>1118.73%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(9,263)	(10,695)	1,432	-13.39%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(9,263)</b>	<b>(10,695)</b>	<b>1,432</b>	<b>-13.39%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>734,971</b>	<b>613,891</b>	<b>118,216</b>	<b>19.26%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(121,080)</b>	<b>-</b>	<b>(118,216)</b>	
<b>FTE's</b>	<b>1.70</b>	<b>1.98</b>	<b>(0.28)</b>	<b>-14.14%</b>



**Reliability Standards  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$7,222 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses for Reliability Standards. SERC budgeted 1.98 FTEs in the Standards program during 2016. SERC finished 2016 with 1.70 FTEs in the Standards program; a difference of 0.28 FTEs.

**Indirect Expenses (Actual \$126,725 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs. Indirect Expenses for Reliability Standards were over budget primarily because total Indirect Expenses were greater than budget.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	10,377,385	10,377,385	-	0.00%
Penalty Sanctions	468,257	468,257	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 10,845,642</b>	<b>\$ 10,845,642</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>10,845,642</b>	<b>10,845,642</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	4,185,579	4,259,666	(74,087)	-1.74%
Payroll Taxes	242,903	307,769	(64,866)	-21.08%
Employee Benefits	454,376	471,441	(17,065)	-3.62%
Savings & Retirement	597,684	604,302	(6,618)	-1.10%
<b>Total Personnel Expenses</b>	<b>5,480,542</b>	<b>5,643,178</b>	<b>(162,636)</b>	<b>-2.88%</b>
<b>Meeting Expenses</b>				
Meetings	24,732	23,140	1,592	6.88%
Travel	209,204	258,590	(49,386)	-19.10%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>233,936</b>	<b>281,730</b>	<b>(47,794)</b>	<b>-16.96%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	153,107	54,543	98,564	180.71%
Rent & Improvements	-	-	-	
Office Costs	15,404	15,658	(254)	-1.62%
Professional Services	-	10,000	(10,000)	-100.00%
Miscellaneous	1,699	-	1,699	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>170,210</b>	<b>80,201</b>	<b>90,009</b>	<b>112.23%</b>
Indirect Expenses	5,947,564	5,039,944	907,620	18.01%
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	<b>11,832,252</b>	<b>11,045,053</b>	<b>787,199</b>	<b>7.13%</b>
<b>Change in Assets (A - B)</b>	<b>(986,610)</b>	<b>(199,411)</b>	<b>(787,199)</b>	<b>394.76%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(138,764)	(199,411)	60,647	-30.41%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(138,764)</b>	<b>(199,411)</b>	<b>60,647</b>	<b>-30.41%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>11,693,488</b>	<b>10,845,642</b>	<b>726,552</b>	<b>6.70%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(847,846)</b>	<b>-</b>	<b>(726,552)</b>	
<b>FTE's</b>	<b>29.66</b>	<b>36.92</b>	<b>(7.26)</b>	<b>-19.66%</b>

**Compliance Operations, Enforcement and Organization Registration  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$ 162,636 under budget)**

- Due to turnover, the length of time to fill vacant positions, Compliance is under budget in personnel expenses. SERC budgeted 36.92 FTEs in the Compliance program during 2016. SERC finished 2016 with 29.66 FTEs in the Compliance program, a difference of 7.26 FTEs. SERC used contractors to assist in completing the work.
- Payroll Taxes were under budget in 2016 resulting from an over estimation of taxes.

**Meeting Expense (Actual \$47,794 under budget)**

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

**Consultants and Contracts Expense (Actual \$98,564 over budget)**

- SERC continued to maintain and develop tools for compliance monitoring and data collection methods to support the CIP self-certification and Inherent Risk Assessment project implementation, causing an unplanned overrun. In addition, SERC continues to use contractors where necessary due to the number of unfilled positions.

**Indirect Expenses (Actual \$907,620 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs. Indirect Expenses for Compliance Operations, Enforcement, and Organization Registration were over budget primarily because total Indirect Expenses were greater than budget.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

COMPLIANCE ENFORCEMENT ACTIVITY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	148,442	150,000	(1,558)	-1.04%
<b>Total Funding (A)</b>	<b>148,442</b>	<b>150,000</b>	<b>(1,558)</b>	<b>-1.04%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	119,353	137,040	(17,687)	-12.91%
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<b>119,353</b>	<b>137,040</b>	<b>(17,687)</b>	<b>-12.91%</b>
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	29,089	12,960	16,129	124.45%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>29,089</b>	<b>12,960</b>	<b>16,129</b>	<b>124.45%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Indirect Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>148,442</b>	<b>150,000</b>	<b>(1,558)</b>	<b>-1.04%</b>
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>148,442</b>	<b>150,000</b>	<b>(1,558)</b>	<b>-1.04%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>FTE's</b>	<b>-</b>	<b>-</b>	<b>-</b>	



**Compliance Enforcement Activity  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

The income and expenses recorded relates to the cross-regional monitoring activities for FRCC and SPP registered functions. The Regional Entities reimburses SERC for actual costs incurred. The 2016 Budget included \$150,000 related to activities for FRCC and SPP. During 2016, SERC continued to execute its contracted duties for both FRCC and SPP and participated in unscheduled site visits to SPP, causing an overrun in Total Meeting Expenses, offset by lower than expected Salary Expenses.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	1,891,766	1,891,766	-	0.00%
Penalty Sanctions	83,716	83,716	-	0.00%
<b>Total ERO Funding</b>	<b>\$1,975,482</b>	<b>\$ 1,975,482</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>1,975,482</b>	<b>1,975,482</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	651,226	640,779	10,447	1.63%
Payroll Taxes	43,279	51,262	(7,983)	-15.57%
Employee Benefits	100,158	86,294	13,864	16.07%
Savings & Retirement	85,622	90,051	(4,429)	-4.92%
<b>Total Personnel Expenses</b>	<b>880,285</b>	<b>868,386</b>	<b>11,899</b>	<b>1.37%</b>
<b>Meeting Expenses</b>				
Meetings	11,836	10,845	991	9.14%
Travel	44,854	40,170	4,684	11.66%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>56,690</b>	<b>51,015</b>	<b>5,675</b>	<b>11.12%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	92,350	188,000	(95,650)	-50.88%
Rent & Improvements	-	-	-	
Office Costs	3,714	2,686	1,028	38.27%
Professional Services	-	-	-	
Miscellaneous	1,365	-	1,365	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>97,429</b>	<b>190,686</b>	<b>(93,257)</b>	<b>-48.91%</b>
<b>Indirect Expenses</b>	<b>1,377,605</b>	<b>901,046</b>	<b>476,559</b>	<b>52.89%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>2,412,009</b>	<b>2,011,133</b>	<b>400,876</b>	<b>19.93%</b>
<b>Change in Assets (A - B)</b>	<b>(436,527)</b>	<b>(35,651)</b>	<b>(400,876)</b>	<b>1124.45%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(32,141)	(35,651)	3,510	-9.85%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(32,141)</b>	<b>(35,651)</b>	<b>3,510</b>	<b>-9.85%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>2,379,868</b>	<b>1,975,482</b>	<b>397,366</b>	<b>20.11%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(404,386)</b>	<b>-</b>	<b>(397,366)</b>	
<b>FTE's</b>	<b>6.87</b>	<b>6.60</b>	<b>0.27</b>	<b>4.09%</b>

**Reliability Assessments and Performance Analysis  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$11,899 over budget)**

- SERC budgeted 6.60 FTEs in the Assessments program during 2016. SERC finished 2016 with 6.87 FTEs in the Assessments program, a difference of 0.27 FTE.
- Payroll Taxes were under budget in 2016 resulting from an over estimation of taxes.

**Meeting Expense (Actual \$5,675 over budget)**

- Due to a SERC initiative to increase staff involvement across the ERO, participation on ERO and NERC committees and subcommittees required additional staff travel and meetings.

**Consultants and Contracts Expense (Actual \$95,650 under budget)**

- The Resource Adequacy Probabilistic Study was budgeted for 2016. However, due to a change in timing the study was not completed, causing an underrun.

**Indirect Expenses (Actual \$476,559 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs. Indirect Expenses for Reliability Assessments and Performance Analysis were over budget because overall Indirect Expenses were greater than budgeted.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>TRAINING, EDUCATION and OPERATOR CERTIFICATION</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	1,021,554	1,021,554	-	0.00%
Penalty Sanctions	28,286	28,286	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 1,049,840</b>	<b>\$ 1,049,840</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	201,135	210,075	(8,940)	-4.26%
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Funding (A)</b>	<b>1,250,975</b>	<b>1,259,915</b>	<b>(8,940)</b>	<b>-0.71%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	137,490	271,998	(134,508)	-49.45%
Payroll Taxes	7,660	19,040	(11,380)	-59.77%
Employee Benefits	11,236	30,113	(18,877)	-62.69%
Savings & Retirement	19,017	37,373	(18,356)	-49.12%
<b>Total Personnel Expenses</b>	<b>175,403</b>	<b>358,524</b>	<b>(183,121)</b>	<b>-51.08%</b>
<b>Meeting Expenses</b>				
Meetings	110,314	137,196	(26,882)	-19.59%
Travel	5,524	15,597	(10,073)	-64.58%
Conference Calls	-	-	-	-
<b>Total Meeting Expenses</b>	<b>115,838</b>	<b>152,793</b>	<b>(36,955)</b>	<b>-24.19%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	110,310	455,000	(344,690)	-75.76%
Rent & Improvements	-	-	-	-
Office Costs	650	1,200	(550)	-45.83%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
<b>Total Operating Expenses</b>	<b>110,960</b>	<b>456,200</b>	<b>(345,240)</b>	<b>-75.68%</b>
<b>Indirect Expenses</b>	<b>140,367</b>	<b>304,444</b>	<b>(164,077)</b>	<b>-53.89%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenses (B)</b>	<b>542,568</b>	<b>1,271,961</b>	<b>(729,393)</b>	<b>-57.34%</b>
<b>Change in Assets (A - B)</b>	<b>708,407</b>	<b>(12,046)</b>	<b>720,453</b>	<b>-5980.85%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Allocation of Fixed Assets	(3,275)	(12,046)	8,771	-72.81%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(3,275)</b>	<b>(12,046)</b>	<b>8,771</b>	<b>-72.81%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>539,293</b>	<b>1,259,915</b>	<b>(738,164)</b>	<b>-58.59%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>711,682</b>	<b>-</b>	<b>729,224</b>	
<b>FTE's</b>	<b>0.70</b>	<b>2.23</b>	<b>(1.53)</b>	<b>-68.61%</b>



**Training, Education and Operator Certification  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Workshop Fees (Actual \$8,940 under budget)**

- SERC hosted most meetings in-house or at members' facilities, resulting in savings in costs. SERC passed the savings on to its members through reduced attendance fees, resulting in a decrease in revenue from that projected in the 2016 budget.
- SERC budgeted for the System Operator Conference (SOC) in 2016; participation in the SOC was a little lower than anticipated, contributing to a slight decrease in Workshop Fees.

**Personnel Expenses (Actual \$183,121 under budget)**

- Due to turnover, the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses. SERC budgeted 2.23 FTEs in the Training program during 2016. SERC finished 2016 with 0.70 FTEs in the Training program, a difference of 1.53 FTE.

**Meeting Expense (Actual \$36,955 under budget)**

- The underrun in meetings expenses is due to a greater emphasis on hosting meetings at SERC's office and member facilities.

**Consultants and Contracts Expense (Actual \$344,690 under budget)**

- SERC budgeted for a contractor to assist in the presentation of the System Operator Conferences. SERC has contracted with a vendor to provide both the training services and tool, causing an underrun of \$55,000.
- SERC budgeted for a contractor to develop training materials, a qualification program, and to implement a systematic approach to training. SERC did not incur these costs, causing an underrun of \$200,000. In lieu of this contractor, SERC auditors obtained necessary training externally towards auditing credentialing, per the competency guide. These costs were recorded as benefits.

**Indirect Expenses (Actual \$164,077 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs. Indirect Expenses for Training, Education, and Operator Certification were under budget primarily due to fewer FTEs than budgeted in this program.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	978,789	978,789	-	0.00%
Penalty Sanctions	43,126	43,126	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 1,021,915</b>	<b>\$ 1,021,915</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>1,021,915</b>	<b>1,021,915</b>	<b>-</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	454,625	410,959	43,666	10.63%
Payroll Taxes	29,199	28,767	432	1.50%
Employee Benefits	46,642	45,864	778	1.70%
Savings & Retirement	44,695	56,399	(11,704)	-20.75%
<b>Total Personnel Expenses</b>	<b>575,161</b>	<b>541,989</b>	<b>33,172</b>	<b>6.12%</b>
<b>Meeting Expenses</b>				
Meetings	702	-	702	
Travel	10,998	33,717	(22,719)	-67.38%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>11,700</b>	<b>33,717</b>	<b>(22,017)</b>	<b>-65.30%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	325	400	(75)	-18.75%
Professional Services	-	-	-	
Miscellaneous	(106)	-	(106)	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>219</b>	<b>400</b>	<b>(181)</b>	<b>-45.25%</b>
<b>Indirect Expenses</b>	<b>575,506</b>	<b>464,175</b>	<b>111,331</b>	<b>23.98%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>1,162,586</b>	<b>1,040,281</b>	<b>122,305</b>	<b>11.76%</b>
<b>Change in Assets (A - B)</b>	<b>(140,671)</b>	<b>(18,366)</b>	<b>(122,305)</b>	<b>665.93%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	(13,427)	(18,366)	4,939	-26.89%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(13,427)</b>	<b>(18,366)</b>	<b>4,939</b>	<b>-26.89%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>1,149,159</b>	<b>1,021,915</b>	<b>117,366</b>	<b>11.48%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(127,244)</b>	<b>-</b>	<b>(117,366)</b>	
<b>FTE's</b>	<b>2.87</b>	<b>3.40</b>	<b>(0.53)</b>	<b>-15.59%</b>

**Situation Awareness and Infrastructure Security  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$33,172 over budget)**

- SERC budgeted 3.40 FTEs in the Situation Awareness program during 2016. SERC finished 2016 with 2.87 FTEs in the Situation Awareness program, a difference of 0.53 FTEs.
- Although the FTE count is lower, during 2016, total personnel expenses were higher than budget primarily due to fact that SERC was successful in filling a director-level position in early 2016. This position was not fully accounted for during the budgeting process.
- Retirement expenses are lower than expected due to the level of participation in the employee 401K program.

**Meeting Expense (Actual \$22,017 under budget)**

- Due to the number of open positions, and the greater emphasis on hosting meetings in the Charlotte office, travel expenses decreased, causing the underrun.

**Indirect Expenses (Actual \$111,331 over budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs. Indirect Expenses for Situation Awareness and Infrastructure Security were over budget because overall Indirect Expenses were greater than budget.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>MEMBER FORUMS</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	714,201	774,254	(60,053)	-7.76%
Payroll Taxes	41,344	54,198	(12,854)	-23.72%
Employee Benefits	72,724	72,043	681	0.95%
Savings & Retirement	103,285	107,826	(4,541)	-4.21%
<b>Total Personnel Expenses</b>	<b>931,554</b>	<b>1,008,321</b>	<b>(76,767)</b>	<b>-7.61%</b>
<b>Meeting Expenses</b>				
Meetings	22,999	12,500	10,499	83.99%
Travel	57,693	53,959	3,734	6.92%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>80,692</b>	<b>66,459</b>	<b>14,233</b>	<b>21.42%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	75,845	-	75,845	
Rent & Improvements	-	-	-	
Office Costs	1,185	744	441	59.27%
Professional Services	-	-	-	
Miscellaneous	2,160	-	2,160	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>79,190</b>	<b>744</b>	<b>78,446</b>	<b>10543.82%</b>
<b>Indirect Expenses</b>	<b>(1,091,436)</b>	<b>(1,075,524)</b>	<b>(15,912)</b>	<b>1.48%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>FTE's</b>	<b>4.70</b>	<b>5.99</b>	<b>(1.29)</b>	<b>-21.54%</b>

**Technical Committees and Member Forums  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$76,767 under budget)**

- SERC budgeted 5.99 FTEs in the Technical Committees program during 2016. SERC finished 2016 with 4.70 FTEs in the Technical Committees program; a difference of 1.29 FTEs.

**Meeting Expense (Actual \$14,233 over budget)**

- Due to a SERC initiative to increase staff involvement across the ERO, participation on ERO and NERC committees and subcommittees required additional staff travel and meetings.

**Consultants and Contracts Expense (Actual \$75,845 over budget)**

- There were no contract dollars budgeted for Technical Committees and Member Forums in 2016. SERC used outside contractors to provide expertise in areas requiring outside expertise.
- ERAG Assessments are budgeted in the second half of the year. Due to a timing overlap, a portion of the ERAG Assessment for 2015 was not completed until the first two quarters of 2016, causing SERC to be over budget.

**Indirect Expenses (Actual \$15,912 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

GENERAL and ADMINISTRATIVE	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	(1,127,284)	(1,127,284)	-	0.00%
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ (1,127,284)</b>	<b>\$ (1,127,284)</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	321,147	294,000	27,147	9.23%
<b>Total Funding (A)</b>	<b>(806,137)</b>	<b>(833,284)</b>	<b>27,147</b>	<b>-3.26%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	3,272,423	2,698,299	574,124	21.28%
Payroll Taxes	182,780	161,898	20,882	12.90%
Employee Benefits	247,164	255,656	(8,492)	-3.32%
Savings & Retirement	298,163	366,434	(68,271)	-18.63%
<b>Total Personnel Expenses</b>	<b>4,000,530</b>	<b>3,482,287</b>	<b>518,243</b>	<b>14.88%</b>
<b>Meeting Expenses</b>				
Meetings	80,860	63,740	17,120	26.86%
Travel	65,452	72,410	(6,958)	-9.61%
Conference Calls	38,386	44,544	(6,158)	-13.82%
<b>Total Meeting Expenses</b>	<b>184,698</b>	<b>180,694</b>	<b>4,004</b>	<b>2.22%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	108,600	237,500	(128,900)	-54.27%
Rent & Improvements	586,001	517,917	68,084	13.15%
Office Costs	197,006	169,702	27,304	16.09%
Professional Services	47,608	43,000	4,608	10.72%
Miscellaneous	11,965	5,000	6,965	139.30%
Depreciation	387,470	483,480	(96,010)	-19.86%
<b>Total Operating Expenses</b>	<b>1,338,650</b>	<b>1,456,599</b>	<b>(117,949)</b>	<b>-8.10%</b>
<b>Indirect Expenses</b>	<b>(5,523,878)</b>	<b>(5,119,580)</b>	<b>(404,298)</b>	<b>7.90%</b>
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	<b>(806,137)</b>	<b>(833,284)</b>	<b>27,147</b>	<b>-3.26%</b>
<b>Fixed Assets</b>				
Depreciation	(387,470)	(483,480)	96,010	-19.86%
Computer & Software CapEx	59,292	207,311	(148,019)	-71.40%
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	30,000	-	30,000	
Leasehold Improvements	131,308	-	131,308	
<b>Incr(Dec) in Fixed Assets</b>	<b>166,870</b>	<b>276,169</b>	<b>(109,299)</b>	
Allocation of Fixed Assets	166,870	276,169	(109,299)	-39.58%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>333,740</b>	<b>552,338</b>	<b>(218,598)</b>	<b>-39.58%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>333,740</b>	<b>552,338</b>	<b>218,598</b>	<b>39.58%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(1,139,877)</b>	<b>(1,385,622)</b>	<b>(191,451)</b>	<b>13.82%</b>
<b>FTE's</b>	<b>18.50</b>	<b>21.00</b>	<b>(2.50)</b>	<b>-11.90%</b>

**General and Administrative  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Personnel Expenses (Actual \$518,243 over budget)**

- SERC budgeted 21.0 FTEs in General and Administrative during 2016. SERC finished 2016 with 18.5 FTEs in General and Administrative; this is a difference of 2.50 FTEs.
- Although the FTE count is lower, during 2016, total personnel costs were higher than budget primarily due to fact that SERC was successful in filling several director-level positions toward the end of 2015 and early 2016. Some of these positions were not fully accounted for during the budgeting process. One-time personnel expenses not anticipated in the budget also impacted the 2016 budget variances.
- Employee Benefits were under budget in 2016 resulting from fluctuations in benefits due to variations in relocation, training and education cost.
- Retirement expenses are lower than expected due to the level of participation in the employee 401K program.

**Consultants and Contracts Expense (Actual \$128,900 under budget)**

- SERC budget included a HR consultant but hired as a permanent SERC positions, causing Consultants and Contract to run under budget but off setting in Personnel Expenses.

**Rent Expense (Actual \$ 68,084 over budget)**

- SERC signed a new lease for the office expansion project, with a commencement date of April 1, 2016. GAAP requires rent to be recorded on a straight-line basis, accounting for the three months of free rent. The budget was developed based on actual rent expense. Due to accounting principles, rent is being recorded on a straight-line basis, causing the overrun.

**Office Cost (Actual \$ 27,304 over budget)**

- As noted above, SERC expanded its office space in 2016, but did not anticipate the construction costs in the 2016 budget. During 2016, SERC incurred construction costs for additional renovations, purchased equipment and office furniture, which were not budgeted, causing an overrun in leasehold improvements, equipment capital expenditures and Office Cost.

**Miscellaneous Expense (Actual \$6,965 over budget)**

- Miscellaneous expense includes recognition for staff and SERC members, and shuttle costs to transport SERC members from their hotel to the SERC office for meetings hosted at the SERC office. SERC receives a reimbursement from its landlord to pay for the shuttle costs. This is recorded in Miscellaneous Income.

**Fixed Assets (Actual \$109,299 under budget)**

- SERC either cancelled or deferred several planned Computer and Software Cap Ex projects in 2016 causing it to come in under budget, resulting in a lower than budgeted depreciation expense.



- As an offset, SERC's leasehold improvements increased due to the unbudgeted renovation of additional office space, causing an overrun.

**Indirect Expenses (Actual \$404,298 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.





**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

LEGAL and REGULATORY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Operating Expenses</b>				
Consultants & Contracts	36,116	-	36,116	
Rent & Improvements	-	-	-	
Office Costs	1,682	3,270	(1,588)	-48.56%
Professional Services	80,933	50,000	30,933	61.87%
Miscellaneous	(104)	-	(104)	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>118,627</b>	<b>53,270</b>	<b>65,357</b>	<b>122.69%</b>
<b>Indirect Expenses</b>	<b>(118,627)</b>	<b>(53,270)</b>	<b>(65,357)</b>	<b>122.69%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>FTE's</b>	<b>-</b>	<b>-</b>	<b>-</b>	



**Legal and Regulatory  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Professional Services (Actual \$30,933 over budget)**

- There was an overrun in Professional Services due to additional costs for legal services related to corporate matters, and HR outside Consultant training for managers and executives not budgeted for 2016.

**Consultants and Contracts Expense (Actual \$36,116 over budget)**

- SERC engaged a consultant to enhance our document repository, an unbudgeted project that caused an overrun.

**Indirect Expenses (Actual \$65,357 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>INFORMATION TECHNOLOGY</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	880	-	880	
<b>Total Funding (A)</b>	880	-	880	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	-	-	-	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	-	-	-	
<b>Operating Expenses</b>				
Consultants & Contracts	1,309,668	552,130	757,538	137.20%
Rent & Improvements	-	-	-	
Office Costs	137,328	97,510	39,818	40.83%
Professional Services	-	-	-	
Miscellaneous	1,086	-	1,086	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	1,448,082	649,640	798,442	122.91%
<b>Indirect Expenses</b>	(1,448,082)	(649,640)	(798,442)	122.91%
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	880	-	880	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	-	-	-	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	880	-	880	
<b>FTE's</b>	-	-	-	

**Information Technology  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Consultants and Contracts (Actual \$757,538 over budget)**

- SERC outsourced the Information Technology function to assist with short and long-term needs in lieu of hiring FTEs, causing SERC to be over budget.
- SERC used consultants for maintenance on the current tools and to develop unbudgeted software projects, all below SERC's capitalization policy, and therefore expensed the amounts, causing the overrun.

**Office Costs (Actual \$39,818 over budget)**

- The overrun in office costs includes the purchase of office equipment for the new office space, which includes projectors, computers, and other miscellaneous equipment. Individually, all items were below SERC's capitalization policy and were therefore expensed.

**Indirect Expenses (Actual \$798,442 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

<b>HUMAN RESOURCES</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Operating Expenses</b>				
Consultants & Contracts	38,519	10,000	28,519	285.19%
Rent & Improvements	-	-	-	
Office Costs	8,026	1,209	6,817	563.85%
Professional Services	22,940	10,000	12,940	129.40%
Miscellaneous	346	-	346	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>69,831</b>	<b>21,209</b>	<b>48,622</b>	<b>229.25%</b>
<b>Indirect Expenses</b>	<b>(69,831)</b>	<b>(21,209)</b>	<b>(48,622)</b>	<b>229.25%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>FTE's</b>	<b>-</b>	<b>-</b>	<b>-</b>	



**Human Resources  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Consultants and Contracts (Actual \$28,519 over budget)**

- The consultant contracted to assist in management development cost more than the budgeted amount.

**Professional Services (Actual \$12,940 over budget)**

- There is an overrun in Professional Services due to additional costs for legal services related to corporate matters, and HR outside Consultant training for managers and executives.

**Indirect Expenses (Actual \$48,622 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.



**SERC Reliability Corporation  
Statement of Activities  
From 1/1/2016 through 12/31/2016**

ACCOUNTING and FINANCE	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	4,376	1,000	3,376	337.60%
Miscellaneous	10,600	-	10,600	
<b>Total Funding (A)</b>	<b>14,976</b>	<b>1,000</b>	<b>13,976</b>	<b>1397.60%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	-	-	-	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	-	-	-	
<b>Operating Expenses</b>				
Consultants & Contracts	109,120	-	109,120	
Rent & Improvements	-	-	-	
Office Costs	37,017	18,500	18,517	100.09%
Professional Services	40,327	42,200	(1,873)	-4.44%
Miscellaneous	(237)	-	(237)	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>186,227</b>	<b>60,700</b>	<b>125,527</b>	<b>206.80%</b>
<b>Indirect Expenses</b>	<b>(186,227)</b>	<b>(60,700)</b>	<b>(125,527)</b>	<b>206.80%</b>
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	
<b>Change in Assets (A - B)</b>	<b>14,976</b>	<b>1,000</b>	<b>13,976</b>	<b>1397.60%</b>
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	-	-	-	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	<b>14,976</b>	<b>1,000</b>	<b>13,976</b>	<b>1397.60%</b>
<b>FTE's</b>	-	-	-	

**Accounting and Finance  
Variance Explanations as of December 31, 2016  
Variances > +/- \$10,000 and 10%**

**Consultants and Contracts (Actual \$109,120 over budget)**

- In 2016, SERC contracted a Director of Finance Consultant to assist the Finance Department to replace the former Director of Finance for the last Quarter of 2016 for a cost of \$51,958. In addition, contract work by a finance audit team was not budgeted for a cost of \$44,350.

**Office Costs Expense (Actual \$ 18,517 over budget)**

- Property tax expense was higher than budgeted due to additional furniture and equipment purchases for the office expansion.

**Indirect Expenses (Actual \$125,527 under budget)**

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2016 based on the number of FTEs in those programs.





# **SERC RELIABILITY CORPORATION**

## **FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

*As of and for the Years Ended December 31, 2016 and  
2015*

*And Report of Independent Auditor*

**SERC RELIABILITY CORPORATION**

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## **Report of Independent Auditor**

To the Board of Directors  
SERC Reliability Corporation  
Charlotte, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of SERC Reliability Corporation (the "Corporation"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SERC Reliability Corporation as of December 31, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Supplemental Schedules**

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 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.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
April 24, 2017

**SERC RELIABILITY CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,584,071	\$ 6,778,480
Accounts receivable	142,868	223,667
Prepaid expenses and other current assets	305,394	262,529
Total Current Assets	<u>6,032,333</u>	<u>7,264,676</u>
Property and equipment, net	<u>713,078</u>	<u>909,946</u>
<b>Total Assets</b>	<u><u>\$ 6,745,411</u></u>	<u><u>\$ 8,174,622</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 261,206	\$ 404,084
Accrued salaries and related benefits	2,626,242	2,112,193
Deferred revenue	684,268	742,959
Total Current Liabilities	<u>3,571,716</u>	<u>3,259,236</u>
Deferred rent	<u>472,675</u>	<u>438,341</u>
<b>Total Liabilities</b>	<u>4,044,391</u>	<u>3,697,577</u>
Net Assets:		
Unrestricted and undesignated	680,165	938,545
Unrestricted and designated operating reserve	<u>2,020,855</u>	<u>3,538,500</u>
<b>Total Net Assets</b>	<u>2,701,020</u>	<u>4,477,045</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 6,745,411</u></u>	<u><u>\$ 8,174,622</u></u>

**SERC RELIABILITY CORPORATION**  
**STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Funding		
Member assessments	\$ 13,730,986	\$ 13,731,034
Penalty sanctions	648,500	1,787,000
Workshops	201,135	184,510
Interest	4,376	4,827
Miscellaneous	481,069	359,932
Total funding	<u>15,066,066</u>	<u>16,067,303</u>
Expenses		
Personnel expenses:		
Salaries	9,802,321	8,764,171
Payroll taxes	560,651	565,636
Employee benefits	958,338	977,760
Savings and retirement	1,187,505	931,968
Total personnel expenses	<u>12,508,815</u>	<u>11,239,535</u>
Meeting expenses:		
Meetings	251,568	242,815
Travel	423,897	526,585
Conference calls	38,386	45,421
Total meeting expenses	<u>713,851</u>	<u>814,821</u>
Operating expenses:		
Consultants and contracts	2,033,635	2,116,689
Rent and improvements	586,001	545,374
Office costs	402,337	472,986
Professional services	191,808	339,467
Depreciation	387,470	377,429
Miscellaneous	18,174	22,083
Total operating expenses	<u>3,619,425</u>	<u>3,874,028</u>
Total Expenses	<u>16,842,091</u>	<u>15,928,384</u>
Change in net assets	(1,776,025)	138,919
Net assets		
Beginning of year	<u>4,477,045</u>	<u>4,338,126</u>
End of year	<u>\$ 2,701,020</u>	<u>\$ 4,477,045</u>

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (1,776,025)	\$ 138,919
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	387,470	377,429
Changes in operating assets and liabilities:		
Accounts receivable	80,799	672,837
Prepaid expenses and other current assets	(42,865)	(78,191)
Accounts payable	(142,878)	70,720
Accrued salaries and related benefits	514,049	126,963
Deferred revenue	(58,691)	(1,422,560)
Deferred rent	34,334	53,107
Net cash from operating activities	<u>(1,003,807)</u>	<u>(60,776)</u>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	<u>(190,602)</u>	<u>(486,507)</u>
Net decrease in cash and cash equivalents	(1,194,409)	(547,283)
Cash and cash equivalents		
Beginning of year	<u>6,778,480</u>	<u>7,325,763</u>
End of year	<u>\$ 5,584,071</u>	<u>\$ 6,778,480</u>

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

# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### **Note 1—Organization and nature of operations**

SERC Reliability Corporation (the "Corporation") is a non-profit corporation which qualifies as a Regional Reliability Organization under the Energy Policy Act of 2005. The Corporation's mission is to promote the reliability of the electricity supply for the southeastern United States. The activities of the Corporation are directed by its Board of Directors. The Corporation's members are electricity suppliers, brokers and consumers from various ownership segments of the electricity supply industry, investor-owned utilities, rural electric cooperatives, municipal utilities, independent power producers, power marketers and customers. These entities account for virtually all the electricity supplied in the southeastern United States.

### **Note 2—Summary of significant accounting policies**

*Accounting Principles* - 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 as of December 31, 2016 and 2015, including unrestricted net assets that have been designated by the Board of Directors as an operating reserve.

*Management Estimates* - The preparation of financial statements in conformity with GAAP requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

*Cash and Cash Equivalents* - The Corporation considers all cash investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include funds invested overnight in accordance with the terms of repurchase agreements with its bank whereby the Corporation is transferred an undivided fractional interest in a pool of certain government securities with an agreement to sell the interest back to the bank the next business day.

*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, 2016 and 2015, management has determined that an allowance for doubtful accounts is not necessary.

*Property and Equipment* - Property and equipment with a cost of \$5,000 or more and that have an estimated useful life greater than one year, are capitalized at cost. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements and 3 years for computer equipment and software. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.



# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### Note 2—Summary of significant accounting policies (continued)

*Deferred Revenue* - Deferred revenue represents amounts billed or collected from members in advance of the periods in which such amounts are earned. The Corporation follows a revenue recognition policy that is used in its industry whereby certain penalty assessments that have been invoiced and, in certain cases, collected, remain as deferred revenue until the accounting period in which such penalties become part of the budget process to determine regular member assessments.

*Leases* - The Corporation records expense for operating leases by recognizing the minimum lease payments on a straight-line basis, beginning on the date the lease commenced. When the terms of the operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Corporation establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. The deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

*Revenue Recognition* - All income is recognized in the period when earned. The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation (“NERC”) based on the budget submitted by the Corporation and approved by NERC and the Federal Energy Regulatory Commission (“FERC”). The revenue is received in four equal quarterly installments received at the beginning of each quarter. Based on past history with NERC, the Corporation believes that its revenue risk exposure is limited.

*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.

### Note 3—Property and equipment

Property and equipment includes the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 449,069	\$ 317,760
Computer equipment	280,618	280,618
Software	1,454,765	1,395,473
	<u>2,184,452</u>	<u>1,993,851</u>
Less: Accumulated depreciation	(1,471,374)	(1,083,905)
Property and equipment, net	<u>\$ 713,078</u>	<u>\$ 909,946</u>

Depreciation expense was \$387,470 and \$377,429 for the years ended December 2016 and 2015, respectively.

### Note 4—Leases

During the year ended December 31, 2014, the Corporation entered into an operating lease for office space which commenced on April 1, 2014 and continues through January 31, 2025. The lease provides free rent for the first 10 months of the lease period and annual rent payments ranging from \$460,000 to \$612,000 thereafter. In connection with the new office space, the Corporation entered into a construction agreement providing for an upfit allowance, whereby the Corporation was reimbursed for upfit costs up to \$794,710.

# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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### Note 4—Leases (continued)

On January 15, 2016, the Corporation entered into an amendment to the current operating lease for expansion of office space. The amended lease continues through the original expiration date January 31, 2025. The amended lease provides for additional annual rent payments ranging from \$75,000 to \$88,000 thereafter. In connection with the amended lease, the Corporation was responsible for upfit costs totaling approximately \$95,000 in connection with the expansion.

Total rent expense for the years ended December 31, 2016 and 2015, was \$586,001 and \$545,374, respectively.

Future minimum payments on the operating lease is as follows:

<u>Year ending December 31,</u>	
2017	\$ 599,457
2018	612,961
2019	626,772
2020	640,894
2021	655,331
Thereafter	<u>2,114,370</u>
Total	<u>\$ 5,249,785</u>

### Note 5—Line of credit

The Corporation has a \$1,000,000 bank line of credit at an interest rate of the Prime Rate plus 0.68% (4.43% at December 31, 2016) for which all outstanding borrowings shall be payable in full at maturity on August 30, 2017. The line of credit is secured by the assets of the Corporation. The line of credit had no outstanding balance at December 31, 2016 and 2015.

### Note 6—Benefit plans

*401(k) plan* - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation may make discretionary matching contributions to the plan limited to 6% of each eligible employee's compensation, as defined. In addition, the plan provides that the Corporation may make additional discretionary non-elective contributions in an amount to be determined by the Board of Directors each year. The Corporation also makes safe harbor non-elective contributions to the plan equal to 3% of each eligible employee's compensation, as defined. During the years ended December 31, 2016 and 2015, contribution expense related to the plan totaled \$1,164,945 and \$888,882, respectively.

*Deferred compensation plan* - The Corporation has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b) for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. All contributions are immediately vested in the plan. During the years ended December 31, 2016 and 2015, contribution expense related to the plan totaled \$5,675 and \$15,672, respectively. The asset and liability for deferred compensation of \$244,302 and \$107,278 at December 31, 2016 and 2015, respectively, is included in prepaid expenses and other current assets and accrued salaries and related benefits in the accompanying statements of financial position.

**SERC RELIABILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2016 AND 2015

**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. The Corporation from time to time may have balances in excess of the FDIC insured limits. The Corporation had funds in banks in excess of the federally insured limits of \$5,250,033 and \$6,669,316 at December 31, 2016 and 2015, respectively.

**Note 8—Functional expenses**

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

	<u>2016</u>	<u>2015</u>
Program expenses:		
Reliability standards	\$ 347,195	\$ 143,012
Compliance enforcement	6,033,130	5,391,543
Reliability assessment	1,034,404	1,288,769
Training and education	402,201	620,343
Situation awareness	587,080	575,112
	<u>8,404,010</u>	<u>8,018,779</u>
Committee and member forums	<u>1,091,436</u>	<u>1,064,841</u>
General and administrative expenses:		
General and administrative	5,523,878	5,168,650
Legal and regulatory	118,627	73,395
Information technology	1,448,082	1,223,764
Human resources	69,831	301,262
Accounting and finance	186,227	77,693
	<u>7,346,645</u>	<u>6,844,764</u>
Total	<u>\$ 16,842,091</u>	<u>\$ 15,928,384</u>

**Note 9—Subsequent events**

Management has evaluated subsequent events through April 24, 2017 the date the financial statements were issued.

## **ACCOMPANYING INFORMATION**

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2016

	<b>2016 YTD Actual</b>	<b>2016 YTD Budget</b>	<b>2016 YTD Variance</b>
<b>Funding</b>			
Member assessments	\$ 13,730,986	\$ 13,730,986	\$ -
Penalty sanctions	648,500	648,500	-
Workshops	201,135	210,075	(8,940)
Interest	4,376	1,000	3,376
Miscellaneous	481,069	444,000	37,069
Total funding	<u>15,066,066</u>	<u>15,034,561</u>	<u>31,505</u>
<b>Expenses</b>			
Personnel expenses:			
Salaries	9,802,321	9,457,718	344,603
Payroll taxes	560,651	642,524	(81,873)
Employee benefits	958,338	993,030	(34,692)
Savings and retirement	1,187,505	1,299,662	(112,157)
Total personnel expenses	<u>12,508,815</u>	<u>12,392,934</u>	<u>115,881</u>
Meeting expenses:			
Meetings	251,568	247,421	4,147
Travel	423,897	488,466	(64,569)
Conference calls	38,386	44,544	(6,158)
Total meeting expenses	<u>713,851</u>	<u>780,431</u>	<u>(66,580)</u>
Operating expenses:			
Consultants and contracts	2,033,635	1,497,173	536,462
Rent and improvements	586,001	517,917	68,084
Office costs	402,337	310,879	91,458
Professional services	191,808	155,200	36,608
Depreciation	387,470	483,480	(96,010)
Miscellaneous	18,174	5,000	13,174
Total operating expenses	<u>3,619,425</u>	<u>2,969,649</u>	<u>649,776</u>
Total Expenses	<u>16,842,091</u>	<u>16,143,014</u>	<u>699,077</u>
Change in net assets	<u>\$ (1,776,025)</u>	<u>\$ (1,108,453)</u>	<u>\$ (667,572)</u>

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2015

	<b>2015 YTD Actual</b>	<b>2015 YTD Budget</b>	<b>2015 YTD Variance</b>
<b>Funding</b>			
Member assessments	\$ 13,731,034	\$ 13,731,034	\$ -
Penalty sanctions	1,787,000	1,787,000	-
Workshops	184,510	259,355	(74,845)
Interest	4,827	1,000	3,827
Miscellaneous	359,932	294,000	65,932
Total funding	<u>16,067,303</u>	<u>16,072,389</u>	<u>(5,086)</u>
<b>Expenses</b>			
Personnel expenses:			
Salaries	8,764,171	9,717,873	(953,702)
Payroll taxes	565,636	583,072	(17,436)
Employee benefits	977,760	938,825	38,935
Savings and retirement	931,968	1,325,619	(393,651)
Total personnel expenses	<u>11,239,535</u>	<u>12,565,389</u>	<u>(1,325,854)</u>
Meeting expenses:			
Meetings	242,815	273,110	(30,295)
Travel	526,585	585,639	(59,054)
Conference calls	45,421	48,000	(2,579)
Total meeting expenses	<u>814,821</u>	<u>906,749</u>	<u>(91,928)</u>
Operating expenses:			
Consultants and contracts	2,116,689	1,177,609	939,080
Rent and improvements	545,374	464,809	80,565
Office costs	472,986	430,551	42,435
Professional services	339,467	111,400	228,067
Depreciation	377,429	418,070	(40,641)
Miscellaneous	22,083	-	22,083
Total operating expenses	<u>3,874,028</u>	<u>2,602,439</u>	<u>1,271,589</u>
Total Expenses	<u>15,928,384</u>	<u>16,074,577</u>	<u>(146,193)</u>
Change in net assets	<u>\$ 138,919</u>	<u>\$ (2,188)</u>	<u>\$ 141,107</u>

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS BY FUNCTION**

YEAR ENDED DECEMBER 31, 2016

	300	400 & 500	800	900	1000	1100	2000	2200	2300	2400	2500	2016 YTD	2016 YTD	2016 YTD
	RELIAB	COMP ENFORCE/ ORG REG & CERT	RELIAB	TRAINING	SIT	COMMITTEE & MBR FORUMS	GENERAL	LEGAL & REGULATORY	IT	HUMAN	ACCOUNTING	Actual	Budget	Variance
	STD DEV		ASSES	& EDUC	AWARE		& FACILITIES			RESOURCES	& FINANCE			
<b>Funding</b>														
Member assessments	\$ 588,776	\$ 10,377,385	\$ 1,891,766	\$ 1,021,554	\$ 978,789	\$ -	\$ (1,127,284)	\$ -	\$ -	\$ -	\$ -	\$ 13,730,986	\$ 13,730,986	\$ -
Penalty sanctions	25,115	468,257	83,716	28,286	43,126	-	-	-	-	-	-	648,500	648,500	-
Workshops	-	-	-	201,135	-	-	-	-	-	-	-	201,135	210,075	(8,940)
Interest	-	-	-	-	-	-	-	-	-	-	4,376	4,376	1,000	3,376
Miscellaneous	-	148,442	-	-	-	-	321,147	-	880	-	10,600	481,069	444,000	37,069
<b>Total funding</b>	<b>613,891</b>	<b>10,994,084</b>	<b>1,975,482</b>	<b>1,250,975</b>	<b>1,021,915</b>	<b>-</b>	<b>(806,137)</b>	<b>-</b>	<b>880</b>	<b>-</b>	<b>14,976</b>	<b>15,066,066</b>	<b>15,034,561</b>	<b>31,505</b>
<b>Expenses</b>														
<b>Personnel expenses:</b>														
Salaries	267,424	4,304,932	651,226	137,490	454,625	714,201	3,272,423	-	-	-	-	9,802,321	9,457,718	344,603
Payroll taxes	13,486	242,903	43,279	7,660	29,199	41,344	182,780	-	-	-	-	560,651	642,524	(81,873)
Employee benefits	26,038	454,376	100,158	11,236	46,642	72,724	247,164	-	-	-	-	958,338	993,030	(34,692)
Savings and retirement	39,039	597,684	85,622	19,017	44,695	103,285	298,163	-	-	-	-	1,187,505	1,299,662	(112,157)
<b>Total personnel expenses</b>	<b>345,987</b>	<b>5,599,895</b>	<b>880,285</b>	<b>175,403</b>	<b>575,161</b>	<b>931,554</b>	<b>4,000,530</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,508,815</b>	<b>12,392,934</b>	<b>115,881</b>
<b>Meeting expenses:</b>														
Meetings	125	24,732	11,836	110,314	702	22,999	80,860	-	-	-	-	251,568	247,421	4,147
Travel	1,083	238,293	44,854	5,524	10,998	57,693	65,452	-	-	-	-	423,897	488,466	(64,569)
Conference calls	-	-	-	-	-	-	38,386	-	-	-	-	38,386	44,544	(6,158)
<b>Total meeting expenses</b>	<b>1,208</b>	<b>263,025</b>	<b>56,690</b>	<b>115,838</b>	<b>11,700</b>	<b>80,692</b>	<b>184,698</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>713,851</b>	<b>780,431</b>	<b>(66,580)</b>
<b>Operating expenses:</b>														
Consultants and contracts	-	153,107	92,350	110,310	-	75,845	108,600	36,116	1,309,668	38,519	109,120	2,033,635	1,497,173	536,462
Rent and improvements	-	-	-	-	-	-	586,001	-	-	-	-	586,001	517,917	68,084
Office costs	-	15,404	3,714	650	325	1,185	197,006	1,682	137,328	8,026	37,017	402,337	310,879	91,458
Professional services	-	-	-	-	-	-	47,608	80,933	-	22,940	40,327	191,808	155,200	36,608
Depreciation	-	-	-	-	-	-	387,470	-	-	-	-	387,470	483,480	(96,010)
Miscellaneous	-	1,699	1,365	-	(106)	2,160	11,965	(104)	1,086	346	(237)	18,174	5,000	13,174
<b>Total operating expenses</b>	<b>-</b>	<b>170,210</b>	<b>97,429</b>	<b>110,960</b>	<b>219</b>	<b>79,190</b>	<b>1,338,650</b>	<b>118,627</b>	<b>1,448,082</b>	<b>69,831</b>	<b>186,227</b>	<b>3,619,425</b>	<b>2,969,649</b>	<b>649,776</b>
<b>Total Expenses</b>	<b>347,195</b>	<b>6,033,130</b>	<b>1,034,404</b>	<b>402,201</b>	<b>587,080</b>	<b>1,091,436</b>	<b>5,523,878</b>	<b>118,627</b>	<b>1,448,082</b>	<b>69,831</b>	<b>186,227</b>	<b>16,842,091</b>	<b>16,143,014</b>	<b>699,077</b>
<b>Change in net assets</b>	<b>\$ 266,696</b>	<b>\$ 4,960,954</b>	<b>\$ 941,078</b>	<b>\$ 848,774</b>	<b>\$ 434,835</b>	<b>\$ (1,091,436)</b>	<b>\$ (6,330,015)</b>	<b>\$ (118,627)</b>	<b>\$ (1,447,202)</b>	<b>\$ (69,831)</b>	<b>\$ (171,251)</b>	<b>\$ (1,776,025)</b>	<b>\$ (1,108,453)</b>	<b>\$ (667,572)</b>

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS BY FUNCTION**

YEAR ENDED DECEMBER 31, 2015

	300	400	800	900	1000	1100	2000	2200	2300	2400	2500	2015 YTD	2015 YTD	2015 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			
<b>Funding</b>														
Member assessments	\$ 595,650	\$ 9,544,624	\$ 1,616,315	\$ 710,595	\$ 1,475,301	\$ -	\$ (211,451)	\$ -	\$ -	\$ -	\$ -	\$ 13,731,034	\$ 13,731,034	\$ -
Penalty sanctions	85,469	1,228,011	193,207	85,469	194,844	-	-	-	-	-	-	1,787,000	1,787,000	-
Workshops	-	-	-	184,510	-	-	-	-	-	-	-	184,510	259,355	(74,845)
Interest	-	-	-	-	-	-	-	-	-	-	4,827	4,827	1,000	3,827
Miscellaneous	-	56,372	-	14,178	-	-	289,382	-	-	-	-	359,932	294,000	65,932
<b>Total funding</b>	<b>681,119</b>	<b>10,829,007</b>	<b>1,809,522</b>	<b>994,752</b>	<b>1,670,145</b>	<b>-</b>	<b>77,931</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,827</b>	<b>16,067,303</b>	<b>16,072,389</b>	<b>(5,086)</b>
<b>Expenses</b>														
<b>Personnel expenses:</b>														
Salaries	104,461	3,801,670	713,987	265,079	429,461	745,319	2,704,194	-	-	-	-	8,764,171	9,717,873	(953,702)
Payroll taxes	6,347	270,250	55,739	17,476	32,446	51,753	131,625	-	-	-	-	565,636	583,072	(17,436)
Employee benefits	16,001	423,860	95,321	28,156	52,722	74,327	287,373	-	-	-	-	977,760	938,825	38,935
Savings and retirement	2,069	351,238	61,750	15,747	27,630	86,019	387,515	-	-	-	-	931,968	1,325,619	(393,651)
<b>Total personnel expenses</b>	<b>128,878</b>	<b>4,847,018</b>	<b>926,797</b>	<b>326,458</b>	<b>542,259</b>	<b>957,418</b>	<b>3,510,707</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,239,535</b>	<b>12,565,389</b>	<b>(1,325,854)</b>
<b>Meeting expenses:</b>														
Meetings	125	29,194	23,634	116,932	-	9,884	63,046	-	-	-	-	242,815	273,110	(30,295)
Travel	-	249,294	59,900	27,012	17,431	79,753	93,195	-	-	-	-	526,585	585,639	(59,054)
Conference calls	-	-	-	-	-	-	45,421	-	-	-	-	45,421	48,000	(2,579)
<b>Total meeting expenses</b>	<b>125</b>	<b>278,488</b>	<b>83,534</b>	<b>143,944</b>	<b>17,431</b>	<b>89,637</b>	<b>201,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>814,821</b>	<b>906,749</b>	<b>(91,928)</b>
<b>Operating expenses:</b>														
Consultants and contracts	14,016	240,289	274,243	149,713	14,716	16,216	233,811	-	999,296	174,389	-	2,116,689	1,177,609	939,080
Rent and improvements	-	-	-	-	-	-	545,374	-	-	-	-	545,374	464,809	80,565
Office costs	-	12,852	3,637	228	634	1,537	200,392	2,455	224,468	52	26,731	472,986	430,551	42,435
Professional services	-	11,431	(2)	-	-	-	80,204	70,940	-	125,932	50,962	339,467	111,400	228,067
Depreciation	-	-	-	-	-	-	377,429	-	-	-	-	377,429	418,070	(40,641)
Miscellaneous	(7)	1,465	560	-	72	33	19,071	-	-	889	-	22,083	-	22,083
<b>Total operating expenses</b>	<b>14,009</b>	<b>266,037</b>	<b>278,438</b>	<b>149,941</b>	<b>15,422</b>	<b>17,786</b>	<b>1,456,281</b>	<b>73,395</b>	<b>1,223,764</b>	<b>301,262</b>	<b>77,693</b>	<b>3,874,028</b>	<b>2,602,439</b>	<b>1,271,589</b>
<b>Total Expenses</b>	<b>143,012</b>	<b>5,391,543</b>	<b>1,288,769</b>	<b>620,343</b>	<b>575,112</b>	<b>1,064,841</b>	<b>5,168,650</b>	<b>73,395</b>	<b>1,223,764</b>	<b>301,262</b>	<b>77,693</b>	<b>15,928,384</b>	<b>16,074,577</b>	<b>(146,193)</b>
<b>Change in net assets</b>	<b>\$ 538,107</b>	<b>\$ 5,437,464</b>	<b>\$ 520,753</b>	<b>\$ 374,409</b>	<b>\$ 1,095,033</b>	<b>\$ (1,064,841)</b>	<b>\$ (5,090,719)</b>	<b>\$ (73,395)</b>	<b>\$ (1,223,764)</b>	<b>\$ (301,262)</b>	<b>\$ (72,866)</b>	<b>\$ 138,919</b>	<b>\$ (2,188)</b>	<b>\$ 141,107</b>



**ATTACHMENT 7**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**FOR**

**SOUTHWEST POWER POOL REGIONAL ENTITY**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**SOUTHWEST POWER POOL, INC.**



Deborah K. Currie  
Manager of Regulatory Interface and Process Improvement

Southwest Power Pool Regional Entity  
201 Worthen Dr.  
Little Rock, AR 72223  
P 501.688.8228  
F 501.482.2025

April 28, 2017

*Via Electronic Mail*

Michael Walker, Chief Financial Officer  
Scott Jones, Senior Director of Finance  
Susan Turpen, Controller  
Andy Sharp, Controller  
North American Electric Reliability Corporation  
3353 Peachtree Road, NE  
Suite 600, North Tower  
Atlanta, GA 30326

Subject: Southwest Power Pool Regional Entity 2016 Actual Cost-to-Budget Comparison

Dear Mr. Walker, Mr. Jones, Ms. Turpen, and Mr. Sharp,

Attached is the Southwest Power Pool, Inc.'s (SPP, Inc.) submission of SPP Regional Entity's (SPP RE) 2016 Actual Cost-to-Budget Comparison (2016 True Up Filing). For 2016, SPP RE received approximately \$8.8 million in statutory funds and incurred approximately \$9.5 million in statutory expense (compared to \$10.1 million budget).

The \$4.2 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 a \$641 thousand negative variance (compared to the budgeted \$1.3 million 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 - \$4.4 million or 5% under budget) – Personnel expenses were less than budget primarily due to three unfilled positions (Director of Compliance and Events, an Enforcement Attorney and an O&P auditor). Several RE staff reaching the Social Security maximum withholding threshold also contributed to the variance.
- **Travel and Meeting Expenses** (Actual - \$454K or 41% under budget) –Travel expenses were less than budgeted due to unfilled budgeted staff positions and delayed implementation of CIP V5 which postponed multiple CIP audits.

- **Operating Expenses** (Actual - \$1.1 million or 11% under budget) – Operating expenses trailed budget primarily due to a reduction in the use of audit contractors as a result of delayed CIP V5 implementation.
- **SPP, Inc. Indirect Expense** (Actual - \$3.5 million or 2% over budget) – SPP Inc. Indirect Expenses exceeded budget primarily due to actual SPP, Inc. corporate overhead costs being slightly above the estimated budget amount (3% escalation factor applied to the 2014 actual expenses).
- **Total Expenses** (Actual \$9.5 million or 6% under budget) – Although SPP RE ended the year under budget, SPP RE completed its intended activities for 2016 principally as a result of the increased experience of the RE direct staff and continued improvement in SPP RE processes.

Specifically, SPP RE performed 18 audits, 5 Spot Checks, 5 Internal Control Evaluations, 5 Self-Certifications, IRAs for every SPP RE registered entity, multiple CIP V5/V6 outreach sessions, processed 108 technical feasibility exceptions, identified 174 possible violations, processed 104 violations, reviewed 82 mitigation plans and 40 mitigating activities, and examined 28 reportable events. In addition, SPP RE conducted various outreach activities and prepared 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 a primarily fixed administrative charge referred to as “SPP, Inc. Indirect Overhead Expense Charge.” Neither group participates in compliance or enforcement decisions of the SPP RE.

Shared staff members charge time and expenses directly to the SPP RE accounts and their hours are included in the official total full time equivalent headcount of the SPP RE for the purposes of reporting to NERC and FERC. Shared staff members record specific hours worked in the performance or support of the SPP RE’s statutory functions in SPP, Inc.’s time tracking system. These hours are posted by the shared staff members and reviewed and approved by their specific manager or supervisor. SPP RE staff review the hours posted by the shared staff members. This procedure results in actual hours spent by shared staff on SPP RE statutory functions being charged directly to the particular SPP RE direct function at the shared staff member’s compensation rate. In addition, an allocation of overhead costs is added to the directly assignable staff’s hourly rate for these employees. These direct charges are included in the SPP RE’s Business Plan and Budget. For 2016, shared staff charged SPP RE 7,723 hours, or 4.1 FTEs based on SPP’s standard assumption that total number of hours in a year is 1,880. SPP RE budgeted 4.25 shared staff FTEs for 2016.

The costs of indirect support staff and other overhead charges (office space, computers, portable electronic devices, etc.) (SPP, Inc. Indirect Expenses), were assessed to the SPP RE based on an annual allocation of SPP's shared services support costs via an appropriate measure (headcount, square footage, number of devices, etc.) The SPP, Inc. Indirect Expenses assessed to the SPP RE are included in the SPP RE's Business Plan and Budget. The SPP, Inc. support costs included in the calculations are reviewed in detail to help ensure that SPP RTO specific costs are excluded from the calculation.

Due to the timing of the budget schedule, the estimated indirect expense charge for 2016 is based on actual 2014 costs, escalated by 3%. The calculation for the rate that was used in the development of the 2016 budget and the calculation for the actual 2016 costs are shown in Attachments 2 and 3, respectively.

If you have any questions related to the submitted materials please feel free to contact me at 501.688.8228 or [dcurrie.re@spp.org](mailto:dcurrie.re@spp.org).

Sincerely,

*Deborah K. Currie*

Deborah K. Currie

Manager, Regulatory Interface and Process Improvement

**Southwest Power Pool**  
**Regional Entity**  
**Statement of Activities**  
From 1/1/2016 through 12/31/2016

Total Statutory	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	8,626,751	8,626,751	0
Penalty Sanctions	193,000	193,000	-
<b>Total ERO Funding</b>	<b>\$ 8,819,751</b>	<b>\$ 8,819,751</b>	<b>\$ 0</b>
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	4,182	-	4,182
Miscellaneous	-	-	-
<b>Total Funding (A)</b>	<b>\$ 8,823,933</b>	<b>\$ 8,819,751</b>	<b>\$ 4,182</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	3,727,593	3,896,492	(168,899)
Payroll Taxes	235,742	298,082	(62,339)
Employee Benefits	331,712	333,564	(1,852)
Savings & Retirement	149,944	155,860	(5,916)
<b>Total Personnel Expenses</b>	<b>\$ 4,444,991</b>	<b>\$ 4,683,997</b>	<b>\$ (239,006)</b>
<b>Meeting Expenses</b>			
Meetings	96,322	90,000	6,322
Travel	357,555	680,200	(322,645)
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 453,876</b>	<b>\$ 770,200</b>	<b>\$ (316,324)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	526,983	965,042	(438,059)
Rent & Improvements	-	-	-
Office Costs	11,085	8,000	3,085
Professional Services	529,061	153,450	375,611
Miscellaneous	-	74,445	(74,445)
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,067,129</b>	<b>\$ 1,200,937</b>	<b>\$ (133,808)</b>
<b>Total Direct Expenses</b>	<b>\$ 5,965,997</b>	<b>\$ 6,655,134</b>	<b>\$ (689,137)</b>
SPP Inc. Indirect Expenses	\$ 3,498,692	\$ 3,440,685	\$ 58,007
SPP RE Indirect Expenses <sup>(1)</sup>	\$ -	\$ -	\$ -
<b>Total Indirect Expenses</b>	<b>\$ 3,498,692</b>	<b>\$ 3,440,685</b>	<b>\$ 58,007</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses (B)</b>	<b>\$ 9,464,689</b>	<b>\$ 10,095,819</b>	<b>\$ (631,130)</b>
<b>Change in Assets (A - B)</b>	<b>(640,756)</b>	<b>(1,276,068)</b>	<b>635,313</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
Allocation of Fixed Assets	-	-	-
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 9,464,689</b>	<b>\$ 10,095,819</b>	<b>\$ (631,130)</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ (640,756)</b>	<b>\$ (1,276,068)</b>	<b>\$ 635,313</b>
<b>FTEs (2)</b>	<b>28.8</b>	<b>32.3</b>	<b>(3.5)</b>

(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 2016 divided by 365) plus Shared Staff FTEs (2016 billed hours divided by 1880)

Southwest Power Pool  
Regional Entity  
Statement of Activities and Capital Expenditures  
01/01/2016 - 12/31/2016

RELIABILITY STANDARDS			2016 Variance	
	2016	2016	from Budget	
	Actual	Budget	Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	108,474	\$ 108,474	-	0.00%
Penalty Sanctions	1,043	1,043	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 109,518</b>	<b>\$ 109,518</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 109,518</b>	<b>\$ 109,518</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	18,975	18,010	965	5.36%
Payroll Taxes	1,452	1,378	74	5.36%
Employee Benefits	1,328	1,505	(176)	-11.72%
Savings & Retirement	759	720	39	5.36%
<b>Total Personnel Expenses</b>	<b>\$ 22,514</b>	<b>\$ 21,613</b>	<b>\$ 901</b>	<b>4.17%</b>
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	4,740	50,000	(45,260)	-90.52%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 4,740</b>	<b>\$ 50,000</b>	<b>\$ (45,260)</b>	<b>-90.52%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Direct Expenses</b>	<b>\$ 27,254</b>	<b>\$ 71,613</b>	<b>\$ (44,359)</b>	<b>-61.94%</b>
SPP Inc. Indirect Expenses	18,251	16,003	2,248	14.05%
SPP RE Indirect Expenses	12,663	21,902	(9,239)	-42.18%
<b>Total Indirect Expenses</b>	<b>\$ 30,914</b>	<b>\$ 37,905</b>	<b>\$ (6,991)</b>	<b>-18.44%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 58,168</b>	<b>\$ 109,518</b>	<b>\$ (51,350)</b>	<b>-46.89%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 51,350</b>	<b>\$ -</b>	<b>\$ 51,350</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 58,168</b>	<b>\$ 109,518</b>	<b>\$ (51,350)</b>	<b>-46.89%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 51,350</b>	<b>\$ -</b>	<b>\$ 51,350</b>	
<b>FTE's</b>	<b>0.15</b>	<b>0.15</b>	<b>-</b>	<b>0.00%</b>

**Explanation of 2016 Variance – Reliability Standards**

**Meeting Expenses**

Travel expenses trailed budget due to lower than anticipated in-person participation on NERC committees and Reliability Standard Drafting Teams.

Southwest Power Pool  
Regional Entity  
Statement of Activities and Capital Expenditures  
01/01/2016 - 12/31/2016

COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION (Includes Critical Infrastructure Protection)	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	7,638,549	7,638,549	-	0.00%
Penalty Sanctions	148,488	148,488	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 7,787,038</b>	<b>\$ 7,787,038</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total Funding (A)</b>	<b>\$ 7,787,038</b>	<b>\$ 7,787,038</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,317,391	2,373,788	(56,397)	-2.38%
Payroll Taxes	149,263	181,595	(32,332)	-17.80%
Employee Benefits	227,709	214,183	13,526	6.32%
Savings & Retirement	102,649	94,952	7,698	8.11%
<b>Total Personnel Expenses</b>	<b>\$ 2,797,012</b>	<b>\$ 2,864,518</b>	<b>\$ (67,505)</b>	<b>-2.36%</b>
<b>Meeting Expenses</b>				
Meetings	24,629	15,000	9,629	64%
Travel	216,413	400,200	(183,787)	-45.92%
Conference Calls	-	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 241,043</b>	<b>\$ 415,200</b>	<b>\$ (174,157)</b>	<b>-41.95%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	428,783	883,042	(454,259)	-51.44%
Rent & Improvements	-	-	-	-
Office Costs	8,597	-	8,597	-
Professional Services	-	4,750	(4,750)	-100.00%
Miscellaneous	-	51,445	(51,445)	-100.00%
Depreciation	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 437,381</b>	<b>\$ 939,237</b>	<b>\$ (501,856)</b>	<b>-53.43%</b>
<b>Total Direct Expenses</b>	<b>\$ 3,475,436</b>	<b>\$ 4,218,955</b>	<b>\$ (743,519)</b>	<b>-17.62%</b>
SPP Inc. Indirect Expenses	2,281,359	2,277,787	3,572	0.16%
SPP RE Indirect Expenses	1,614,776	1,290,296	324,480	25.15%
<b>Total Indirect Expenses</b>	<b>\$ 3,896,135</b>	<b>\$ 3,568,083</b>	<b>\$ 328,052</b>	<b>9.19%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>
<b>Total Expenses (B)</b>	<b>\$ 7,371,571</b>	<b>\$ 7,787,038</b>	<b>\$ (415,466)</b>	<b>-5.34%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 415,466</b>	<b>\$ -</b>	<b>\$ 415,466</b>	<b>-</b>
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>
Allocation of Fixed Assets	-	-	-	-
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 7,371,571</b>	<b>\$ 7,787,038</b>	<b>\$ (415,466)</b>	<b>-5.34%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 415,466</b>	<b>\$ -</b>	<b>\$ 415,466</b>	<b>-</b>
<b>FTE's</b>	<b>18.75</b>	<b>21.35</b>	<b>(2.60)</b>	<b>-12.18%</b>



**Explanation of 2016 Variance – Compliance Operations, Enforcement and Organization Registration**Personnel Expenses

Payroll taxes trailed budget primarily due to some RE staff reaching the annual Social Security maximum withholding threshold.

Meeting Expenses

Travel expenses trailed budget primarily due to the delay in the implementation of the CIP V5 standards and RE audit staff positions that became open during the year.

Operating Expenses

Consultants and Contracts trailed budget primarily due to the delay in the CIP V5 implementation date and postponing four CIP onsite audits from 2016 to 2017.

Miscellaneous expenses trailed budget due to a decreased need for RE staff to pay for continuing education for their professional licenses and certifications.

SPP RE Indirect Expenses

SPP RE Indirect Expenses primarily exceeded budget due to actual exceeding budget for the General and Administrative function. See General and Administrative discussion for variance explanations.

FTEs

FTEs were below budget primarily due to attrition of RE Staff and open positions that were not filled during the year.

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Statement of Activities and Capital Expenditures  
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RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	1,873,479	1,873,479	-	0.00%
Penalty Sanctions	39,122	39,122	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 1,912,600</b>	<b>\$ 1,912,600</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 1,912,600</b>	<b>\$ 1,912,600</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	520,380	728,223	(207,843)	-28.54%
Payroll Taxes	39,809	55,709	(15,900)	-28.54%
Employee Benefits	47,382	56,430	(9,048)	-16.03%
Savings & Retirement	20,815	29,129	(8,314)	-28.54%
<b>Total Personnel Expenses</b>	<b>\$ 628,386</b>	<b>\$ 869,491</b>	<b>\$ (241,105)</b>	<b>-27.73%</b>
<b>Meeting Expenses</b>				
Meetings	42	-	42	
Travel	57,239	105,000	(47,761)	-45.49%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 57,281</b>	<b>\$ 105,000</b>	<b>\$ (47,719)</b>	<b>-45.45%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	59,592	25,000	34,592	138.37%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	2,600	(2,600)	-100.00%
Miscellaneous	-	3,000	(3,000)	-100.00%
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 59,592</b>	<b>\$ 30,600</b>	<b>\$ 28,992</b>	<b>94.75%</b>
<b>Total Direct Expenses</b>	<b>\$ 745,259</b>	<b>\$ 1,005,091</b>	<b>\$ (259,832)</b>	<b>-25.85%</b>
SPP Inc. Indirect Expenses	621,746	600,119	21,627	3.60%
SPP RE Indirect Expenses	346,266	307,390	38,876	12.65%
<b>Total Indirect Expenses</b>	<b>\$ 968,013</b>	<b>\$ 907,509</b>	<b>\$ 60,504</b>	<b>6.67%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 1,713,272</b>	<b>\$ 1,912,600</b>	<b>\$ (199,328)</b>	<b>-10.42%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 199,328</b>	<b>\$ -</b>	<b>\$ 199,328</b>	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 1,713,272</b>	<b>\$ 1,912,600</b>	<b>\$ (199,328)</b>	<b>-10.42%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 199,328</b>	<b>\$ -</b>	<b>\$ 199,328</b>	
<b>FTE's</b>	<b>5.11</b>	<b>5.63</b>	<b>(0.52)</b>	<b>-9.16%</b>

**Explanation of 2016 Variance – Reliability Assessments and Performance Analysis****Personnel Expenses**

Personnel Expenses, including taxes, benefits, and savings and retirement, trailed budget primarily due to unfilled budgeted positions. As of December 31, 2016, three positions (Director of Compliance, an Enforcement Attorney, and an O&P Auditor) were unfilled. The Director is shared between the Compliance Program and the Reliability Assessment Program.

**Meeting Expenses**

Travel expenses trailed budget primarily due to the unfilled budgeted positions.

**Operating Expenses**

Consultant and Contract expenses exceeded budget primarily due to the re-start of the Engineering Data Validation IT Tool project.

**SPP RE Indirect Expenses**

SPP RE Indirect Expenses primarily exceeded budget due to actual exceeding budget for the General and Administrative function. See General and Administrative discussion for variance explanations.

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**Regional Entity**  
**Statement of Activities and Capital Expenditures**  
**01/01/2016 - 12/31/2016**

<b>TRAINING, EDUCATION and OPERATOR CERTIFICATION</b>	<b>2016 Actual</b>	<b>2016 Budget</b>	<b>2016 Variance from Budget Over(Under)</b>	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	241,955	241,955	-	0.00%
Penalty Sanctions	3,477	3,477	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 245,432</b>	<b>\$ 245,432</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 245,432</b>	<b>\$ 245,432</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	67,891	64,563	3,329	5.16%
Payroll Taxes	4,310	4,939	(629)	-12.73%
Employee Benefits	6,292	5,016	1,276	25.43%
Savings & Retirement	3,073	2,583	491	19.00%
<b>Total Personnel Expenses</b>	<b>\$ 81,567</b>	<b>\$ 77,100</b>	<b>\$ 4,466</b>	<b>5.79%</b>
<b>Meeting Expenses</b>				
Meetings	44,618	50,000	(5,382)	-10.76%
Travel	20,838	20,000	838	4.19%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 65,456</b>	<b>\$ 70,000</b>	<b>\$ (4,544)</b>	<b>-6.49%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Direct Expenses</b>	<b>\$ 147,023</b>	<b>\$ 147,100</b>	<b>\$ (78)</b>	<b>-0.05%</b>
SPP Inc. Indirect Expenses	60,836	53,344	7,492	14.05%
SPP RE Indirect Expenses	68,311	44,988	23,322	51.84%
<b>Total Indirect Expenses</b>	<b>\$ 129,147</b>	<b>\$ 98,332</b>	<b>\$ 30,815</b>	<b>31.34%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 276,169</b>	<b>\$ 245,432</b>	<b>\$ 30,737</b>	<b>12.52%</b>
<b>Change in Assets (A - B)</b>	<b>\$ (30,737)</b>	<b>\$ -</b>	<b>\$ (30,737)</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 276,169</b>	<b>\$ 245,432</b>	<b>\$ 30,737</b>	<b>12.52%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ (30,737)</b>	<b>\$ -</b>	<b>\$ (30,737)</b>	
<b>FTE's</b>	<b>0.50</b>	<b>0.50</b>	<b>-</b>	<b>0.00%</b>

**Explanation of 2016 Variance – Training, Education and Operator Certification**

SPP RE Indirect Expenses

SPP RE Indirect Expenses primarily exceeded budget due to actual exceeding budget for the General and Administrative function. See General and Administrative discussion for variance explanations.

Southwest Power Pool  
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01/01/2016 - 12/31/2016

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	40,362	40,362	-	0.00%
Penalty Sanctions	869	869	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 41,232</b>	<b>\$ 41,232</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 41,232</b>	<b>\$ 41,232</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	17,538	18,010	(473)	-2.62%
Payroll Taxes	1,342	1,378	(36)	-2.62%
Employee Benefits	1,107	1,254	(147)	-11.72%
Savings & Retirement	702	720	(19)	-2.62%
<b>Total Personnel Expenses</b>	<b>\$ 20,688</b>	<b>\$ 21,362</b>	<b>\$ (675)</b>	<b>-3.16%</b>
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Direct Expenses</b>	<b>\$ 20,688</b>	<b>\$ 21,362</b>	<b>\$ (675)</b>	<b>-3.16%</b>
SPP Inc. Indirect Expenses	15,209	13,336	1,873	14.05%
SPP RE Indirect Expenses	9,612	6,533	3,079	47.12%
<b>Total Indirect Expenses</b>	<b>\$ 24,821</b>	<b>\$ 19,869</b>	<b>\$ 4,952</b>	<b>24.92%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 45,509</b>	<b>\$ 41,232</b>	<b>\$ 4,277</b>	<b>10.37%</b>
<b>Change in Assets (A - B)</b>	<b>\$ (4,277)</b>	<b>\$ 1</b>	<b>\$ (4,277)</b>	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 45,509</b>	<b>\$ 41,232</b>	<b>\$ 4,277</b>	<b>10.37%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ (4,277)</b>	<b>\$ 1</b>	<b>\$ (4,277)</b>	
<b>FTE's</b>	<b>0.125</b>	<b>0.125</b>	<b>-</b>	<b>0.00%</b>

**Explanation of 2016 Variance – Situation Awareness and Infrastructure Security**

The Situation Awareness and Infrastructure Security program area had no expense categories with variances > +/- 10% and >\$10,000.

Southwest Power Pool Regional Entity Statement of Activities and Capital Expenditures 01/01/2016 - 12/31/2016				
GENERAL and ADMINISTRATIVE	2016 Actual	2016 Budget	2016 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	(1,276,068)	(1,276,068)	-	0.00%
Penalty Sanctions				
<b>Total ERO Funding</b>	<u>\$ (1,276,068)</u>	<u>\$ (1,276,068)</u>	<u>\$ -</u>	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>\$ (1,276,068)</u>	<u>\$ (1,276,068)</u>	<u>\$ -</u>	<b>0.00%</b>
<b>Expenses</b>				
Salaries	785,419	693,898	91,521	13.19%
Payroll Taxes	39,567	53,083	(13,517)	-25.46%
Employee Benefits	47,894	55,176	(7,282)	-13.20%
Savings & Retirement	21,945	27,756	(5,811)	-20.93%
<b>Total Personnel Expenses</b>	<u>\$ 894,825</u>	<u>\$ 829,913</u>	<u>\$ 64,912</u>	<b>7.82%</b>
<b>Meeting Expenses</b>				
Meetings	27,033	25,000	2,033	8.13%
Travel	58,324	105,000	(46,676)	-44.45%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<u>\$ 85,357</u>	<u>\$ 130,000</u>	<u>\$ (44,643)</u>	<b>-34.34%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	38,607	57,000	(18,393)	-32.27%
Rent & Improvements	-	-	-	
Office Costs	2,488	8,000	(5,512)	-68.91%
Professional Services	529,061	146,100	382,961	262.12%
Miscellaneous	-	20,000	(20,000)	-100.00%
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<u>\$ 570,156</u>	<u>\$ 231,100</u>	<u>\$ 339,056</u>	<b>146.71%</b>
<b>Total Direct Expenses</b>	<u>\$ 1,550,338</u>	<u>\$ 1,191,013</u>	<u>\$ 359,324</u>	<b>30.17%</b>
SPP Inc. Indirect Expenses	501,291	480,096	21,195	4.41%
SPP RE Indirect Expenses	(2,051,628)	(1,671,109)	(380,519)	22.77%
<b>Total Indirect Expenses</b>	<u>\$ (1,550,338)</u>	<u>\$ (1,191,013)</u>	<u>\$ (359,324)</u>	<b>30.17%</b>
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Expenses (B)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Change in Assets (A - B)</b>	<u>\$ (1,276,068)</u>	<u>\$ (1,276,068)</u>	<u>\$ -</u>	<b>0.00%</b>
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>TOTAL BUDGET (B + C)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Change in Working Capital (A-B-C)</b>	<u>\$ (1,276,068)</u>	<u>\$ (1,276,068)</u>	<u>\$ -</u>	0.00%
<b>FTE's</b>	4.12	4.50	(0.38)	0.00%



**Explanation of 2016 Variance – General and Administrative****Personnel Expenses**

Payroll exceeded budget primarily due to the payout of a one-time Year-End bonus to RE Staff. Payroll taxes trailed budget primarily due to some RE staff reaching the annual Social Security maximum withholding threshold.

**Meeting Expenses**

Travel expenses trailed budget primarily due to one of the Compliance Workshops and an SPP RE Board of Trustee meeting being held at the SPP Corporate Campus.

**Operating Expenses**

Consultants and Contracts trailed budget primarily due to a decreased need to engage these services.

Professional Services exceeded budget primarily due to the replacement of one SPP RE Trustee and the addition of a fourth SPP RE Trustee.

Miscellaneous expenses trailed budget due to a decreased need for RE staff to pay for continuing education for their professional licenses and certifications.

**SPP RE Indirect Expenses**

SPP RE Indirect Expenses primarily exceeded budget due to a larger percentage being allocated to this program area based on the relative share of functional program direct expenses.

**Other 2016 Explanations**

**Member Forums**

Expenses incurred by SPP RE for forums are included in the direct expenses of the applicable program area.

**Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance**

Expenses incurred by SPP RE for Legal, IT, HR, Accounting and Finance are accounted for within the SPP, Inc. Indirect Expense.

**CALCULATION OF THE BUDGETED SPP INC. INDIRECT EXPENSE CHARGE<sup>1</sup>**  
**2016 Budget**

Expense Category <sup>2</sup>	Overhead Costs Allocation (\$000)	
Facilities	\$	433
Information Technology		577
Human Resources/Benefits/Payroll		290
Corporate Services		1,135
2014 Total Costs		2,435
Escalated by 3%	\$	2,508 (E)

**Shared Staff Overhead Allocation**

2014 Overhead Allocation Escalated by 3% (\$000)	702 A
<b>Ending 2014 FTEs</b>	<b>3.2 B</b>
2016 Budgeted FTEs	4.25 C
<b>2016 Total Cost (\$000)</b>	<b>933 D</b>

$$D = (A / B) \times C$$

<b>Budgeted SPP Inc. Indirect Costs</b>	<b>\$ 3,440,685 (D+E)</b>
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<sup>1</sup>Due to the timing of the budget process/schedule, the estimated indirect expense charge for 2016 is based on actual 2014 costs, escalated by 3%.

<sup>2</sup> SPP RE cost allocation is based on an appropriate measure per expense category (square footage, number of devices, headcount, etc.)

**2016 Actual**

<b>Expense Category<sup>1</sup></b>	<b>Overhead Costs Allocation (\$000)</b>	
Facilities	\$	506
Information Technology		533
Human Resources/Benefits/Payroll		381
Corporate Services		1,206
2016 Total Costs		<u>2,626</u> (E)

**Shared Staff Overhead Allocation**

2016 Overhead \$000	<u>873</u>	A
<b>2016 Budgeted FTEs</b>	<b>4.25</b>	<b>B</b>
2016 Actual FTEs	4.1	C
<b>2016 Total Cost \$000</b>	<b>873</b>	<b>D</b>

$$D = (A / B) \times C$$

<b>Budgeted SPP Inc. Indirect Costs</b>	<u>3,498,692</u>	(D+E)
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1 SPP RE cost allocation is based on an appropriate measure per expense category (square footage, number of devices, headcount, etc.)

# **Southwest Power Pool, Inc.**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



**Southwest Power Pool, Inc.**  
December 31, 2016 and 2015

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Southwest Power Pool, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in members' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Southwest Power Pool, Inc.  
Page 2

***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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Little Rock, Arkansas  
April 5, 2017



**Southwest Power Pool, Inc.**  
**Balance Sheets (in Thousands)**  
**December 31, 2016 and 2015**

**Assets**

	2016	2015
<b>Current Assets</b>		
Cash and cash equivalents	\$ 75,715	\$ 42,003
Restricted cash deposits	223,964	196,918
Accounts receivable, net	63,702	39,790
Prepaid expenses and other	9,291	8,420
Total current assets	372,672	287,131
 <b>Property and Equipment, at Cost</b>		
Land	4,812	4,812
Building	67,338	66,615
Furniture and fixtures	10,211	10,208
Equipment and machinery	46,210	49,549
Software	170,701	167,876
Software in development	5,205	3,396
Equipment under capital lease	4,876	4,876
	309,353	307,332
Less accumulated depreciation and amortization	216,663	170,852
	92,690	136,480
 <b>Investments (Note 2)</b>	10,835	9,352
 <b>Other Assets, Net</b>	4,628	5,059
	\$ 480,825	\$ 438,022

## Liabilities and Members' Deficit

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Line of credit	\$ -	\$ 2,000
Accounts payable	66,927	30,609
Customer deposits	223,964	196,918
Current maturities of long-term debt ( <i>Note 4</i> )	21,410	21,353
Current maturities of obligations under capital lease ( <i>Note 5</i> )	1,817	591
Accrued expenses	54,310	44,092
Deferred revenue	5,127	5,318
	<u>373,555</u>	<u>300,881</u>
<b>Long-term Debt (<i>Note 4</i>)</b>	235,948	226,608
Less unamortized debt issuance costs	(898)	(992)
	<u>235,050</u>	<u>225,616</u>
<b>Obligation Under Capital Lease (<i>Note 5</i>)</b>	<u>3,856</u>	<u>5,674</u>
<b>Other Long-term Liabilities</b>	<u>35,044</u>	<u>35,267</u>
<b>Members' Deficit</b>	<u>(166,680)</u>	<u>(129,416)</u>
	<u>\$ 480,825</u>	<u>\$ 438,022</u>

**Southwest Power Pool, Inc.**  
**Statements of Operations (*in Thousands*)**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Income</b>		
Tariff fees and member assessments	\$ 171,464	\$ 171,717
Other member services	5,131	7,016
	<u>176,595</u>	<u>178,733</u>
<b>Operating Expenses</b>		
Salaries and benefits	90,186	84,043
Employee travel	1,919	1,903
Administrative	4,764	4,928
Regulatory assessment	18,648	13,939
Meetings	974	825
Communications system	3,915	3,758
Leases	-	123
Maintenance	14,775	13,553
Consulting services	15,065	12,529
Depreciation	58,025	59,190
	<u>208,271</u>	<u>194,791</u>
<b>Operating Loss</b>	<u>(31,676)</u>	<u>(16,058)</u>
<b>Other Income (Expense)</b>		
Investment income	191	1,768
Interest expense	(10,687)	(10,616)
Change in fair market value of interest rate swaps	682	(726)
Other expense	(431)	(1,097)
	<u>(10,245)</u>	<u>(10,671)</u>
<b>Loss Before Unrealized Loss and Change in Funded Status of Employee Benefit Plans</b>	(41,921)	(26,729)
<b>Unrealized Gain (Loss) on Investments</b>	659	(2,011)
<b>Change in Funded Status of Employee Benefit Plans</b>	<u>3,998</u>	<u>(13,730)</u>
<b>Net Loss</b>	<u>\$ (37,264)</u>	<u>\$ (42,470)</u>

**Southwest Power Pool, Inc.**  
**Statements of Members' Deficit (*in Thousands*)**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Balance, Beginning of Year</b>	\$ (129,416)	\$ (86,946)
Net loss	<u>(37,264)</u>	<u>(42,470)</u>
<b>Balance, End of Year</b>	<u>\$ (166,680)</u>	<u>\$ (129,416)</u>

**Southwest Power Pool, Inc.**  
**Statements of Cash Flows (in Thousands)**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Operating Activities</b>		
Net loss	\$ (37,264)	\$ (42,470)
Items not requiring cash		
Depreciation and amortization	58,120	59,285
Change in funded status of employee benefit plans	(3,998)	13,730
Unrealized loss (gain) on investments	(659)	2,011
Realized gain on investments	-	(1,576)
Loss on disposal of fixed assets	-	5
Impairment loss	82	349
Change in fair market value of interest rate swaps	(682)	726
Changes in assets and liabilities		
Accounts receivable	(23,912)	2,036
Prepaid expenses and other	(871)	809
Other assets	431	(962)
Accounts payable	36,318	(808)
Accrued expenses	10,027	(14,428)
Other long-term liabilities	4,456	2,652
	42,048	21,359
<b>Investing Activities</b>		
Acquisition of property and equipment	(14,317)	(14,267)
Purchase of investments	(825)	(9,764)
Proceeds from sale of investments	-	10,076
	(15,142)	(13,955)
<b>Financing Activities</b>		
Repayments of long-term debt	(23,603)	(24,299)
Repayments of capital lease obligation	(591)	(636)
Repayment of borrowings under line of credit	(16,000)	(9,000)
Borrowings under line of credit	14,000	11,000
Issuance of long-term debt	33,000	-
	6,806	(22,935)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	33,712	(15,531)
<b>Cash and Cash Equivalents, Beginning of Year</b>	42,003	57,534
<b>Cash and Cash Equivalents, End of Year</b>	\$ 75,715	\$ 42,003
<b>Supplemental Cash Flows Information</b>		
Interest paid on long-term debt (net of interest capitalized of \$121 and \$102 in 2016 and 2015, respectively)	\$ 10,591	\$ 10,326
Assets purchased under capital lease obligations	\$ -	\$ 4,876
Property and equipment purchases in accounts payable and accrued liabilities	\$ 1,991	\$ 1,548

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

**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 18 million ultimate customers across all or parts of 14 states. The Company's membership consists of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, reliability coordination, regional scheduling, market operations and regional transmission expansion planning. Market operations encompass day-ahead and real time markets, transmission congestion rights, reliability unit commitment, operating reserve market and consolidated balancing authority.

***Use of Estimates***

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

***Cash and Cash Equivalents and Deposits***

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2016 and 2015, 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.

***Investments***

The Company's investments include equity and fixed income mutual funds. These investments are recorded at fair value, with unrealized gains and losses reported as non-operating income. Dividends, interest income and realized gains and losses are reported as investment income. The Company's investments are intended to be utilized in funding benefits associated with the Company's postretirement health care plan and 457f deferred compensation plan.

***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.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

***Accounts Receivable***

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date are subject to interest at a rate set by FERC. At December 31, 2016 and 2015, the Company had recorded an allowance for doubtful accounts of \$822.

***Property and Equipment***

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

Building	20 years
Building improvements	Shorter of useful life or remaining life of building
Furniture and fixtures	5 years
Vehicles	5 years
Equipment and machinery	3 years
Software	3 years

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$121 and \$102 in 2016 and 2015, respectively.

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

***Long-Lived Asset Impairment***

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

In 2016, the Company recorded an impairment loss of \$82 for previously capitalized costs associated with the development of an engineering software tool. In 2015, management of the Company made the decision to switch vendors for the system development associated with the Z2 project. The Z2 project implements Attachment Z2 of the tariff, which provides for payments of credits for use by others of sponsored transmission upgrades. Previously capitalized development costs of \$349 were determined to be impaired and an impairment loss was recorded in 2015. The amounts are recorded as an impairment loss in the accompanying Statements of Operations and are included in other income (expense).

***Revenue Recognition***

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

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

***Customer Deposits***

Customers may be required to make deposits with the Company prior to the performance of transmission services, market transactions and engineering studies. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds held in escrow related to disputed invoices are also recorded as a customer deposit under current liabilities.

***Tariff Fees and Member Assessments***

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

Members are assessed monthly based on their prior year average 12-month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the board of directors.

A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2016 and 2015, all members paid a \$6 membership fee.

The Company also bills transmission customers and transmission owners a charge under Schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers the annual charges the Company pays to FERC.

***Deferred Revenue***

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

***Other Member Services***

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis. The Company also provides engineering study services for long-term transmission service and generation interconnection requests.

***Withdrawing Members***

Members wishing to withdraw their membership from the Company must provide 24 months' written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal and the member's share of long-term obligations and related interest. Withdrawing members may also be responsible for all financial obligations incurred and costs allocated to its load for transmission facilities approved prior to their withdrawal. As of December 31, 2016 and 2015, the Company had not been notified by any member of their intent to withdraw their membership from the Company.



**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

***Concentration of Credit Risk***

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2016 and 2015, the Company maintained cash balances, including transaction accounts and short-term investment accounts that are not insured by the Federal Deposit Insurance Corporation. At December 31, 2016 and 2015, the Company did not have transaction accounts exceeding federal insurance limits. The Company's investment accounts were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

The Company considers its accounts receivable to be highly probable of collection. At December 31, 2016 and 2015, the Company had \$822 recorded as allowance for doubtful accounts.

The Company requires its customers to meet certain minimum standards of financial condition and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a customer, the Company requires the posting of defined financial security instruments to cover potential liabilities.

***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements for the adoption of Accounting Standards Update 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on net loss.

**Note 2: Investment and Investment Returns**

Investments at December 31 consisted of the following:

	<u>2016</u>	<u>2015</u>
<b>Mutual Funds</b>		
Equity	\$ 7,789	\$ 6,536
Fixed income	<u>3,046</u>	<u>2,816</u>
Total mutual funds	<u>10,835</u>	<u>9,352</u>
	<u>\$ 10,835</u>	<u>\$ 9,352</u>

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

Total investment return is comprised of the following:

	2016	2015
Interest and dividends reported at fair value	\$ 191	\$ 192
Net realized and unrealized gains (losses) on investments reported at fair value	659	(435)
	\$ 850	\$ (243)

Interest, dividends and realized gains and losses are reported as investment income, while unrealized gains and losses are reported separately in the Statements of Operations.

**Note 3: Line of Credit**

In October 2016, the Company established a new \$30,000 revolving line of credit expiring in 2019. At December 31, 2016, no amounts were borrowed against this line. At December 31, 2015, \$2,000 was borrowed against the previous \$30,000 revolving line of credit. Both agreements had 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, 2016.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

**Note 4: Long-term Debt and Interest Rate Swaps**

*Long-term Debt*

	2016	2015
Variable Rate Term Note due 2027 (A)	\$ 3,136	\$ 3,341
5.45% Senior Notes due 2016 (B)	-	3,000
4.82% Series 2010-A and B Senior Notes due 2042 (C)	60,722	61,870
3.55% Series 2010-C Senior Notes due 2024 (D)	50,750	57,750
3.00% Series 2012-D-1 Senior Notes due 2024 (E)	36,250	41,250
3.25% Series 2012-D-2 Senior Notes due 2024 (F)	38,750	43,750
3.80% Series 2014-E Senior Notes due 2025 (G)	37,000	37,000
Floating Series Note - 2024 (H)	30,750	-
	257,358	247,961
Less unamortized debt issuance costs	898	992
Less current maturities	21,410	21,353
	\$ 235,050	\$ 225,616

- (A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts quarterly based on LIBOR plus 0.85%. At December 31, 2016 and 2015, the interest rate was 1.75% and 1.18%, respectively. The note is secured by a first mortgage on the Company's operation facility.
- (B) 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.
- (C) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commenced on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (D) Due March 30, 2024; principal and interest are payable quarterly based on a 13-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.55%. The note is unsecured.
- (E) Due March 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.00%. The note is unsecured.
- (F) Due September 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on December 30, 2014. The interest rate is fixed at 3.25%. The note is unsecured.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

- (G) Due December 30, 2025; principal and interest are payable quarterly based on an 11 year and 9 months amortization. Principal payments commence on March 30, 2024. The interest rate is 3.80%. The note is unsecured.
- (H) Due March 30, 2024; principal and interest are payable monthly based on an 8-year amortization. Payments commenced on June 30, 2016. The interest rate adjusts monthly based on LIBOR plus 1.75%. At December 31, 2016, the interest rate was 2.37%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2016, are:

2017	\$	21,410
2018		21,469
2019		22,281
2020		22,596
2021		23,208
Thereafter		<u>146,394</u>
	<u>\$</u>	<u>257,358</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, 2016.

***Variable-to-Fixed Interest Rate Swap***

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements.

On September 15, 2006, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$3,111 and \$3,315 at December 31, 2016 and 2015, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

The Company entered into another interest rate swap agreement on March 10, 2014, with Regions Bank. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 3.225% on a notional amount of \$30,750 at December 31, 2016. 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 I).

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

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

	<u>2016</u>	<u>2015</u>
Fair value of interest rate swap agreements	\$ 2,506	\$ 3,188
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long-term Liabilities
Gain/(Loss) recognized in statement of operations	\$ 682	\$ (726)
Location of loss 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: Capital Lease Obligation**

The Company entered into a capital lease obligation on February 1, 2015, in the amount of \$6,901, to finance data storage equipment. The term of the financing is five years and expires on November 1, 2019. At December 31, 2016 and 2015, accumulated depreciation for equipment purchased under the capital lease was \$3,115 and \$1,490, respectively. Future minimum payments on the capital lease obligation at December 31, 2016, are:

2017	\$ 2,015
2018	2,015
2019	<u>2,015</u>
Total minimum lease payments	6,045
Less: Amount representing interest	<u>372</u>
Present value of minimum lease payments	<u><u>\$ 5,673</u></u>

**Note 6: Operating Leases**

The Company had noncancellable operating leases for certain office equipment that expired in 2015. The Company incurred lease expense related to these operating leases of \$123 in 2015.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

**Note 7: Employee Benefit Plans**

***Pension and Other Postretirement Benefit Plans***

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$5,200 to the plan in 2017.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the noncontributory defined postretirement health care plan.

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

	<b>Pension Benefits</b>		<b>Postretirement Health Care Benefits</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Benefit obligation	\$ 76,969	\$ 68,088	\$ 9,426	\$ 9,289
Fair value of plan assets	57,739	47,735	-	-
Funded status	<u>\$ (19,230)</u>	<u>\$ (20,353)</u>	<u>\$ (9,426)</u>	<u>\$ (9,289)</u>

Amounts recognized in the balance sheets:

	<b>Pension Benefits</b>		<b>Postretirement Health Care Benefits</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Noncurrent liabilities	\$ (19,230)	\$ (20,353)	\$ (9,426)	\$ (9,289)

Amounts recognized in members' equity not yet recognized as components of net periodic benefit cost as of December 31, 2016 and 2015, consist of:

	<b>Pension Benefits</b>		<b>Postretirement Health Care Benefits</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ 18,681	\$ 21,588	\$ 5,538	\$ 6,599
Prior service credit	(23)	(22)	(1,405)	(1,487)
Transition obligation	66	82	18	22
	<u>\$ 18,724</u>	<u>\$ 21,648</u>	<u>\$ 4,151</u>	<u>\$ 5,134</u>

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

The accumulated benefit obligation for the defined benefit pension plan was \$61,476 and \$53,754 at December 31, 2016 and 2015, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2016	2015	2016	2015
Employer contributions	\$ 5,380	\$ 3,760	\$ -	\$ -
Benefits paid	713	612	91	90
Benefit costs	7,182	4,488	1,210	1,485

During 2016, the Company transferred \$250 into the investment account holding assets intended to be utilized in providing benefits for eligible retirees.

The following amounts have been recognized in the statements of operations for the years ended December 31, 2016 and 2015:

	Pension Benefits		Postretirement Health Care Benefits	
	2016	2015	2016	2015
Amounts arising during the period				
Net gain (loss)	\$ 2,092	\$ (3,791)	\$ 783	\$ 881
Amounts recognized as benefit components of net periodic cost of the period				
Net loss	985	105	315	275
Net prior service credit	1	1	(83)	-
Net transition obligation	16	16	4	4

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are \$785, \$1 and \$16, respectively. The estimated net loss, prior service cost, and net obligation for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year are \$255, \$83 and \$4, respectively.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2016	2015	2016	2015
Discount rate benefit obligation	5.0%	5.0%	5.0%	5.0%
Expected return on plan assets	7.0%	7.0%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	N/A	N/A

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

The Company changed the discount rate and mortality table used in its actuarial calculation of the pension benefit obligation for the defined benefit plan as of December 31, 2015. The decrease in the discount rate and increase in life expectancy assumptions each increased the pension benefit obligation by \$5,570 and \$5,585, respectively as of December 31, 2015. Additionally, the actual return on plan assets was significantly lower than the actuarial assumption. The loss from this difference has been deferred and increased the negative position of the funded status by \$4,630 as of December 31, 2015. Effective October 1, 2015, eligible retirees no longer participate in the Company sponsored medical plan. Eligible retirees are now provided monies through a tax-free health reimbursement account to pay for individual Medicare supplemental health insurance plans or other eligible health care expenses. This change resulted in a decrease to the benefit obligation for the postretirement health care plan of \$1,487 as of December 31, 2015.

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

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits in the next year was assumed for 2016 and 2015. The rate was assumed to decrease gradually to 5% by the year 2021 and remain at that level thereafter.

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

	<b>Pension</b>	<b>Postretirement</b>
	<b>Benefits</b>	<b>Health Care</b>
	<b>Benefits</b>	<b>Benefits</b>
2017	\$ 842	\$ 129
2018	1,040	160
2019	1,187	179
2020	1,294	187
2021	1,505	195
2022–2026	13,382	1,881

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



**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

At December 31, 2016 and 2015, plan assets by category are as follows:

	<b>Pension Plan Assets</b>	
	<b>2016</b>	<b>2015</b>
Fixed income securities	27%	24%
Equity securities	67	68
Cash and equivalents	6	8
	100%	100%

***Pension Plan Assets***

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, closed-end mutual funds and common and foreign company stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include open-end mutual funds, corporate debt obligations, foreign corporate debt obligations, 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, 2016 and 2015, the Company does not hold any plan assets valued using Level 3 inputs.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

The fair values of the Company's pension plan assets at December 31, 2016 and 2015, by asset category are as follows:

	2016			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Money market mutual funds</b>	\$ 3,518	\$ 3,518	\$ -	\$ -
<b>Mutual funds</b>				
Equity funds	28,500	19,766	8,734	-
Fixed income funds	8,795	5,785	3,010	-
Other funds	1,363	255	1,109	-
	<u>38,658</u>	<u>25,805</u>	<u>12,853</u>	<u>-</u>
<b>Domestic common stock</b>				
Energy	3,456	3,456	-	-
Financials	1,536	1,536	-	-
Healthcare	1,961	1,961	-	-
Other	1,858	1,858	-	-
	<u>8,811</u>	<u>8,811</u>	<u>-</u>	<u>-</u>
<b>Foreign stocks</b>	303	303	-	-
<b>Corporate debt obligations</b>	5,945	-	5,945	-
<b>Foreign government securities</b>	505	-	505	-
<b>Total</b>	<u>\$ 57,739</u>	<u>\$ 38,436</u>	<u>\$ 19,302</u>	<u>\$ -</u>

	2015			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents</b>	\$ 1	\$ 1	\$ -	\$ -
<b>Money market mutual funds</b>	3,637	3,637	-	-
<b>Mutual funds</b>				
Equity funds	24,088	16,615	7,473	-
Fixed income funds	5,833	4,311	1,522	-
Other Funds	583	-	583	-
	<u>30,504</u>	<u>20,926</u>	<u>9,578</u>	<u>-</u>
<b>Domestic common stock</b>				
Energy	3,573	3,573	-	-
Financials	1,316	1,316	-	-
Healthcare	2,019	2,019	-	-
Other	1,543	1,543	-	-
	<u>8,452</u>	<u>8,452</u>	<u>-</u>	<u>-</u>
<b>Foreign stocks</b>	342	342	-	-
<b>Corporate debt obligations</b>	4,281	-	4,281	-
<b>Foreign government securities</b>	519	-	519	-
<b>Total</b>	<u>\$ 47,735</u>	<u>\$ 33,357</u>	<u>\$ 14,378</u>	<u>\$ -</u>

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

***Defined Contribution Plans***

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company matches contributions at 4.75% for those employees deferring 6% of compensation, with the match fluctuating from 1% to 4.75% for each percentage of compensation contributed under 6%. Contributions to the plan were \$2,600 and \$2,473 for 2016 and 2015, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Accumulated contributions and earnings of \$1,924 and \$1,557 are recorded in other long-term liabilities at December 31, 2016 and 2015, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan was intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. There were accrued benefits of \$460 recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2016. At December 31, 2015, there were no active agreements under the current 457(f) plan.

**Note 8: Related Party Transactions**

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$19,661 and \$26,541 as of December 31, 2016 and 2015, respectively. The Company recognized revenues of \$124,652 and \$129,021, including assessments and tariff administrative fees, from members for the years ended December 31, 2016 and 2015, 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 2016 and 2015, the Company incurred \$257 and \$233, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2017 to be approximately \$322.

**Note 9: Open Access Transmission and Market Operations**

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 43 providers in 14 states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission 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, 2016 and 2015, the Company billed transmission customers \$2,009,809 and \$1,672,796, respectively. For the years ended December 31, 2016 and 2015, the Company remitted to transmission owners \$1,850,198 and \$1,509,656, respectively. At December 31, 2016 and 2015, the Company was due to collect from customers and remit to owners transmission service charges of \$161,852 and \$144,843, respectively.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2016 and 2015**

The Company's Integrated Marketplace includes a day-ahead market with transmission congestion rights, a reliability unit commitment process, a real-time balancing market, an operating reserve market and a consolidated balancing authority. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of 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. At December 31, 2016 and 2015, the Company held \$19,694 and \$13,494, respectively, in cash collections from the settlement of auction revenue rights in accordance with terms of the Company's tariff. These funds are disbursed annually in June for collections from the previous twelve months. A corresponding liability is reflected in accrued expenses on the Balance Sheets.

**Note 10: Commitments and Contingencies**

***Litigation and Regulatory Matters***

The Company is engaged in various legal and regulatory proceedings at both the federal and state levels. The Company is also subject to claims and lawsuits that arise primarily in the ordinary course of business.

It is the opinion of management that the disposition or ultimate resolution of such proceedings, claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

**Note 11: Disclosures About Fair Value of Financial Instruments**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

	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)
<b>December 31, 2016</b>				
Cash equivalents	\$ 15,073	\$ 15,073	\$ -	\$ -
Mutual funds				
Equity	7,789	-	7,789	-
Fixed income	3,046	-	3,046	-
Interest rate swap agreements	(2,506)	-	(2,506)	-

	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)
<b>December 31, 2015</b>				
Cash equivalents	\$ 13,942	\$ 13,942	\$ -	\$ -
Mutual funds				
Equity	6,536	-	6,536	-
Fixed income	2,816	-	2,816	-
Interest rate swap agreements	(3,188)	-	(3,188)	-

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2016 and 2015, the Company does not hold any assets valued using Level 3 inputs.

***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.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2016 and 2015**

***Cash Equivalents***

The fair value of money market mutual funds included in cash equivalents is estimated using quoted prices in active markets for identical assets or liabilities and, therefore, is classified within Level 1 of the valuation hierarchy.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

***Restricted Cash Deposits***

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

***Customer Deposits***

The carrying amount is a reasonable estimate of fair value.

***Long-term Debt and Capital Lease Obligations***

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2016 and 2015:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 75,715	\$ 75,715	\$ 42,003	\$ 42,003
Restricted cash deposits	\$ 223,964	\$ 223,964	\$ 196,918	\$ 196,918
Investments	\$ 10,835	\$ 10,835	\$ 9,352	\$ 9,352
<b>Financial liabilities</b>				
Customer deposits	\$ 223,964	\$ 223,964	\$ 196,918	\$ 196,918
Capital lease obligations	\$ 5,673	\$ 5,791	\$ 6,265	\$ 6,400
Long-term debt	\$ 257,358	\$ 256,665	\$ 247,961	\$ 247,531
Swap agreements	\$ 2,506	\$ 2,506	\$ 3,188	\$ 3,188

**Note 12: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**ATTACHMENT 8**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**TEXAS RELIABILITY ENTITY, INC.**

April 3, 2016

Scott Jones  
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) 2016 Actual Cost-to-Budget Comparison

Dear Mr. Jones and Ms. Turpen,

Texas Reliability Entity (Texas RE) has completed the 2016 True-Up Analysis. The budget comparisons are for the 2016 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 \$2,000,000 cash reserve balance according to the policy approved by the Texas RE Board of Directors.

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are in the following pages.

**INCOME**

Total Statutory Income is equal to the budgeted amount in 2016.

**EXPENSES**

Personnel Expenses are \$596,680 or 6.4% below budget due to FTE vacancies, the result of employee turnover and hiring of replacement employees. Several positions were vacant most of the year but filled in the latter portion of the year. Texas RE was fully staffed at December 31<sup>st</sup>. The Employee Benefits budget includes unused relocation, education reimbursement and training money.

Travel and Meeting Expenses are \$100,887 or 23.5% less than budget. The spring and fall workshops were in the Texas RE conference Center. The budget included costs for one outside facility for one of the workshops. Travel for the CMEP team and Administrative Services was less than anticipated due to cost savings efforts.

Other Operating Expenses are \$1,671 or 0.1% less than budget. The Consultants and Contracts budget includes a custom salary survey and an executive compensation study that was not complete in 2016. Rent and Improvements are greater than budget due to cost of utilities increasing. Office costs are less than budget due to Software, maintenance and leased equipment. Some of the anticipated maintenance was either not renewed or the price decreased at renewal. Professional services are less



than budget due to fewer special meetings attended by Board of Directors. Depreciation is greater than budget due to furniture, equipment and audio-visual equipment purchased for the conference center after the 2016 budget was prepared.

#### **FIXED ASSETS**

Fixed Assets and Depreciation are \$119,073 or 103.5% greater than budget. Depreciation is greater than budget due to furniture, equipment, and audio-visual equipment purchased for the conference center after the 2016 budget was prepared. Computers and Software are slightly greater than budget due to upgrading the Security Information and Event Management (SEIM) appliance.

Although Texas RE ended the year \$815k or 6.9% under budget, Texas RE completed its intended activities for 2016.

Texas RE completed 40 Non-CIP audits (one MRRE audit), 2 CIP audits with High Impact Critical Cyber Assets (CCA's), 2 CIP audits with Low Impact CCA's, 2 Non-CIP spot checks, 4 Non-CIP Self Certifications and 247 CIP Self Certifications (24 MRRE related).

105 technical feasibility exceptions (TFEs) were processed in 2016.

Texas RE identified 147 non-compliance matters and completely resolved 66 violations. The Texas RE caseload increased from 20 to 101.

Texas RE verified mitigation plans or mitigation activities for 58 possible violations (41 related to mitigation activities and 17 related to mitigation plans).

In 2016, 72 events were examined as follows: 65 – non-qualified events (below threshold for Categories 1-5), 5 Category 1 events, 0 Category 2 events and 2 Category 3 events. There were no Category 4 or 5 level events.

In 2016, Texas RE processed 27 entity registrations, 26 entity deactivations/de-registrations and 3 entity name changes. In 2016, Texas RE did not conduct any TOP certifications; Texas RE performed 6 certification reviews.

If you have any questions on the report or the attached spreadsheet, please call me at the number below.

Thank you.

*Judy*

**Judy A. Foppiano, CPA**

CFO & Director of Corporate Services

**Texas Reliability Entity, Inc.**

805 Los Cimas Parkway, Suite 200

Austin, Texas 78746

Judy.foppiano@texasre.org

512.583.4959 (Direct)

Texas Reliability Entity, Inc.  
2016 Statutory & Non-Statutory Statement of Activities and Fixed Assets  
Audited

**Statutory and State (Non-Statutory)**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 9,560,448	\$ 9,560,448	\$ -	
Penalty Sanctions	337,000	337,000	-	
State (Non-Statutory) Funding	1,029,073	1,029,073	-	
Interest & Membership Dues	1,144	1,000	144	
<b>Total Revenue</b>	<b>\$ 10,927,665</b>	<b>\$ 10,927,521</b>	<b>\$ 144</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 7,135,247	\$ 7,421,592	\$ (286,344)	
Payroll Taxes	473,860	548,390	(74,530)	
Employee Benefits	964,470	1,182,522	(218,052)	
Savings & Retirement	931,718	1,065,532	(133,814)	
<b>Total Personnel Expenses</b>	<b>\$ 9,505,294</b>	<b>\$ 10,218,036</b>	<b>\$ (712,741)</b>	<b>-7.0%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 18,060	\$ 50,350	\$ (32,290)	
Travel	294,790	369,615	(74,825)	
Conference Expenses	15,245	11,000	4,245	
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 328,095</b>	<b>\$ 430,965</b>	<b>\$ (102,870)</b>	<b>-23.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 293,127	\$ 365,009	\$ (71,882)	
Rent & Improvements	820,181	539,557	280,624	
Office Costs	618,683	679,527	(60,844)	
Professional Services	492,125	522,640	(30,515)	
Depreciation	306,914	170,586	136,328	
<b>Total Operating Expenses</b>	<b>\$ 2,531,030</b>	<b>\$ 2,277,319</b>	<b>\$ 253,711</b>	<b>11.1%</b>
<b>Total Direct Expense</b>	<b>\$ 12,364,419</b>	<b>\$ 12,926,319</b>	<b>\$ (561,900)</b>	<b>-4.3%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>\$ 12,364,419</b>	<b>\$ 12,926,319</b>	<b>\$ (561,900)</b>	<b>-4.3%</b>
<b>Change in Assets</b>	<b>\$ (1,436,754)</b>	<b>\$ (1,998,799)</b>	<b>\$ (561,900)</b>	<b>28.1%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (306,914)	\$ (159,033)	\$ (147,881)	
Computer & Software CapEx		44,000	(44,000)	
Furniture & Fixture CapEx		-	-	
Allocation of Fixed Assets	-	-	-	
Leasehold Improvement CapEx		-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (306,914)</b>	<b>\$ (115,033)</b>	<b>\$ (191,881)</b>	<b>166.8%</b>
<b>TOTAL BUDGET</b>	<b>\$ 12,057,506</b>	<b>\$ 12,811,286</b>	<b>\$ (753,781)</b>	<b>-5.9%</b>
<b>Change in Working Capital</b>	<b>\$ (1,743,668)</b>	<b>\$ (2,113,832)</b>	<b>\$ 370,164</b>	<b>-17.5%</b>
FTE's	62.40	65.00	-2.60	

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Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 9,560,448	\$ 9,560,448	\$ -	
Penalty Sanctions	337,000	337,000	-	
Interest & Membership Dues	967	1,000	(33)	
<b>Total Revenue</b>	<b>\$ 9,898,415</b>	<b>\$ 9,898,448</b>	<b>\$ (33)</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 6,488,314	\$ 6,749,489	\$ (261,175)	-3.9%
Payroll Taxes	431,151	496,723	(65,572)	-13.2%
Employee Benefits	931,816	1,075,948	(144,133)	-13.4%
Savings & Retirement	842,276	968,077	(125,801)	-13.0%
<b>Total Personnel Expenses</b>	<b>\$ 8,693,557</b>	<b>\$ 9,290,238</b>	<b>\$ (596,680)</b>	<b>-6.4%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 18,060	\$ 50,350	\$ (32,290)	-64.1%
Travel	294,273	368,115	(73,842)	-20.1%
Conference Expenses	15,245	10,000	5,245	52.4%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 327,578</b>	<b>\$ 428,465</b>	<b>\$ (100,887)</b>	<b>-23.5%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 291,231	\$ 342,148	\$ (50,917)	-14.9%
Rent & Improvements	556,338	489,557	66,782	13.6%
Office Costs	569,144	672,307	(103,163)	-15.3%
Professional Services	479,623	515,500	(35,877)	-7.0%
Depreciation	283,880	159,033	124,847	78.5%
<b>Total Operating Expenses</b>	<b>2,180,216</b>	<b>2,178,545</b>	<b>1,671</b>	<b>0.1%</b>
<b>Total Direct Expense</b>	<b>\$ 11,201,351</b>	<b>\$ 11,897,247</b>	<b>\$ (695,897)</b>	<b>-5.8%</b>
<b>Indirect Allocation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>\$ 11,201,351</b>	<b>\$ 11,897,247</b>	<b>\$ (695,897)</b>	<b>-5.8%</b>
<b>Change in Assets</b>	<b>\$ (1,302,935)</b>	<b>\$ (1,998,800)</b>	<b>\$ (695,897)</b>	<b>34.8%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (283,880)	\$ (159,033)	\$ (124,847)	78.5%
Computer & Software CapEx	49,774	44,000	5,774	13.1%
Furniture & Fixture CapEx		-	-	
Equipment CapEx		-	-	
Leasehold Improvement CapEx		-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (234,106)</b>	<b>\$ (115,033)</b>	<b>\$ (119,073)</b>	<b>103.5%</b>
<b>TOTAL BUDGET</b>	<b>\$ 10,967,245</b>	<b>\$ 11,782,215</b>	<b>\$ (814,970)</b>	<b>-6.9%</b>
<b>Change in Working Capital</b>	<b>\$ (1,068,830)</b>	<b>\$ (1,883,767)</b>	<b>\$ 814,938</b>	<b>-43.3%</b>
FTE's	57.40	60.00	-2.6	

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**Reliability Standards**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 361,747	\$ 361,747	\$ -	0.0%
Penalty Sanctions	12,751	12,751	-	0.0%
Interest & Membership Dues	39	38	1	2.6%
<b>Total Revenue</b>	<b>\$ 374,537</b>	<b>\$ 374,536</b>	<b>\$ 1</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 192,756	\$ 208,137	\$ (15,382)	-7.4%
Payroll Taxes	12,520	16,001	(3,481)	-21.8%
Employee Benefits	31,198	37,853	(6,654)	-17.6%
Savings & Retirement	25,746	31,192	(5,445)	-17.5%
<b>Total Personnel Expenses</b>	<b>\$ 262,220</b>	<b>\$ 293,183</b>	<b>\$ (30,963)</b>	<b>-10.6%</b>
<b>Meeting &amp; Travel Expenses</b>				
Travel	13,670	14,333	(663)	-4.6%
Conference Expenses	4,384	-	4,384	0.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 18,054</b>	<b>\$ 14,333</b>	<b>\$ 3,721</b>	<b>26.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	-	1,645	(1,645)	-100.0%
Professional Services	-	-	-	0.0%
Depreciation	-	-	-	0.0%
<b>Total Operating Expenses</b>	<b>-</b>	<b>1,645</b>	<b>(1,645)</b>	<b>-100.0%</b>
<b>Total Direct Expenses</b>	<b>280,274</b>	<b>309,161</b>	<b>(28,887)</b>	<b>-9.3%</b>
<b>Indirect Allocation</b>	<b>175,464</b>	<b>164,195</b>	<b>11,269</b>	<b>6.9%</b>
<b>Total Expenses</b>	<b>455,738</b>	<b>473,356</b>	<b>(17,618)</b>	<b>-3.7%</b>
<b>Change in Assets</b>	<b>(81,201)</b>	<b>(98,820)</b>	<b>(17,618)</b>	<b>17.8%</b>
<b>Fixed Assets</b>				
Depreciation		\$ -	\$ -	0.0%
Computer & Software CapEx			-	0.0%
Allocation of Fixed Assets	(9,386)	(4,353)	(5,033)	115.6%
Equipment CapEx			-	0.0%
Leasehold Improvement CapEx			-	0.0%
<b>Incr(Dec) in Fixed Assets</b>	<b>(9,386)</b>	<b>(4,353)</b>	<b>(5,033)</b>	<b>115.6%</b>
<b>TOTAL BUDGET</b>	<b>\$ 446,352</b>	<b>\$ 469,003</b>	<b>\$ (22,651)</b>	<b>-4.8%</b>
<b>Change in Working Capital</b>	<b>\$ (71,815)</b>	<b>\$ (94,467)</b>	<b>\$ 22,652</b>	<b>-24.0%</b>
FTE's	1.75	1.75		

### **Reliability Standards**

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

Total Personnel Expenses are under budget 10.6%. The favorable variance is due to salary increases not being the total amount budgeted.

Meeting and Travel expense is 26% or \$3,721 greater than budget.

Operating expenses are 100% or \$1,645 less than budget.

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

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

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Furniture, equipment and, audio-visual equipment purchased after the 2016 budget was prepared and upgrading the SIEM appliance cause the over budget variance.

Total Budget for Reliability Standards is 4.8% less than budget.

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**CMEP**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 7,389,968	\$ 7,389,968	\$ -	0.0%
Penalty Sanctions	260,492	260,492	-	0.0%
Interest & Membership Dues	734	773	(39)	-5.0%
<b>Total Revenue</b>	<b>\$ 7,651,194</b>	<b>\$ 7,651,232</b>	<b>\$ (39)</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 3,504,233	\$ 3,825,208	\$ (320,975)	-8.4%
Payroll Taxes	252,686	279,713	(27,026)	-9.7%
Employee Benefits	496,876	557,967	(61,091)	-10.9%
Savings & Retirement	470,188	556,678	(86,490)	-15.5%
<b>Total Personnel Expenses</b>	<b>\$ 4,723,983</b>	<b>\$ 5,219,566</b>	<b>\$ (495,583)</b>	<b>-9.5%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 259	\$ 2,900	\$ (2,641)	-91.1%
Travel	117,861	146,934	(29,073)	-19.8%
Conference Expenses	4,409	-	4,409	0.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 122,529</b>	<b>\$ 149,834</b>	<b>\$ (27,305)</b>	<b>-18.2%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 155,290	\$ 159,052	\$ (3,762)	-2.4%
Rent & Improvements	-	-	-	0.0%
Office Costs	11,290	15,100	(3,810)	-25.2%
Professional Services	-	1,000	(1,000)	-100.0%
Depreciation	-	-	-	0.0%
<b>Total Operating Expenses</b>	<b>\$ 166,580</b>	<b>\$ 175,152</b>	<b>\$ (8,572)</b>	<b>-4.9%</b>
<b>Total Direct Expenses</b>	<b>\$ 5,013,092</b>	<b>\$ 5,544,552</b>	<b>\$ (531,460)</b>	<b>-9.6%</b>
<b>Indirect Allocaton</b>	<b>\$ 3,323,791</b>	<b>\$ 3,354,269</b>	<b>\$ (30,478)</b>	<b>-0.9%</b>
<b>Total Expenses</b>	<b>\$ 8,336,883</b>	<b>\$ 8,898,821</b>	<b>\$ (561,938)</b>	<b>-6.3%</b>
<b>Change in Assets</b>	<b>\$ (3,612,901)</b>	<b>\$ (1,247,588)</b>	<b>\$ (2,365,313)</b>	<b>189.6%</b>
<b>Fixed Assets</b>				
Depreciation	\$ -	\$ -	\$ -	0.0%
Computer & Software CapEx	-	-	-	0.0%
Furniture & Fixture CapEx	-	-	-	0.0%
Allocation of Fixed Assets	(177,792)	(88,917)	(88,875)	100.0%
Leasehold Improvement CapEx	-	-	-	0.0%
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (177,792)</b>	<b>\$ (88,917)</b>	<b>\$ (88,875)</b>	<b>100.0%</b>
<b>TOTAL BUDGET</b>	<b>\$ 8,159,091</b>	<b>\$ 8,809,903</b>	<b>\$ (650,812)</b>	<b>-7.4%</b>
<b>Change in Working Capital</b>	<b>\$ (3,435,109)</b>	<b>\$ (1,158,671)</b>	<b>\$ (2,276,438)</b>	<b>196.5%</b>
FTE's	33.15	35.75	-2.60	

**CMEP**

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

This department ended the year 7.4% less than budget due to vacancies and timing of turnover throughout the year.

Personnel expenses for CMEP are 9.5% less than budget due to vacancies and timing of replacements in the department during the year. The vacancies have an impact on salaries, taxes, benefits and retirement expense.

Meeting and Travel expense is less than budget due to less travel resulting from the FTE vacancies.

Total Operating Expenses are 4.9% less than budget.

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

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

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Furniture, equipment and, audio-visual equipment purchased after the 2016 budget was prepared and upgrading the SIEM appliance cause the over budget variance.

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**RAPA**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 1,343,630	\$ 1,343,630	\$ -	0.0%
Penalty Sanctions	47,362	47,362	-	0.0%
Interest & Membership Dues	144	141	3	2.1%
<b>Total Revenue</b>	<b>\$ 1,391,136</b>	<b>\$ 1,391,133</b>	<b>\$ 3</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 861,273	\$ 871,652	\$ (10,379)	-1.2%
Payroll Taxes	57,531	66,974	(9,443)	-14.1%
Employee Benefits	124,537	135,225	(10,687)	-7.9%
Savings & Retirement	119,281	127,401	(8,120)	-6.4%
<b>Total Personnel Expenses</b>	<b>\$ 1,162,623</b>	<b>\$ 1,201,251</b>	<b>\$ (38,629)</b>	<b>-3.2%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 809	\$ -	\$ 809	0.0%
Travel	67,277	75,825	(8,548)	-11.3%
Conference Expenses	-	-	-	0.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 68,086</b>	<b>\$ 75,825</b>	<b>\$ (7,739)</b>	<b>-10.2%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	35,501	40,860	(5,359)	-13.1%
Professional Services	-	-	-	0.0%
Depreciation	-	-	-	0.0%
<b>Total Operating Expenses</b>	<b>35,501</b>	<b>40,860</b>	<b>(5,359)</b>	<b>-13.1%</b>
<b>Total Direct Expense</b>	<b>\$ 1,266,210</b>	<b>\$ 1,317,936</b>	<b>\$ (51,727)</b>	<b>-3.9%</b>
<b>Indirect Allocation</b>	<b>\$ 651,724</b>	<b>\$ 609,867</b>	<b>\$ 41,857</b>	<b>6.9%</b>
<b>Total Expenses</b>	<b>\$ 1,917,934</b>	<b>\$ 1,927,803</b>	<b>\$ (9,870)</b>	<b>-0.5%</b>
<b>Change in Assets</b>	<b>\$ (526,798)</b>	<b>\$ (536,670)</b>	<b>\$ (9,870)</b>	<b>1.8%</b>
<b>Fixed Assets</b>				
Depreciation		\$ -	\$ -	0.0%
Computer & Software CapEx		-	-	0.0%
Furniture & Fixture CapEx		-	-	0.0%
Allocation of Fixed Assets	(34,861)	(16,167)	(18,694)	115.6%
Leasehold Improvement CapEx		-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (34,861)</b>	<b>\$ (16,167)</b>	<b>\$ (18,694)</b>	<b>115.6%</b>
<b>TOTAL BUDGET</b>	<b>\$ 1,883,073</b>	<b>\$ 1,911,637</b>	<b>\$ (28,565)</b>	<b>-1.5%</b>
<b>Change in Working Capital</b>	<b>\$ (491,937)</b>	<b>\$ (520,503)</b>	<b>\$ 28,567</b>	<b>-5.5%</b>
FTE's	6.50	6.50		



**RAPA**

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

This department ended the year 1.5% less than budget.

Personnel expenses are 3.2% less than budget.

Meeting and Travel expenses are 10.2% less than budget due to participation in conference calls rather than traveling and cost saving efforts from directors and employees.

Operating Expenses are 13.1% less than budget due to Software and Maintenance for the PI Software being less than budget.

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

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

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Furniture, equipment and, audio-visual equipment purchased after the 2016 budget was prepared and upgrading the SIEM appliance cause the over budget variance.

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**Training & Education**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ 465,103	\$ 465,103	\$ -	0.0%
Penalty Sanctions	16,395	16,395	-	0.0%
Interest & Membership Dues	50	49	1	2.0%
<b>Total Revenue</b>	<b>\$ 481,548</b>	<b>\$ 481,546</b>	<b>\$ 1</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 178,049	\$ 232,644	\$ (54,595)	-23.5%
Payroll Taxes	11,665	17,822	(6,158)	-34.6%
Employee Benefits	35,685	51,265	(15,580)	-30.4%
Savings & Retirement	22,779	33,588	(10,810)	-32.2%
<b>Total Personnel Expenses</b>	<b>\$ 248,178</b>	<b>\$ 335,320</b>	<b>\$ (87,142)</b>	<b>-26.0%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 4,617	\$ 30,000	\$ (25,383)	-84.6%
Travel	604	6,700	(6,096)	-91.0%
Conference Expenses	5,845	10,000	(4,155)	-41.5%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 11,066</b>	<b>\$ 46,700</b>	<b>\$ (35,634)</b>	<b>-76.3%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 2,179	\$ 2,000	\$ 179	8.9%
Rent & Improvements	-	-	-	0.0%
Office Costs	3,776	2,140	1,636	76.4%
Professional Services	-	-	-	0.0%
Depreciation	-	-	-	0.0%
<b>Total Operating Expenses</b>	<b>5,955</b>	<b>4,140</b>	<b>1,815</b>	<b>43.8%</b>
<b>Total Direct Expense</b>	<b>\$ 265,199</b>	<b>\$ 386,160</b>	<b>\$ (120,961)</b>	<b>-31.3%</b>
<b>Indirect Allocation</b>	<b>\$ 225,597</b>	<b>\$ 211,108</b>	<b>\$ 14,489</b>	<b>6.9%</b>
<b>Total Expenses</b>	<b>\$ 490,796</b>	<b>\$ 597,268</b>	<b>\$ (106,472)</b>	
<b>Change in Assets</b>	<b>\$ (9,248)</b>	<b>\$ (115,722)</b>	<b>\$ 14,489</b>	<b>-12.5%</b>
<b>Fixed Assets</b>				
Depreciation		\$ -	\$ -	0.0%
Computer & Software CapEx		-	-	0.0%
Furniture & Fixture CapEx		-	-	0.0%
Allocation of Fixed Assets	(12,067)	(5,596)	(6,471)	115.6%
Leasehold Improvement CapEx		-	-	0.0%
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (12,067)</b>	<b>\$ (5,596)</b>	<b>\$ (6,471)</b>	<b>115.6%</b>
<b>TOTAL BUDGET</b>	<b>\$ 478,729</b>	<b>\$ 591,672</b>	<b>\$ (112,943)</b>	<b>-19.1%</b>
<b>Change in Working Capital</b>	<b>\$ 2,819</b>	<b>\$ (110,125)</b>	<b>\$ 112,944</b>	<b>-102.6%</b>
FTE's	2.25	2.25	-	

### **Training and Education**

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

The Training and Education department is 19.1% under total budget.

Personnel expenses are 26.0% under budget due to replacement salary being lower than the budgeted amount. The retirement and savings plan budget allows for full employee participation, which did not occur.

Meeting and Travel Expenses are 76.3% under budget. The spring and fall workshops were in the Texas RE conference Center. The budget included costs for one outside facility for one of the workshops. With workshops hosted in the Texas RE conference center, travel was not required causing the budget under-run.

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

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

The Allocation of Fixed Assets is greater than budget due to depreciation and Computer and Software expense. Furniture, equipment and, audio-visual equipment purchased after the 2016 budget was prepared and upgrading the SIEM appliance cause the over budget variance.

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**Administrative Services**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
Assessments	\$ -	\$ -	\$ -	0.0%
Penalty Sanctions	-	-	-	0.0%
State (Non-Statutory) Funding	-	-	-	0.0%
Interest & Membership Dues	-	-	-	0.0%
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 1,752,004	\$ 1,611,847	\$ 140,156	8.7%
Payroll Taxes	96,749	116,213	(19,464)	-16.7%
Employee Benefits	243,518	293,639	(50,121)	-17.1%
Savings & Retirement	204,282	219,218	(14,936)	-6.8%
<b>Total Personnel Expenses</b>	<b>\$ 2,296,553</b>	<b>\$ 2,240,917</b>	<b>\$ 55,636</b>	<b>2.5%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 12,375	\$ 17,450	\$ (5,075)	-29.1%
Travel	94,861	124,323	(29,462)	-23.7%
Conference Expenses	607	-	607	100.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 107,843</b>	<b>\$ 141,773</b>	<b>\$ (33,930)</b>	<b>-23.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 133,762	\$ 181,096	\$ (47,334)	-26.1%
Rent & Improvements	556,338	489,557	66,782	13.6%
Office Costs	518,577	612,562	(93,985)	-15.3%
Professional Services	479,623	514,500	(34,877)	-6.8%
Depreciation	283,880	159,033	124,847	78.5%
<b>Total Operating Expenses</b>	<b>1,972,180</b>	<b>1,956,748</b>	<b>15,432</b>	<b>0.8%</b>
<b>Total Direct Expenses</b>	<b>\$ 4,376,576</b>	<b>\$ 4,339,438</b>	<b>\$ 37,138</b>	<b>0.9%</b>
<b>Indirect Allocaton</b>	<b>\$ (4,376,576)</b>	<b>\$ (4,339,438)</b>	<b>\$ (37,138)</b>	<b>0.9%</b>
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (283,880)	\$ (159,033)	\$ (124,847)	78.5%
Computer & Software CapEx	49,774	44,000	5,774	13.1%
Furniture & Fixture CapEx	-	-	-	0.0%
Allocation of Fixed Assets	234,106	115,033	119,073	103.5%
Leasehold Improvement CapEx	-	-	-	0.0%
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>TOTAL BUDGET</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Change in Working Captial</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
FTE's	13.75	13.75		

### **Administrative Services**

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

Total Personnel expenses are over budget 2.5%. Salaries are greater than budget due to market compensation adjustments not included in the budget. Payroll taxes are under budget 16.7%. The budget did not take into consideration that some employees would reach the maximum payroll tax early in the year. Employee Benefits budget includes unused relocation, education reimbursement and training money.

Total Meeting and Travel expense is 23.9% less than budget due to participation in conference calls rather than traveling to attend meetings.

Operating expenses are 0.8% greater than budget.

The Consultants and Contracts budget includes a custom salary survey and an executive compensation study that was not complete in 2016.

Rent and Improvements are greater than budget due to costs of utilities increasing. Office costs are less than budget due to Software, maintenance and leased equipment. Some of the anticipated maintenance was either not renewed or the price decreased at renewal.

Professional services are less than budget due to fewer special meetings attended by Board of Directors.

Depreciation is greater than budget due to furniture, equipment and audio-visual equipment purchased for the conference center after the 2016 budget was prepared.

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

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

### **General and Administrative**

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

Personnel Expenses are 6.7% less than budget. Employee Benefits include relocation, education reimbursement and training not used in 2016.

Meeting and Travel Expenses are 36.8% less than budget due to participation in conference calls rather than traveling to attend meetings.

Operating Expenses are 10.3% less than budget. Rent and Improvements are greater than budget due to costs of utilities increasing. Office Costs are less than budget due to property taxes and insurance being less than projected. Professional services are less than budget due to fewer special meetings attended by Board of Directors. Depreciation is greater than budget due to furniture,

equipment and audio-visual equipment purchased for the conference center after the 2016 budget was prepared.

**Legal and Regulatory**

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

Personnel Expenses 5.3% greater than budget.

Meeting and Travel Expenses 6.4% less than budget.

Operating Expenses 12.3% greater than budget due to Legal fees for a subpoena not included in the budget.

**Information Technology**

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

Personnel expenses are greater than budget 1.2%.

Meeting and Travel expense is greater than budget 4.5%

Operating Expenses are 10.7% less than budget due to Software, maintenance and leased equipment.

Some of the anticipated maintenance was either not renewed or the price decreased at renewal.

**Human Resources**

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

All Personnel expenses are included in G & A.

Meeting and Travel Expense is 1.0% greater than budget.

Operating Expenses are 52.2% less than budget. Consultants and contracts are less than budget due to a custom salary survey and an executive compensation study that was not complete in 2016.

**Accounting and Finance**

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

Personnel expenses 14.7% are less than budget. A replacement FTE's salary was lower than budgeted, which had an impact on taxes and retirement expense being less than budget. Training, which is included in employee benefits, was less than budget due to Drillpoint training included in the budget that did not occur.

Travel is less than budget due to the CFO not traveling to the FERC budget meeting in Washington, D.C. in May 2016.

Operating Costs are 2.6% less than budget.

Texas Reliability Entity, Inc.  
2016 Statement of Activities and Fixed Assets  
Audited

**State (Non-Statutory)**

Revenue	2016 Actual	2016 Budget	2016 Variance from Budget	%
ERO Funding				
State (Non-Statutory) Funding	1,029,073	1,029,073	-	
Interest & Membership Dues	177	-	177	
<b>Total Revenue</b>	<b>\$ 1,029,250</b>	<b>\$ 1,029,073</b>	<b>\$ 177</b>	<b>0.0%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 646,933	\$ 672,103	\$ (25,170)	-3.7%
Payroll Taxes	42,709	51,667	(8,958)	-17.3%
Employee Benefits	32,654	106,573	(73,920)	-69.4%
Savings & Retirement	89,442	97,455	(8,013)	-8.2%
<b>Total Personnel Expenses</b>	<b>\$ 811,737</b>	<b>\$ 927,798</b>	<b>\$ (116,061)</b>	<b>-12.5%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ -	\$ -	\$ -	
Travel	518	1,500	(982)	-65.5%
Conference Expenses	-	1,000	(1,000)	-100.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 518</b>	<b>\$ 2,500</b>	<b>\$ (1,982)</b>	<b>-79.3%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 1,896	\$ 22,861	\$ (20,965)	-91.7%
Rent & Improvements	255,725	50,000	205,725	411.5%
Office Costs	57,656	7,220	50,436	698.6%
Professional Services	12,502	7,140	5,362	75.1%
Depreciation	23,034	11,553	11,481	99.4%
<b>Total Operating Expenses</b>	<b>350,813</b>	<b>98,774</b>	<b>252,039</b>	<b>255.2%</b>
<b>Total Direct Expenses</b>	<b>\$ 1,163,068</b>	<b>\$ 1,029,073</b>	<b>\$ 133,995</b>	<b>13.0%</b>
<b>Indirect Allocation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total Expenses</b>	<b>\$ 1,163,068</b>	<b>\$ 1,029,073</b>	<b>\$ 133,995</b>	<b>13.0%</b>
<b>Change in Assets</b>	<b>\$ (133,818)</b>	<b>\$ 0</b>	<b>\$ (133,818)</b>	
<b>Fixed Assets</b>				
Depreciation	\$ -	\$ -	\$ -	
Computer & Software CapEx	-	-	-	
Furniture & Fixture CapEx	-	-	-	
Allocation of Fixed Assets	-	-	-	
Leasehold Improvement CapEx	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET</b>	<b>\$ 1,163,068</b>	<b>\$ 1,029,073</b>	<b>\$ 133,995</b>	<b>13.0%</b>
<b>Change in Working Capital</b>	<b>\$ (133,818)</b>	<b>\$ -</b>	<b>\$ (133,818)</b>	
FTE's	5.00	5.00	0.00	

**Texas Reliability Entity, Inc.**  
**Penalty Sanctions**  
For year ended December 31, 2016

Date Invoiced	Date Rec'd	Amount	Year to Recognize for BP&B									
			2011	2012	2013	2014	2015	2016	2017			
		<b>Subtotal 2011</b>										
		<u>\$ 1,225,830</u>										
		<b>Subtotal 2012</b>										
		<u>\$ 447,833</u>										
		<b>Subtotal 2013</b>										
		<u>\$ 635,000</u>										
1/3/2014	1/15/2014	\$ 19,500						\$ 19,500	\$ -			
1/31/2014	2/3/2014	Texas - New Mexico Power \$ 10,750						\$ 10,750				
5/30/2014	7/5/2014	GUES \$ 25,000							\$ 25,000			
8/4/2014	8/21/2014	GUES \$ 20,000							\$ 20,000			
8/4/2014	9/3/2014	Luminant Generation Company, LLC \$ 40,000							\$ 40,000			
9/2/2014	9/19/2014	CPS Energy \$ 10,000							\$ 10,000			
12/2/2014		Oncor Electric Delivery Company LLC \$ 106,000							\$ 106,000			
10/31/2014	11/10/2014	Electric Reliability Council of Texas, Inc. \$ 28,000							\$ 28,000			
12/2/2014	12/22/2014	City of Austin dba Austin Energy \$ 56,000							\$ 56,000			
		<b>Subtotal 2014</b>							<u>\$ 315,250</u>			
4/23/2015	5/7/2015	NextEra Energy Resources \$ 52,000							\$ 52,000			
7/2/2015	8/20/2015	CCI Signal Hill LLC \$ 50,000									\$ 50,000	
		<b>Subtotal 2015</b>							<u>\$ 102,000</u>			
		<b>NO Fines &amp; Penalty Monies received in 2016</b>							\$ -			
			<u>\$ 2,725,913</u>	<u>\$ 20,000</u>	<u>\$ 572,830</u>	<u>\$ 832,000</u>	<u>\$ 419,833</u>	<u>\$ 494,250</u>	<u>\$ 337,000</u>	<u>\$ 50,000</u>		

Texas RE 2016 Penalties Reconciliation	12/31/2016	12/31/2015	Change in 2016
Total Cumulative Penalties - GAAP/BKD Audit	\$ 2,725,913	\$ 2,725,913	\$ -
Total Cumulative Penalties - True Up Report	\$ 3,012,913	\$ 2,675,913	\$ 337,000
	<u>\$ (287,000)</u>	<u>\$ 50,000</u>	<u>\$ (337,000)</u>

Texas RE's audited financial statements include penalties recorded as earned revenue at the time of invoicing, in accordance with GAAP. Texas RE's true up report includes only those penalties included in the approved budget for the calendar year, as shown above.



# **Texas Reliability Entity, Inc.**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



**Texas Reliability Entity, Inc.**  
**December 31, 2016 and 2015**

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## Independent Auditor's Report

Board of Directors  
Texas Reliability Entity, Inc.  
Austin, Texas

We have audited the accompanying financial statements of Texas Reliability Entity, Inc. (Texas RE), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Reliability Entity, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Statutory and Nonstatutory Operating Activities and the Statutory and Nonstatutory Statement of Activity by Program are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Dallas, Texas  
May 19, 2017

**Texas Reliability Entity, Inc.**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

**Assets**

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,209,985	\$ 5,832,946
Assets limited to use – cash	72,082	903,195
	<u>5,282,067</u>	<u>6,736,141</u>
Other current assets	363,499	253,954
	<u>5,645,566</u>	<u>6,990,095</u>
<b>Property and Equipment, Net</b>	<u>656,813</u>	<u>917,702</u>
<b>Total assets</b>	<u><u>\$ 6,302,379</u></u>	<u><u>\$ 7,907,797</u></u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 130,272	\$ 33,373
Accrued liabilities	628,166	540,439
	<u>758,438</u>	<u>573,812</u>
<b>Total current liabilities</b>	<u>758,438</u>	<u>573,812</u>
<b>Noncurrent Liabilities</b>		
Deferred rent	221,208	199,403
Tenant improvement allowance	142,857	180,952
	<u>364,065</u>	<u>380,355</u>
<b>Total noncurrent liabilities</b>	<u>364,065</u>	<u>380,355</u>
<b>Total liabilities</b>	<u>1,122,503</u>	<u>954,167</u>
<b>Unrestricted Net Assets</b>		
Undesignated	5,107,794	6,050,435
Regulator designated	72,082	903,195
	<u>5,179,876</u>	<u>6,953,630</u>
<b>Total unrestricted net assets</b>	<u>5,179,876</u>	<u>6,953,630</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 6,302,379</u></u>	<u><u>\$ 7,907,797</u></u>

**Texas Reliability Entity, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenues, Gains and Other Support</b>		
Statutory revenue		
Assessments	\$ 9,560,448	\$ 10,500,446
Penalty sanctions	-	102,000
Protocol revenue	1,029,073	999,100
Interest income	<u>1,144</u>	<u>1,968</u>
Total revenues, gains and other support	<u>10,590,665</u>	<u>11,603,514</u>
<b>Expenses</b>		
Salaries and related benefits	9,505,294	8,714,376
Facility and equipment costs	979,378	844,328
Outside services	785,251	712,517
Travel and meetings	328,096	303,107
Administrative and other	459,487	517,792
Depreciation	<u>306,913</u>	<u>310,475</u>
Total expenses	<u>12,364,419</u>	<u>11,402,595</u>
<b>Change in Unrestricted Net Assets</b>	(1,773,754)	200,919
<b>Unrestricted Net Assets, Beginning of Year</b>	<u>6,953,630</u>	<u>6,752,711</u>
<b>Unrestricted Net Assets, End of Year</b>	<u><u>\$ 5,179,876</u></u>	<u><u>\$ 6,953,630</u></u>

**Texas Reliability Entity, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ (1,773,754)	\$ 200,919
Item not requiring cash		
Depreciation	306,913	310,475
Changes in		
Accounts receivable	-	106,000
Other current assets	(109,545)	(19,454)
Accounts payable	96,899	(162,781)
Accrued liabilities	87,727	32,692
Deferred rent and tenant improvement allowance	(16,290)	29,222
	<u>(1,408,050)</u>	<u>497,073</u>
<b>Investing Activities</b>		
Capital expenditures for property and equipment and systems under development	<u>(46,024)</u>	<u>(572,804)</u>
	<u>(46,024)</u>	<u>(572,804)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,454,074)	(75,731)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,736,141</u>	<u>6,811,872</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 5,282,067</u>	<u>\$ 6,736,141</u>
<b>Supplemental Cash Flows Information</b>		
Leasehold improvements acquired through tenant improvement allowance	\$ -	\$ 200,000

# Texas Reliability Entity, Inc.

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 1: Organization and Operations

Texas Reliability Entity, Inc. (Texas RE) is a Texas nonprofit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Texas RE was formed January 1, 2010, to be the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and to preserve and enhance reliability across the ERCOT region among all users, owners and operators of the bulk-power system (BPS). Texas RE became the Regional Entity for the ERCOT region on July 1, 2010, pursuant to its Amended and Restated Delegation Agreement with North American Electric Reliability Corporation (NERC), which was renewed and approved by the Federal Energy Regulatory Commission (FERC) for a five-year term effective January 1, 2016.

As Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region, and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory” activities.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 75% of the Texas land area and 90% of Texas load.

In addition to Texas RE’s statutory activities as Regional Entity, Texas RE has a contract with the 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 “nonstatutory” activities.



# **Texas Reliability Entity, Inc.**

## **Notes to Financial Statements**

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

#### ***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; (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the state of Texas or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that secures wholesale transmission service or is engaged in the activity of buying and selling of wholesale electric power in the ERCOT region on a physical or financial basis, or qualifies under any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner or operator of the ERCOT region BPS and registered with NERC for at least one reliability function. Eligible entities must complete and submit a membership application. 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 Reliability Entity, Inc.**

## **Notes to Financial Statements**

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

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors
- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the Bylaws and Delegation Agreement, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for Standards development issues, through its elected Chair and Vice-Chair, who serve as directors. The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS. The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews, and comments on Standards under development and Standards interpretation requests.

## **Note 2: Summary of Significant Accounting Policies**

### ***Use of Estimates***

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

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

***Cash and Cash Equivalents***

Texas RE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2016, Texas RE's cash accounts, excluding its sweep account that had a balance of \$5,237,995, exceeded federally insured limits by approximately \$40,000. Texas RE places its cash with a high quality financial institution, and management believes no significant risks exist with respect to uninsured balances.

***Assets Limited to Use***

As stipulated by NERC policies, Texas RE records fines and penalties that are required to be used in future operations as assets limited to use. Assets limited to use (maintained in a financial institution) were \$72,082 and \$903,195 at December 31, 2016 and 2015, respectively.

***Revenue Recognition***

Texas RE funds its statutory operations primarily from assessments NERC collects from load serving entities and pays to Texas RE in four quarterly payments, pursuant to the Delegation Agreement. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. All nonstatutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE recognizes revenue related to fines and penalties in the period in which they are earned (all appeals have been exhausted).

***Related Party Transactions***

Texas RE compensates its independent board directors, which is a common practice in the industry in which Texas RE operates. The authority to compensate its independent board directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE independent board director compensation (totaling approximately \$240,000 during 2016 and \$243,000 during 2015) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their reasonable out-of-pocket expenses incurred related to their duties as a Texas RE independent board member.

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	5 years
Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	7.5 years

***Long-lived Asset Impairment***

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2016 and 2015.

***Deferred Rent***

In 2010, Texas RE entered into an operating lease agreement that was modified in 2015 with the lease of additional space, which contains provisions for future increases in rent payments. In accordance with accounting principles generally accepted in the United States of America, Texas RE records monthly rent expense equal to the total of payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

***Income Taxes***

Texas RE is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Texas RE is subject to federal income tax on any unrelated business taxable income.

Texas RE files tax returns in the U.S. federal jurisdiction. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2013.

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 3: Expenses by Functional Classification**

While the statements of activities presents expenses by natural classification, Texas RE's expenses by functional classification for the years ended December 31 were as follows:

	<u>2016</u>	<u>2015</u>
Program	\$ 7,987,843	\$ 7,158,392
General and administrative	<u>4,376,576</u>	<u>4,244,203</u>
Total	<u>\$ 12,364,419</u>	<u>\$ 11,402,595</u>

Certain costs have been allocated among the program and general and management categories based on actual use or estimates made by management.

**Note 4: Property and Equipment**

Property and equipment at December 31 consists of:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 761,631	\$ 761,631
Computer hardware	754,361	732,040
Computer software	1,441,102	1,413,649
Furniture	402,859	402,859
Leasehold improvement	546,346	546,346
Work in process	<u>-</u>	<u>3,750</u>
Total property and equipment	3,906,299	3,860,275
Less accumulated depreciation	<u>3,249,486</u>	<u>2,942,573</u>
Total property and equipment, net	<u>\$ 656,813</u>	<u>\$ 917,702</u>

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 5: Operating Leases**

Texas RE leases office space, datacenter space and equipment under noncancellable agreements recorded as operating leases. Texas RE entered into an office lease on February 9, 2015, that includes tenant improvement allowances of \$200,000, which have been recorded in property and equipment and tenant improvement allowance liability in the accompanying statements of financial position at December 31, 2016. The tenant improvement allowance is amortized on a straight-line basis over the life of the lease, with an unamortized value of \$142,857 and \$180,952 at December 31, 2016 and 2015, respectively.

Future minimum lease payments at December 31, 2016, were:

2017	\$ 793,215
2018	694,007
2019	560,880
2020	616,026
2021	<u>466,337</u>
	<u><u>\$ 3,130,465</u></u>

**Note 6: Employee Benefit Plans**

Texas RE employees are sponsored under the Texas Reliability Entity, Inc. 401(k) Savings Plan (Plan) which is subject to the provisions of the *Employee Retirement Income Security Act of 1974*. The Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plan were \$926,597 and \$869,606, respectively, in 2016 and 2015.

**Note 7: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Other Information**

**Texas Reliability Entity, Inc.**  
**Schedule of Statutory and Nonstatutory Operating Activities**  
**Year Ended December 31, 2016**

	<b>Statutory</b>	<b>Nonstatutory</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Statutory revenue	\$ 9,560,448	\$ -	\$ 9,560,448
Protocol revenue	-	1,029,073	1,029,073
Interest income	967	177	1,144
	<u>9,561,415</u>	<u>1,029,250</u>	<u>10,590,665</u>
<b>Expenses</b>			
Salaries and related benefits	8,693,557	811,737	9,505,294
Facility and equipment costs	712,114	267,264	979,378
Outside services	770,854	14,397	785,251
Travel and meetings	327,578	518	328,096
Administrative and other	413,368	46,119	459,487
Depreciation	283,880	23,033	306,913
	<u>11,201,351</u>	<u>1,163,068</u>	<u>12,364,419</u>
<b>Change in Unrestricted Net Assets</b>	(1,639,936)	(133,818)	(1,773,754)
<b>Unrestricted Net Assets, Beginning of Year</b>	<u>5,815,880</u>	<u>1,137,750</u>	<u>6,953,630</u>
<b>Unrestricted Net Assets, End of Year</b>	<u>\$ 4,175,944</u>	<u>\$ 1,003,932</u>	<u>\$ 5,179,876</u>



**Texas Reliability Entity, Inc.**  
**Statutory and Nonstatutory Statement of Activity by Program**  
**Year Ended December 31, 2016**

	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Statutory Total	State (Nonstatutory) Total	Total
<b>Funding</b>												
Assessments	\$ 361,747	\$ 7,389,968	\$ 1,343,630	\$ 465,103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,560,448	\$ -	\$ 9,560,448
State (non-statutory) funding	-	-	-	-	-	-	-	-	-	-	1,029,073	1,029,073
Interest income	34	745	138	50	-	-	-	-	-	967	177	1,144
<b>Total funding</b>	<b>361,781</b>	<b>7,390,713</b>	<b>1,343,768</b>	<b>465,153</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,561,415</b>	<b>1,029,250</b>	<b>10,590,665</b>
<b>Expenses</b>												
Personnel expenses												
Salaries	192,756	3,504,233	861,273	178,049	570,525	343,853	430,089	94,685	312,851	6,488,314	646,933	7,135,247
Payroll taxes	12,520	252,686	57,531	11,665	16,808	19,940	32,166	7,208	20,628	431,152	42,709	473,861
Employee benefits	31,198	496,876	124,538	35,685	21,077	40,001	113,853	24,820	43,766	931,814	32,654	964,468
Savings and retirement	25,746	470,188	119,281	22,779	38,027	47,293	57,596	17,916	43,450	842,276	89,442	931,718
<b>Total personnel expenses</b>	<b>262,220</b>	<b>4,723,983</b>	<b>1,162,623</b>	<b>248,178</b>	<b>646,437</b>	<b>451,087</b>	<b>633,704</b>	<b>144,629</b>	<b>420,695</b>	<b>8,693,556</b>	<b>811,738</b>	<b>9,505,294</b>
Meeting and travel expenses												
Meetings	-	259	809	4,617	29	-	317	12,029	-	18,060	-	18,060
Travel	13,670	117,861	67,277	604	56,188	11,413	23,080	2,385	1,795	294,273	518	294,791
Conference expenses	4,384	4,409	-	5,845	-	-	607	-	-	15,245	-	15,245
<b>Total meeting and travel expenses</b>	<b>18,054</b>	<b>122,529</b>	<b>68,086</b>	<b>11,066</b>	<b>56,217</b>	<b>11,413</b>	<b>24,004</b>	<b>14,414</b>	<b>1,795</b>	<b>327,578</b>	<b>518</b>	<b>328,096</b>
Operating expenses												
Consultants and contracts	-	155,290	-	2,179	72,297	1,750	25,190	34,525	-	291,231	1,896	293,127
Rent and improvements	-	-	-	-	556,338	-	-	-	-	556,338	55,725	612,063
Office costs	-	11,290	35,501	3,776	79,622	2,969	421,320	5,538	9,128	569,144	257,653	826,797
Professional services	-	-	-	-	305,613	36,124	96,692	155	41,043	479,627	12,502	492,129
Depreciation	-	-	-	-	283,880	-	-	-	-	283,880	23,033	306,913
<b>Total operating expenses</b>	<b>-</b>	<b>166,580</b>	<b>35,501</b>	<b>5,955</b>	<b>1,297,750</b>	<b>40,843</b>	<b>543,202</b>	<b>40,218</b>	<b>50,171</b>	<b>2,180,220</b>	<b>350,809</b>	<b>2,531,029</b>
<b>Total expenses</b>	<b>280,274</b>	<b>5,013,092</b>	<b>1,266,210</b>	<b>265,199</b>	<b>2,000,404</b>	<b>503,343</b>	<b>1,200,910</b>	<b>199,261</b>	<b>472,661</b>	<b>11,201,354</b>	<b>1,163,065</b>	<b>12,364,419</b>
<b>Change in Unrestricted Net Assets</b>	<b>\$ 81,507</b>	<b>\$ 2,377,621</b>	<b>\$ 77,558</b>	<b>\$ 199,954</b>	<b>\$ (2,000,404)</b>	<b>\$ (503,343)</b>	<b>\$(1,200,910)</b>	<b>\$ (199,261)</b>	<b>\$ (472,661)</b>	<b>\$ (1,639,939)</b>	<b>\$ (133,815)</b>	<b>\$ (1,773,754)</b>

**ATTACHMENT 9**

**2016 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2016 AUDITED FINANCIAL REPORT**

**FOR**

**WESTERN ELECTRICITY COORDINATING COUNCIL**

# 2016 Audited Statement of Activities and Variance Explanations

*Western Electricity Coordinating Council*



155 North 400 West, Suite 200  
Salt Lake City, Utah 84103-1114

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## Overview

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### Summary

The Western Electricity Coordinating Council's (WECC) audited change in statutory working capital for the year ended December 31, 2016, is under budget by \$1,489,000. The major drivers of WECC's net 2016 underrun are:

- An underrun of \$1,277,000 in Consulting and Contracts related to a reduction in contract labor needed for compliance auditing, delays in project deliverables and an overall reduction in RAS modeling and scenario revision consulting;
- An underrun of \$516,000 in Personnel Expenses related to budgeted labor float assumptions compared to actual vacancy rates and underutilization of employee benefits;
- An underrun of \$274,000 in revenue related to less-than-anticipated attendance at WECC training and outreach events;
- An underrun of \$166,000 in Office Costs related to a reduction in software maintenance costs associated with the termination of the Base Case Coordination System (BCCS) project;
- An underrun of \$157,000 in Indirect Expenses related to lower-than-anticipated full-time equivalents (FTE) in non-statutory programs and an underrun in the Corporate Services area.

This document provides a summary of significant overall variances (greater than \$10,000 and 10 percent) and any other noteworthy variances. For significant Program Area line-item variances, see the detailed statements of activities for each Program Area.

WECC completed all its goals and key deliverables as described in the 2016 Business Plan and Budget.

### Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on an FTE ratio that is consistent with North American Electric Reliability Corporation's (NERC) accounting methodology for allocation of overhead.

### Non-Statutory

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2016, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

## 2016 Audited Statement of Activities – Statutory and Non-Statutory

Western Electricity Coordinating Council			
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital			
Statutory and Non-Statutory			
	2016 Actual	2016 Budget	2016 Variance Over(Under)
<b>Funding</b>			
<b>WECC Funding</b>			
WECC Assessments	\$ 25,032,138	\$ 25,032,134	\$ 4
Penalty Sanctions	1,983,700	1,983,700	-
<b>Total ERO Funding</b>	<b>\$ 27,015,838</b>	<b>\$ 27,015,834</b>	<b>\$ 4</b>
Membership Fees	\$ 2,047,831	\$ 1,900,000	\$ 147,831
Grant Funding	-	-	-
Services & Software	-	-	-
Workshops	856,612	1,131,750	(275,138)
Interest	161,760	84,000	77,760
Miscellaneous	-	-	-
<b>Total Funding</b>	<b>\$ 30,082,042</b>	<b>\$ 30,131,584</b>	<b>\$ (49,543)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 14,613,263	\$ 14,964,443	\$ (351,180)
Payroll Taxes	973,433	1,081,492	(108,059)
Employee Benefits	2,072,889	2,137,857	(64,968)
Savings & Retirement	1,250,262	1,293,944	(43,682)
<b>Total Personnel Expenses</b>	<b>\$ 18,909,847</b>	<b>\$ 19,477,736</b>	<b>\$ (567,889)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 746,796	\$ 824,400	\$ (77,604)
Travel	1,250,908	1,200,946	49,962
Conference Calls	74,837	71,673	3,164
<b>Total Meeting Expenses</b>	<b>\$ 2,072,542</b>	<b>\$ 2,097,019</b>	<b>\$ (24,477)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 1,996,360	\$ 3,273,570	\$ (1,277,210)
Office Rent	970,148	936,988	33,160
Office Costs	2,042,182	2,249,680	(207,498)
Professional Services	1,010,110	1,060,975	(50,865)
Miscellaneous	-	-	-
Depreciation	449,943	948,609	(498,666)
<b>Total Operating Expenses</b>	<b>\$ 6,468,743</b>	<b>\$ 8,469,822</b>	<b>\$ (2,001,079)</b>
<b>Total Direct Expenses</b>	<b>\$ 27,451,132</b>	<b>\$ 30,044,577</b>	<b>\$ (2,593,445)</b>
<b>Indirect Expenses</b>	\$ -	\$ -	\$ -
<b>Other Non-Operating Expenses</b>	<b>\$ 526</b>	<b>\$ -</b>	<b>\$ 526</b>
<b>Total Expenses</b>	<b>27,451,658</b>	<b>30,044,577</b>	<b>(2,592,919)</b>
<b>Change in Assets</b>	<b>\$ 2,630,384</b>	<b>\$ 87,006</b>	<b>\$ 2,543,376</b>
<b>Fixed Assets</b>			
Depreciation	\$ (449,943)	\$ (948,609)	\$ 498,666
Computer & Software CapEx	16,855	55,000	(38,145)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	29,532	30,000	(468)
Leasehold Improvements	21,423	-	21,423
Allocation of Fixed Assets	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (382,133)</b>	<b>\$ (863,609)</b>	<b>\$ 481,476</b>
<b>Total Budget</b>	<b>\$ 27,069,525</b>	<b>\$ 29,180,968</b>	<b>\$ (2,111,443)</b>
<b>Change in Working Capital</b>	<b>\$ 3,012,517</b>	<b>\$ 950,616</b>	<b>\$ 2,061,900</b>
<b>FTEs</b>	135.9	146.5	(10.6)
<b>Headcount</b>	136.0	147.0	(11.0)

## 2016 Audited Statement of Activities – Statutory

Western Electricity Coordinating Council					
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Statutory Summary					
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%	
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 25,032,138	25,032,134	\$ 4		0.0%
Penalty Sanctions	1,983,700	1,983,700	-		0.0%
<b>Total ERO Funding</b>	<b>\$ 27,015,838</b>	<b>\$ 27,015,834</b>	<b>\$ 4</b>		<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	855,137	1,129,500	(274,363)		(24.3%)
Interest	109,694	84,000	25,694		30.6%
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 27,980,669</b>	<b>\$ 28,229,334</b>	<b>\$ (248,665)</b>		<b>(0.9%)</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 14,226,517	\$ 14,552,825	\$ (326,308)		(2.2%)
Payroll Taxes	946,440	1,047,090	(100,650)		(9.6%)
Employee Benefits	2,026,199	2,074,608	(48,409)		(2.3%)
Savings & Retirement	1,218,194	1,259,074	(40,880)		(3.2%)
<b>Total Personnel Expenses</b>	<b>\$ 18,417,350</b>	<b>\$ 18,933,597</b>	<b>\$ (516,247)</b>		<b>(2.7%)</b>
<b>Meeting Expenses</b>					
Meetings	\$ 744,896	\$ 820,200	\$ (75,304)		(9.2%)
Travel	1,242,602	1,173,371	69,231		5.9%
Conference Calls	74,837	70,823	4,014		5.7%
<b>Total Meeting Expenses</b>	<b>\$ 2,062,336</b>	<b>\$ 2,064,394</b>	<b>\$ (2,058)</b>		<b>(0.1%)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 1,994,117	\$ 3,271,170	\$ (1,277,053)		(39.0%)
Office Rent	970,148	936,988	33,160		3.5%
Office Costs	1,588,800	1,655,424	(66,624)		(4.0%)
Professional Services	1,009,091	1,051,975	(42,884)		(4.1%)
Miscellaneous	-	-	-		
Depreciation	449,943	948,609	(498,666)		(52.6%)
<b>Total Operating Expenses</b>	<b>\$ 6,012,099</b>	<b>\$ 7,864,166</b>	<b>\$ (1,852,067)</b>		<b>(23.6%)</b>
<b>Total Direct Expenses</b>	<b>\$ 26,491,785</b>	<b>\$ 28,862,157</b>	<b>\$ (2,370,372)</b>		<b>(8.2%)</b>
<b>Indirect Expenses</b>	<b>\$ (471,480)</b>	<b>\$ (628,954)</b>	<b>\$ 157,475</b>		<b>(25.0%)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 526</b>	<b>\$ -</b>	<b>\$ 526</b>		
<b>Total Expenses</b>	<b>26,020,832</b>	<b>28,233,203</b>	<b>(2,212,371)</b>		<b>(7.8%)</b>
<b>Change in Assets</b>	<b>\$ 1,959,837</b>	<b>\$ (3,868)</b>	<b>\$ 1,963,706</b>		<b>(50,774.4%)</b>
<b>Fixed Assets</b>					
Depreciation	\$ (449,943)	\$ (948,609)	\$ 498,666		(52.6%)
Computer & Software CapEx	16,855	55,000	(38,145)		(69.4%)
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	29,532	30,000	(468)		(1.6%)
Leasehold Improvements	21,423	-	21,423		
Allocation of Fixed Assets	8,806	15,361	(6,555)		(42.7%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (373,327)</b>	<b>\$ (848,248)</b>	<b>\$ 474,921</b>		<b>(56.0%)</b>
<b>Total Budget</b>	<b>\$ 25,647,505</b>	<b>\$ 27,384,955</b>	<b>\$ (1,737,450)</b>		<b>(6.3%)</b>
<b>Change in Working Capital</b>	<b>\$ 2,333,164</b>	<b>\$ 844,379</b>	<b>\$ 1,488,785</b>		<b>176.3%</b>
<b>FTEs</b>	131.2	140.5	(9.3)		
<b>Headcount</b>	131.0	141.0	(10.0)		

## Significant Variance Explanations – Statutory Activities

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### Funding

- Workshops: \$274,000 under budget
  - Attendance at WECC training and outreach events was lower-than-anticipated.
- Interest: \$26,000 over budget
  - Returns on cash and invested balances were higher-than-anticipated.

### Expenses

- Personnel Expenses: \$516,000 under budget
  - Budgeted labor float rate assumptions compared with actual vacancy rates, lower-than-anticipated plan enrollment among existing employees and lower-than-expected utilization of training and medical benefits.
- Consultants & Contracts: \$1,277,000 under budget
  - RAS modeling underrun of \$683,000 is primarily related to project work being completed at less-than-anticipated costs and project delays in 2016.
  - Scenario revision underrun of \$305,000 is primarily related to work completed at less-than-anticipated costs and project delays in 2016.
  - Non-Governmental Organization (NGO)/State-Provincial representative underrun of \$144,000 is related to less-than-anticipated reimbursement requests.
  - Board Director search fees underrun of \$130,000 is related to less-than-anticipated use of search firms to fill Board vacancies.
  - Training instructor overrun of \$104,000 is related to the utilization of consultants to teach System Operator Training Program classes.
- Depreciation: \$499,000 under budget
  - RAS Modeling was reclassified from Fixed Assets to Consulting in 2015 after the 2016 budget was developed.

### Indirect Expenses

- Indirect Expenses: \$157,000 under budget.
  - FTEs in the non-statutory program were less-than-budgeted and Corporate Services expenses were also less-than-budgeted. The indirect allocation is based on actual FTEs in each Program Area.



**Section A**  
**Statutory Programs**

*2016 Audited Statements of Activities and  
Variance Explanations*

## Reliability Standards Program

Western Electricity Coordinating Council					
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Reliability Standards					
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%	
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 1,034,891	1,034,890	\$ 1		0.0%
Penalty Sanctions	84,323	84,323	-		0.0%
<b>Total ERO Funding</b>	<b>\$ 1,119,214</b>	<b>\$ 1,119,213</b>	<b>\$ 1</b>		<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	3,644	3,571	73		2.1%
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 1,122,858</b>	<b>\$ 1,122,784</b>	<b>\$ 74</b>		<b>0.0%</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 452,417	\$ 518,048	\$ (65,631)		(12.7%)
Payroll Taxes	29,289	37,302	(8,013)		(21.5%)
Employee Benefits	30,198	44,778	(14,580)		(32.6%)
Savings & Retirement	40,653	43,757	(3,104)		(7.1%)
<b>Total Personnel Expenses</b>	<b>\$ 552,557</b>	<b>\$ 643,885</b>	<b>\$ (91,328)</b>		<b>(14.2%)</b>
<b>Meeting Expenses</b>					
Meetings	\$ 600	\$ 1,420	\$ (820)		(57.7%)
Travel	17,042	26,925	(9,883)		(36.7%)
Conference Calls	293	2,565	(2,272)		(88.6%)
<b>Total Meeting Expenses</b>	<b>\$ 17,935</b>	<b>\$ 30,910</b>	<b>\$ (12,975)</b>		<b>(42.0%)</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	870	5,345	(4,475)		(83.7%)
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ 870</b>	<b>\$ 5,345</b>	<b>\$ (4,475)</b>		<b>(83.7%)</b>
<b>Total Direct Expenses</b>	<b>\$ 571,362</b>	<b>\$ 680,140</b>	<b>\$ (108,778)</b>		<b>(16.0%)</b>
<b>Indirect Expenses</b>	\$ 304,810	\$ 419,301	\$ (114,491)		(27.3%)
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>876,172</b>	<b>1,099,441</b>	<b>(223,269)</b>		<b>(20.3%)</b>
<b>Change in Assets</b>	<b>\$ 246,686</b>	<b>\$ 23,343</b>	<b>\$ 223,343</b>		<b>956.8%</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(5,596)	(10,241)	4,645		(45.4%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (5,596)</b>	<b>\$ (10,241)</b>	<b>\$ 4,645</b>		<b>(45.4%)</b>
<b>Total Budget</b>	<b>\$ 870,576</b>	<b>\$ 1,089,200</b>	<b>\$ (218,624)</b>		<b>(20.1%)</b>
<b>Change in Working Capital</b>	<b>\$ 252,282</b>	<b>\$ 33,584</b>	<b>\$ 218,698</b>		<b>651.2%</b>
<b>FTEs</b>	3.0	4.0	(1.0)		
<b>Headcount</b>	3.0	4.0	(1.0)		

**Significant Variance Explanations – Reliability Standards Program**

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**Funding**

- Not applicable.

**Personnel Expenses**

- Personnel Expenses are under budget by \$91,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, lower-than-anticipated plan enrollment among existing employees, and one vacant position.

**Meeting Expenses**

- Not applicable.

**Operating Expenses**

- Not applicable.

**Depreciation**

- Not applicable.

**Indirect Expenses**

- Indirect Expenses are under budget by \$114,000 due to one vacant position and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- Not applicable.

**Fixed Assets**

- Not applicable.

## Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Western Electricity Coordinating Council				
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Compliance Monitoring and Enforcement and Organization Registration and Certification				
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%
<b>Funding</b>				
<b>WECC Funding</b>				
WECC Assessments	\$ 13,047,129	13,047,128	\$ 1	0.0%
Penalty Sanctions	1,138,361	1,138,361	-	0.0%
<b>Total ERO Funding</b>	<b>\$ 14,185,490</b>	<b>\$ 14,185,489</b>	<b>\$ 1</b>	<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	-	3,600	(3,600)	(100.0%)
Interest	63,047	48,204	14,843	30.8%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>\$ 14,248,537</b>	<b>\$ 14,237,293</b>	<b>\$ 11,244</b>	<b>0.1%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 5,498,697	\$ 5,288,714	\$ 209,983	4.0%
Payroll Taxes	379,635	411,811	(32,176)	(7.8%)
Employee Benefits	704,538	648,318	56,220	8.7%
Savings & Retirement	442,540	451,633	(9,093)	(2.0%)
<b>Total Personnel Expenses</b>	<b>\$ 7,025,410</b>	<b>\$ 6,800,476</b>	<b>\$ 224,934</b>	<b>3.3%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 14,057	\$ 1,948	\$ 12,109	621.6%
Travel	659,767	696,704	(36,937)	(5.3%)
Conference Calls	4,747	13,339	(8,592)	(64.4%)
<b>Total Meeting Expenses</b>	<b>\$ 678,571</b>	<b>\$ 711,991</b>	<b>\$ (33,420)</b>	<b>(4.7%)</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 395,963	\$ 472,170	\$ (76,207)	(16.1%)
Office Rent	-	-	-	
Office Costs	356,128	304,481	51,647	17.0%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	33,636	(33,636)	(100.0%)
<b>Total Operating Expenses</b>	<b>\$ 752,091</b>	<b>\$ 810,287</b>	<b>\$ (58,196)</b>	<b>(7.2%)</b>
<b>Total Direct Expenses</b>	<b>\$ 8,456,072</b>	<b>\$ 8,322,754</b>	<b>\$ 133,318</b>	<b>1.6%</b>
<b>Indirect Expenses</b>	<b>\$ 5,273,201</b>	<b>\$ 5,660,573</b>	<b>\$ (387,372)</b>	<b>(6.8%)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 301</b>	<b>\$ -</b>	<b>\$ 301</b>	
<b>Total Expenses</b>	<b>13,729,574</b>	<b>13,983,327</b>	<b>(253,753)</b>	<b>(1.8%)</b>
<b>Change in Assets</b>	<b>\$ 518,963</b>	<b>\$ 253,966</b>	<b>\$ 264,997</b>	<b>104.3%</b>
<b>Fixed Assets</b>				
Depreciation	\$ -	\$ (33,636)	\$ 33,636	(100.0%)
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(96,819)	(138,254)	41,435	(30.0%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (96,819)</b>	<b>\$ (171,890)</b>	<b>\$ 75,071</b>	<b>(43.7%)</b>
<b>Total Budget</b>	<b>\$ 13,632,755</b>	<b>\$ 13,811,437</b>	<b>\$ (178,682)</b>	<b>(1.3%)</b>
<b>Change in Working Capital</b>	<b>\$ 615,782</b>	<b>\$ 425,856</b>	<b>\$ 189,926</b>	<b>44.6%</b>
FTEs	51.9	54.0	(2.1)	
Headcount	51.0	54.0	(3.0)	

### Significant Variance Explanations – Compliance Monitoring and Enforcement

#### Funding

- Interest is over budget by \$15,000 due to higher-than-anticipated returns on cash and invested balances.

**Personnel Expenses**

- Not applicable.

**Meeting Expenses**

- Meetings are over budget by \$12,000 due to an unbudgeted registered entity oversight workshop.

**Operating Expenses**

- Consulting and Contracts is under budget by \$76,000 due a reduction in contract labor used for compliance auditing.
- Office Costs are over budget by \$52,000 due to higher-than-anticipated computer license and maintenance expenditures for webCDMS and human resource-related professional services.

**Depreciation**

- Depreciation is under budget by \$34,000 due to the write-off of obsolete assets in 2015 after the 2016 budget was developed.

**Indirect Expenses**

- Indirect Expenses are under budget by \$387,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- Allocation of Fixed Assets is under budget by \$41,000 due to a decrease in depreciation in Corporate Services, an overall decrease in Fixed Asset expenditures in Corporate Services, and lower FTEs compared to the total budgeted. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

**Fixed Assets**

- Not applicable.

## Reliability Assessment and Performance Analysis Program

Western Electricity Coordinating Council				
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Assessment and Performance Analysis				
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%
<b>Funding</b>				
<b>WECC Funding</b>				
WECC Assessments	\$ 10,406,921	10,406,920	\$ 1	0.0%
Penalty Sanctions	685,828	685,828	-	0.0%
<b>Total ERO Funding</b>	<b>\$ 11,092,749</b>	<b>\$ 11,092,748</b>	<b>\$ 1</b>	<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	39,359	29,041	10,318	35.5%
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>\$ 11,132,108</b>	<b>\$ 11,121,789</b>	<b>\$ 10,319</b>	<b>0.1%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 3,615,764	\$ 3,446,796	\$ 168,968	4.9%
Payroll Taxes	251,151	268,330	(17,179)	(6.4%)
Employee Benefits	444,734	373,565	71,169	19.1%
Savings & Retirement	339,866	307,085	32,781	10.7%
<b>Total Personnel Expenses</b>	<b>\$ 4,651,515</b>	<b>\$ 4,395,776</b>	<b>\$ 255,739</b>	<b>5.8%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 82,990	\$ 130,934	\$ (47,944)	(36.6%)
Travel	257,912	209,375	48,537	23.2%
Conference Calls	4,696	32,100	(27,404)	(85.4%)
<b>Total Meeting Expenses</b>	<b>\$ 345,598</b>	<b>\$ 372,409</b>	<b>\$ (26,811)</b>	<b>(7.2%)</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 1,096,761	\$ 2,324,000	\$ (1,227,239)	(52.8%)
Office Rent	-	-	-	
Office Costs	198,406	369,910	(171,504)	(46.4%)
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	215,524	573,691	(358,167)	(62.4%)
<b>Total Operating Expenses</b>	<b>\$ 1,510,691</b>	<b>\$ 3,267,601</b>	<b>\$ (1,756,910)</b>	<b>(53.8%)</b>
<b>Total Direct Expenses</b>	<b>\$ 6,507,804</b>	<b>\$ 8,035,786</b>	<b>\$ (1,527,982)</b>	<b>(19.0%)</b>
<b>Indirect Expenses</b>	\$ 3,291,940	\$ 3,410,320	\$ (118,380)	(3.5%)
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>Total Expenses</b>	<b>9,799,744</b>	<b>11,446,106</b>	<b>(1,646,362)</b>	<b>(14.4%)</b>
<b>Change in Assets</b>	<b>\$ 1,332,364</b>	<b>\$ (324,317)</b>	<b>\$ 1,656,681</b>	<b>(510.8%)</b>
<b>Fixed Assets</b>				
Depreciation	\$ (215,524)	\$ (573,691)	\$ 358,167	(62.4%)
Computer & Software CapEx	10,650	-	10,650	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(60,442)	(83,294)	22,852	(27.4%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (265,316)</b>	<b>\$ (656,985)</b>	<b>\$ 391,669</b>	<b>(59.6%)</b>
<b>Total Budget</b>	<b>\$ 9,534,428</b>	<b>\$ 10,789,121</b>	<b>\$ (1,254,693)</b>	<b>(11.6%)</b>
<b>Change in Working Capital</b>	<b>\$ 1,597,680</b>	<b>\$ 332,668</b>	<b>\$ 1,265,012</b>	<b>380.3%</b>
<b>FTEs</b>	32.4	32.5	(0.1)	
<b>Headcount</b>	33.0	33.0	-	

## Significant Variance Explanations – Reliability Assessment and Performance Analysis

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### Funding

- Interest is over budget by \$10,000 due to higher-than-anticipated returns on cash and invested balances.

### Personnel Expenses

- Benefits are over by \$71,000 due to greater-than-anticipated employee training and employee enrollment in WECC's health benefits plans, and budgeted labor float rate assumptions compared with actual vacancy rates.
- Savings and Retirement is over budget by \$33,000 due to greater-than-anticipated employee participation in retirement program, and budgeted labor float rate assumptions compared with actual vacancy rates.

### Meeting Expenses

- Meetings are under budget by \$48,000 due to less-than-anticipated work group meetings.
- Travel is over budget by \$49,000 due to unbudgeted on-site entity reliability assessments.
- Conference Calls are under budget by \$27,000 due to conference call expenses being centralized in Corporate Services.

### Operating Expenses

- Consulting is under budget by \$1,227,000 due to:
  - RAS modeling under budget by \$683,000 due to project work being completed at less-than-anticipated costs and project delays in 2016.
  - Scenario revision under budget by \$305,000 due to work completed at less-than-anticipated costs and project delays in 2016.
  - Non-Governmental Organization (NGO)/State-Provincial representative payments are under budget by \$144,000 due to less-than-anticipated reimbursement requests.
  - Oscillation mode and phase alarm study is under budget by \$95,000 due to the abandonment of the study.
- Office Costs are under budget by \$172,000 due to a reduction in software maintenance costs associated with the termination of the Base Case Coordination System (BCCS) project.

### Depreciation

- Depreciation is under budget by \$358,000 due to the reclassification of RAS Modeling from Fixed Assets to Consulting in 2015, after the 2016 budget was finalized.

### Indirect Expenses

- Not applicable.

### Allocation of Fixed Assets

- Allocation of Fixed Assets is under budget by \$23,000 due to a decrease in depreciation in Corporate Services, an overall decrease in Fixed Asset expenditures in Corporate

Services, and lower FTEs compared to the total budgeted. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

**Fixed Assets**

- Computer and Software CapEx is over budget by \$11,000 due to unbudgeted flex and reliability software.



## Training and Education Program

Western Electricity Coordinating Council				
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Training and Education				
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%
<b>Funding</b>				
<b>WECC Funding</b>				
WECC Assessments	\$ 322,477	322,476	\$ 1	0.0%
Penalty Sanctions	54,810	54,810	-	0.0%
<b>Total ERO Funding</b>	<b>\$ 377,287</b>	<b>\$ 377,286</b>	<b>\$ 1</b>	<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -	
Grant Funding	-	-	-	
Services & Software	-	-	-	
Workshops	855,137	1,125,900	(270,763)	(24.0%)
Interest	2,430	-	2,430	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>\$ 1,234,854</b>	<b>\$ 1,503,186</b>	<b>\$ (268,332)</b>	<b>(17.9%)</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 329,599	\$ 310,800	\$ 18,799	6.0%
Payroll Taxes	19,428	22,861	(3,433)	(15.0%)
Employee Benefits	(3,489)	28,113	(31,602)	(112.4%)
Savings & Retirement	29,470	26,252	3,218	12.3%
<b>Total Personnel Expenses</b>	<b>\$ 375,008</b>	<b>\$ 388,026</b>	<b>\$ (13,018)</b>	<b>(3.4%)</b>
<b>Meeting Expenses</b>				
Meetings	\$ 546,762	\$ 571,000	\$ (24,238)	(4.2%)
Travel	14,687	9,220	5,467	59.3%
Conference Calls	588	5,980	(5,392)	(90.2%)
<b>Total Meeting Expenses</b>	<b>\$ 562,037</b>	<b>\$ 586,200</b>	<b>\$ (24,163)</b>	<b>(4.1%)</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 172,345	\$ 68,000	\$ 104,345	153.4%
Office Rent	27,452	45,000	(17,548)	(39.0%)
Office Costs	66,734	107,360	(40,626)	(37.8%)
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 266,531</b>	<b>\$ 220,360</b>	<b>\$ 46,171</b>	<b>21.0%</b>
<b>Total Direct Expenses</b>	<b>\$ 1,203,576</b>	<b>\$ 1,194,586</b>	<b>\$ 8,990</b>	<b>0.8%</b>
<b>Indirect Expenses</b>	\$ 203,206	\$ 272,546	\$ (69,340)	(25.4%)
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>Total Expenses</b>	<b>1,406,782</b>	<b>1,467,132</b>	<b>(60,350)</b>	<b>(4.1%)</b>
<b>Change in Assets</b>	<b>\$ (171,929)</b>	<b>\$ 36,054</b>	<b>\$ (207,983)</b>	<b>(576.9%)</b>
<b>Fixed Assets</b>				
Depreciation	\$ -	\$ -	\$ -	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Allocation of Fixed Assets	(3,731)	(6,657)	2,926	(44.0%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (3,731)</b>	<b>\$ (6,657)</b>	<b>\$ 2,926</b>	<b>(44.0%)</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>\$ 1,403,051</b>	<b>\$ 1,460,475</b>	<b>\$ (57,424)</b>	<b>(3.9%)</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>\$ (168,198)</b>	<b>\$ 42,711</b>	<b>\$ (210,909)</b>	<b>(493.8%)</b>
<b>FTEs</b>	2.0	2.6	(0.6)	
<b>Headcount</b>	2.0	3.0	(1.0)	

## Significant Variance Explanations – Training and Education

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### Funding

- Workshop revenue is under budget by \$271,000 due to lower-than-anticipated attendance at WECC training and outreach events.

### Personnel Expenses

- Employee Benefits are under budget by \$32,000 due to greater-than-anticipated employee attendance at training classes. Each employee's department is charged for the cost of the training class and the offset is a credit to training in this program.

### Meeting Expenses

- Not applicable.

### Operating Expenses

- Consultants and Contracts are over budget by \$104,000 due to unanticipated use of consultants to teach System Operator Training Program classes.
- Office Rent is under budget by \$18,000 due to a change in the allocation of rent for WECC's training room.
- Office Costs are \$41,000 under budget due to the cancelation of the power simulator license and maintenance when the Operator Training Program was canceled in 2016.

### Depreciation

- Not applicable.

### Indirect Expenses

- Indirect Expenses are under budget by \$69,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

### Allocation of Fixed Assets

- Not applicable.

### Fixed Assets

- Not applicable.

## Situation Awareness and Infrastructure Security Program

Western Electricity Coordinating Council					
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Situation Awareness and Infrastructure Security					
	2016 Actual	2016 Budget	2016 Variance		
			Over(Under)		%
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 220,719	220,719	\$ -		0.0%
Penalty Sanctions	20,378	20,378	-		0.0%
<b>Total ERO Funding</b>	<b>\$ 241,097</b>	<b>\$ 241,097</b>	<b>\$ -</b>		<b>0.0%</b>
Membership Fees	\$ -	\$ -	\$ -		
Grant Funding					
Services & Software					
Workshops	-	-	-		
Interest	1,215	863	352		40.8%
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 242,312</b>	<b>\$ 241,960</b>	<b>\$ 352</b>		<b>0.1%</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 76,779	\$ 107,448	\$ (30,669)		(28.5%)
Payroll Taxes	6,130	8,806	(2,676)		(30.4%)
Employee Benefits	15,114	10,494	4,620		44.0%
Savings & Retirement	8,707	9,118	(411)		(4.5%)
<b>Total Personnel Expenses</b>	<b>\$ 106,730</b>	<b>\$ 135,866</b>	<b>\$ (29,136)</b>		<b>(21.4%)</b>
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ -	\$ -		
Travel	-	-	-		
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Direct Expenses</b>	<b>\$ 106,730</b>	<b>\$ 135,866</b>	<b>\$ (29,136)</b>		<b>(21.4%)</b>
<b>Indirect Expenses</b>	\$ 101,603	\$ 101,331	\$ 273		0.3%
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>208,333</b>	<b>237,197</b>	<b>(28,863)</b>		<b>(12.2%)</b>
<b>Change in Assets</b>	<b>\$ 33,979</b>	<b>\$ 4,763</b>	<b>\$ 29,215</b>		<b>613.3%</b>
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(1,865)	(2,475)	610		(24.6%)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (1,865)</b>	<b>\$ (2,475)</b>	<b>\$ 610</b>		<b>(24.6%)</b>
<b>Total Budget</b>	<b>\$ 206,468</b>	<b>\$ 234,722</b>	<b>\$ (28,253)</b>		<b>(12.0%)</b>
<b>Change in Working Capital</b>	<b>\$ 35,844</b>	<b>\$ 7,238</b>	<b>\$ 28,605</b>		<b>395.2%</b>
<b>FTEs</b>	1.0	1.0	-		
<b>Headcount</b>	1.0	1.0	-		

## Significant Variance Explanations – Situation Awareness and Infrastructure Security

---

### Funding

- Not applicable.

### Personnel Expenses

- Personnel Expenses are under budget by a net of \$29,000 due to a change in the employees allocated to this Program Area and their corresponding rates of pay.

### Meeting Expenses

- Not applicable.

### Operating Expenses

- Not applicable.

### Depreciation

- Not applicable.

### Indirect Expenses

- Not applicable.

### Allocation of Fixed Assets

- Not applicable.

### Fixed Assets

- Not applicable.

## Corporate Services

Western Electricity Coordinating Council					
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Corporate Services					
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%	
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	-	\$ -	-	
Penalty Sanctions	-	-	-	-	
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	
Membership Fees	\$ -	\$ -	\$ -	-	
Grant Funding	-	-	-	-	
Services & Software	-	-	-	-	
Workshops	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 4,253,261	\$ 4,881,019	\$ (627,758)	(12.9%)	
Payroll Taxes	260,807	297,980	(37,173)	(12.5%)	
Employee Benefits	835,104	969,340	(134,236)	(13.8%)	
Savings & Retirement	356,958	421,229	(64,271)	(15.3%)	
<b>Total Personnel Expenses</b>	<b>\$ 5,706,130</b>	<b>\$ 6,569,568</b>	<b>\$ (863,438)</b>	<b>(13.1%)</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 100,487	\$ 114,898	\$ (14,411)	(12.5%)	
Travel	293,194	231,147	62,047	26.8%	
Conference Calls	64,513	16,839	47,674	283.1%	
<b>Total Meeting Expenses</b>	<b>\$ 458,194</b>	<b>\$ 362,884</b>	<b>\$ 95,310</b>	<b>26.3%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 329,048	\$ 407,000	\$ (77,952)	(19.2%)	
Office Rent	942,696	891,988	50,708	5.7%	
Office Costs	966,662	868,328	98,334	11.3%	
Professional Services	1,009,091	1,051,975	(42,884)	(4.1%)	
Miscellaneous	-	-	-	-	
Depreciation	234,419	341,282	(106,863)	(31.3%)	
<b>Total Operating Expenses</b>	<b>\$ 3,481,916</b>	<b>\$ 3,560,573</b>	<b>\$ (78,657)</b>	<b>(2.2%)</b>	
<b>Total Direct Expenses</b>	<b>\$ 9,646,240</b>	<b>\$ 10,493,025</b>	<b>\$ (846,785)</b>	<b>(8.1%)</b>	
<b>Indirect Expenses</b>	<b>\$ (9,646,240)</b>	<b>\$ (10,493,025)</b>	<b>\$ 846,785</b>	<b>(8.1%)</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ 225</b>	<b>\$ -</b>	<b>\$ 225</b>		
<b>Total Expenses</b>	<b>\$ 225</b>	<b>\$ -</b>	<b>\$ 225</b>		
<b>Change in Assets</b>	<b>\$ (225)</b>	<b>\$ -</b>	<b>\$ (225)</b>		
<b>Fixed Assets</b>					
Depreciation	\$ (234,419)	\$ (341,282)	\$ 106,863	(31.3%)	
Computer & Software CapEx	6,205	55,000	(48,795)	(88.7%)	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	29,532	30,000	(468)	(1.6%)	
Leasehold Improvements	21,423	-	21,423		
Allocation of Fixed Assets	177,259	256,282	(79,023)	(30.8%)	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ 225</b>	<b>\$ -</b>	<b>\$ 225</b>		
<b>Change in Working Capital</b>	<b>\$ (225)</b>	<b>\$ -</b>	<b>\$ (225)</b>		
<b>FTEs</b>	40.9	46.4	(5.5)		
<b>Headcount</b>	41.0	46.0	(5.0)		

**Significant Variance Explanations – Technical Committees and Member Forums**

---

**Funding**

- Not applicable.

**Personnel Expenses**

- Not applicable.

**Meeting Expenses**

- Meetings are under budget by \$19,000 due to less-than-anticipated Board of Director committee meeting expenses.
- Travel is over budget by \$15,000 due to higher-than-anticipated travel costs for unanticipated meetings.

**Operating Expenses**

- Consultants and Contracts are under budget by \$130,000 due to the underutilization of Board Director search firms.
- Office Costs are over budget by \$16,000 due to an unbudgeted software subscription for Diligent Boardbooks.
- Professional Services are over budget by \$39,000 due to higher-than-anticipated meeting attendance and compensation for Board Directors.

**Depreciation**

- Not applicable.

**Indirect Expenses**

- Indirect Expenses allocated to the statutory program areas are under budget by \$17,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- Not applicable.

**Fixed Assets**

- Not applicable.

## Significant Variance Explanations – General and Administrative

---

### Funding

- Not applicable.

### Personnel Expenses

- Personnel Expenses are under budget by a net of \$872,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, lower-than-anticipated plan enrollment among existing employees, lower-than-expected utilization of training and medical benefits, and the allocation of market adjustments to employee departments.

### Meeting Expenses

- Travel is over budget by \$31,000 due to higher-than-anticipated outreach and travel to NERC and FERC meetings.
- Conference Calls are over budget by \$57,000 due to expenses being centralized in Corporate Services.

### Operating Expenses

- Consulting and Contracts are over budget by \$61,000 due to unbudgeted management coaching and development.
- Office Rent is over budget by \$51,000 primarily due to a change in the allocation of rent for WECC's training room.
- Office Costs are over budget by \$55,000 primarily due to unbudgeted cubicles, desks, tables, and reconfiguration of WECC office space.

### Depreciation

- Depreciation is under budget by \$69,000 due to the write-off of obsolete assets in 2015 after the 2016 budget was developed, and the overestimation of 2016 depreciation expense.

### Indirect Expenses

- Indirect Expenses allocated to the statutory program areas are under budget by \$92,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

### Allocation of Fixed Assets

- Allocation of Fixed Assets to the statutory program areas is under budget by \$54,000 due to a decrease in depreciation in Corporate Services and an overall decrease in Fixed Asset expenditures in Corporate Services. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

### Fixed Assets

- Fixed Assets – Leasehold Improvements are over budget by \$21,000 primarily due to unbudgeted security system improvements to WECC's Salt Lake City office.

**Significant Variance Explanations – Legal**

---

**Funding**

- Not applicable.

**Personnel Expenses**

- Personnel Expenses are over budget by a net of \$204,000 due to budgeted labor float rate assumptions compared with actual vacancy rates, higher-than-anticipated plan enrollment among existing employees, higher-than-expected utilization of medical benefits, and the allocation of market adjustments to employee departments.

**Meeting Expenses**

- Not applicable.

**Operating Expenses**

- Professional Services are under budget by \$61,000 due to decreased use of outside legal counsel.

**Depreciation**

- Not applicable.

**Indirect Expenses**

- Not applicable.

**Allocation of Fixed Assets**

- Not applicable.

**Fixed Assets**

- Not applicable.



## Significant Variance Explanations – Information Technology

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### Funding

- Not applicable.

### Personnel Expenses

- Payroll Taxes are under budget by \$10,000 due to budgeted labor float rate assumptions compared with actual vacancy rates causing lower-than-anticipated payroll taxes paid.

### Meeting Expenses

- Not applicable.

### Operating Expenses

- Consulting and Contracts are under budget by \$26,000 due to the completion of IT projects at lower-than-anticipated costs.
- Office Costs are \$34,000 over budget due to higher-than-anticipated computer network equipment purchases and the transition to cloud-based storage.

### Depreciation

- Depreciation is under budget by \$24,000 due to estimates used to prepare the 2016 budget.

### Indirect Expenses

- Indirect Expenses allocated to the statutory program areas are under budget by \$25,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

### Allocation of Fixed Assets

- Allocation of Fixed Assets to the statutory program areas is under budget by \$26,000 due to a decrease in depreciation in Corporate Services and an overall decrease in Fixed Asset expenditures in Corporate Services. WECC's fixed asset allocation is based on actual FTEs in each Program Area.

### Fixed Assets

- Fixed Asset – Software is under budget by \$49,000 due to the less-than-anticipated cost of firewall hardware needed for WECC's computer network.

**Significant Variance Explanations – Human Resources**

---

**Funding**

- Not applicable.

**Personnel Expenses**

- Benefits are under budget by \$90,000 due to less-than-anticipated employee relocation benefits and underutilization of tuition reimbursement program benefits.
- Retirement Costs are \$30,000 under budget due to less-than-anticipated retirement plan administration expenses.

**Meeting Expenses**

- Not applicable.

**Operating Expenses**

- Consulting and Contracts are over budget by \$16,000 primarily due to an unbudgeted benefits survey.

**Depreciation**

- Not applicable.

**Indirect Expenses**

- Indirect Expenses allocated to the statutory program areas are under budget by \$18,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- Not applicable.

**Fixed Assets**

- Not applicable.

**Significant Variance Explanations – Finance and Accounting**

---

**Funding**

- Not applicable.

**Personnel Expenses**

- Benefits are under budget by \$24,000 due to lower-than-expected utilization of training and medical benefits.

**Meeting Expenses**

- Not applicable.

**Operating Expenses**

- Professional Services are under budget by \$34,000 primarily due to reduced financial statement audit fees billed by WECC's new audit firm.

**Depreciation**

- Not applicable.

**Indirect Expenses**

- Indirect Expenses allocated to the statutory program areas are under budget by \$11,000 due to lower FTEs compared to the total budgeted and budget underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

**Allocation of Fixed Assets**

- Not applicable.

**Fixed Assets**

- Not applicable.

## Section B

### Non-Statutory Programs

*2016 Audited Statements of Activities and  
Variance Explanations*

## Western Renewable Energy Generation Information System (WREGIS)

Western Electricity Coordinating Council					
2016 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Non-Statutory Summary					
	2016 Actual	2016 Budget	2016 Variance Over(Under)	%	
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	-	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Membership Fees	\$ 2,047,831	\$ 1,900,000	\$ 147,831	7.8%	
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	1,475	2,250	(775)	(34.4%)	
Interest	52,066	-	52,066		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 2,101,372</b>	<b>\$ 1,902,250</b>	<b>\$ 199,122</b>	<b>10.5%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 386,746	\$ 411,618	\$ (24,872)	(6.0%)	
Payroll Taxes	26,993	34,402	(7,409)	(21.5%)	
Employee Benefits	46,690	63,249	(16,559)	(26.2%)	
Savings & Retirement	32,068	34,870	(2,802)	(8.0%)	
<b>Total Personnel Expenses</b>	<b>\$ 492,497</b>	<b>\$ 544,139</b>	<b>\$ (51,642)</b>	<b>(9.5%)</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 1,900	\$ 4,200	\$ (2,300)	(54.8%)	
Travel	8,306	27,575	(19,269)	(69.9%)	
Conference Calls	-	850	(850)	(100.0%)	
<b>Total Meeting Expenses</b>	<b>\$ 10,206</b>	<b>\$ 32,625</b>	<b>\$ (22,419)</b>	<b>(68.7%)</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 2,243	\$ 2,400	\$ (157)	(6.5%)	
Office Rent	-	-	-		
Office Costs	453,382	594,256	(140,874)	(23.7%)	
Professional Services	1,019	9,000	(7,981)	(88.7%)	
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ 456,644</b>	<b>\$ 605,656</b>	<b>\$ (149,012)</b>	<b>(24.6%)</b>	
<b>Total Direct Expenses</b>	<b>\$ 959,347</b>	<b>\$ 1,182,420</b>	<b>\$ (223,073)</b>	<b>(18.9%)</b>	
<b>Indirect Expenses</b>	<b>\$ 471,480</b>	<b>\$ 628,954</b>	<b>\$ (157,474)</b>	<b>(25.0%)</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>1,430,827</b>	<b>1,811,374</b>	<b>(380,547)</b>	<b>(21.0%)</b>	
<b>Change in Assets</b>	<b>\$ 670,545</b>	<b>\$ 90,876</b>	<b>\$ 579,669</b>	<b>637.9%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(8,806)	(15,362)	6,556	(42.7%)	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (8,806)</b>	<b>\$ (15,362)</b>	<b>\$ 6,556</b>	<b>(42.7%)</b>	
<b>Total Budget</b>	<b>\$ 1,422,021</b>	<b>\$ 1,796,012</b>	<b>\$ (373,991)</b>	<b>(20.8%)</b>	
<b>Change in Working Capital</b>	<b>\$ 679,351</b>	<b>\$ 106,238</b>	<b>\$ 573,113</b>	<b>539.5%</b>	
<b>FTEs</b>	<b>4.7</b>	<b>6.0</b>	<b>(1.3)</b>		
<b>Headcount</b>	<b>5.0</b>	<b>6.0</b>	<b>(1.0)</b>		

## Significant Variance Explanations – Non-Statutory Activities

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### Funding

- Interest is over budget by \$52,000 due to higher-than-anticipated non-statutory working capital reserves and rate of return on invested balances.

### Personnel Expenses

- Benefits are under budget by \$17,000 due to lower-than-expected utilization of medical benefits.

### Meeting Expenses

- Travel is under budget by \$19,000 due to lower-than-anticipated attendance at external meetings and entity visits.

### Operating Expenses

- Office Costs are under budget by \$141,000 primarily due to lower-than-anticipated software upgrade costs.

### Depreciation

- Not applicable.

### Indirect Expenses

- Indirect Expenses are under budget by \$157,000 due to a lower number of actual FTEs compared to the budget as well as underruns in Corporate Services. WECC's indirect allocation is based on actual FTEs in each Program Area.

### Allocation of Fixed Assets

- Not applicable.

### Fixed Assets

- Not applicable.



Financial Statements  
December 31, 2016 and 2015

# Western Electricity Coordinating Council

# Western Electricity Coordinating Council 2016

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December 31, 2016 and 2015

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## Independent Auditor's Report

The Board of Directors  
Western Electricity Coordinating Council  
Salt Lake City, Utah

### Report on the Financial Statements

We have audited the accompanying financial statements of Western Electricity Coordinating Council, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Electricity Coordinating Council as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Salt Lake City, Utah  
April 28, 2017

Western Electricity Coordinating Council  
 Statements of Financial Position  
 December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 11,990,480	\$ 22,800,227
Contractually restricted cash and cash equivalents	2,474,872	2,348,903
Certificates of deposit	5,472,117	5,190,388
Investments	441,126	581,249
Accounts receivable, net	10,985,588	1,657,654
Prepaid expenses and other assets	442,177	473,559
Property and equipment, net	820,520	1,202,655
Total assets	\$ 32,626,880	\$ 34,254,635
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 1,618,540	\$ 5,122,182
Accrued expenses	2,553,121	3,475,223
Deferred revenue	15,513,074	15,199,645
Other liabilities	1,095,236	1,222,289
Total liabilities	20,779,971	25,019,339
<b>Net Assets</b>		
Unrestricted	11,846,909	9,235,296
Total liabilities and net assets	\$ 32,626,880	\$ 34,254,635

# Western Electricity Coordinating Council

## Statements of Activities

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Electric Reliability Organization funding	\$ 27,015,838	\$ 25,175,135
Western Renewable Energy Generation Information System (WREGIS)	2,047,826	1,843,241
Meetings and workshops	856,612	1,063,798
	29,920,276	28,082,174
Operating Expenses		
Labor	18,932,945	17,662,811
Office and equipment	2,929,342	2,889,462
Depreciation and amortization	449,943	630,829
Contract labor and consultants	1,996,359	2,325,020
Meetings	2,072,543	1,780,240
Professional services	1,010,110	1,372,954
Excise taxes	59,890	63,290
Other	526	154,878
	27,451,658	26,879,484
Increase in unrestricted net assets from operating activities	2,468,618	1,202,690
Non-Operating Activity		
Net investment income	142,995	57,814
Loss on disposal of equipment	-	(1,828)
	142,995	55,986
Increase in unrestricted net assets	2,611,613	1,258,676
Net Assets, Beginning of Year	9,235,296	7,976,620
Net Assets, End of Year	\$ 11,846,909	\$ 9,235,296

Western Electricity Coordinating Council  
Statements of Cash Flows  
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 2,611,613	\$ 1,258,676
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation and amortization	449,944	630,829
Loss on disposal of equipment	-	1,828
Realized and unrealized loss on operating investments	26,850	67,633
Changes in assets and liabilities		
Accounts receivable	(9,327,934)	2,799,965
Prepaid expenses and other assets	31,382	(22,727)
Accounts payable	(3,503,642)	(16,895,278)
Accrued expenses	(922,102)	(1,796,212)
Deferred revenue	313,429	989,248
Other liabilities	(127,053)	(62,546)
Net Cash used for Operating Activities	(10,447,513)	(13,028,584)
Investing Activities		
Purchases of property and equipment	(67,809)	(260,591)
Purchases of investments and certificates of deposit	(5,479,690)	(5,201,842)
Proceeds from sale of investments and certificates of deposit	5,311,234	5,056,541
Net Cash used for Investing Activities	(236,265)	(405,892)
Net Change in Cash and Cash Equivalents	(10,683,778)	(13,434,476)
Cash and Cash Equivalents at Beginning of Year	25,149,130	38,583,606
Cash and Cash Equivalents at End of Year	\$ 14,465,352	\$ 25,149,130

Cash and Cash Equivalents are presented as follows on the statement of financial position:

Cash and cash equivalents	\$ 11,990,480	\$ 22,800,227
Contractually restricted cash and cash equivalents	2,474,872	2,348,903
	\$ 14,465,352	\$ 25,149,130

## **Note 1 - Summary of Significant Accounting Policies**

### **Organization**

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. The Western Interconnection extends from Canada to Mexico and includes the Canadian provinces of Alberta and British Columbia, the northern part of Baja California in Mexico, and all or part of the 14 Western states in between. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2016 with North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk electric system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to load-serving entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within the Western Interconnection. WECC funds its non-statutory activities through annual and other activity fees.

### **Cash and Cash Equivalents**

Cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less, excluding contractually restricted cash and cash equivalents.

Pursuant to the Delegation Agreement with NERC, contractually restricted cash and cash equivalents as of December 31, 2016 and 2015 were \$2,474,872 and \$2,348,903, respectively.

### **Certificates of Deposit**

Certificates of deposit held by WECC that are not classified as debt securities have original maturities greater than three months. Certificates of deposit are reported at amortized cost.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for statutory funding and other fees receivable. WECC determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2016 and 2015, the allowance was \$22,473 and \$29,082, respectively.

### **Property and Equipment**

WECC records property and equipment additions over \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

WECC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2016 and 2015.

### **Investments**

WECC records investment purchases at cost. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Net Assets**

Net assets and changes therein are classified as unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2016 and 2015, WECC had only unrestricted net assets.

### **Revenue Recognition**

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

### **Measure of Operations**

The accompanying statements of activities present the changes in net assets distinguishing between operating and non-operating activities. Operating activities principally include all revenues and expenses that relate directly to WECC's primary mission, including its statutory and non-statutory activities.

WECC has defined non-operating activities principally to include investment income earned, and gains and losses on investments held for long-term purposes. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of non-operating activities.

## **Income Taxes**

WECC is organized as a Utah non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(4). WECC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, WECC is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. WECC has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

WECC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. WECC would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

## **Estimates**

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

## **Financial Instruments and Credit Risk**

WECC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, WECC has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts NERC has delegated WECC to collect through assessments to LSEs with the Western Interconnection. Investments are made by diversified investment managers whose performance is monitored by management and the Finance and Audit Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance and Audit Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

## **Subsequent Events**

WECC has evaluated subsequent events through April 28, 2017, the date the financial statements were available to be issued.

## **Note 2 - Fair Value Measurements and Disclosures**

WECC reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer

broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk or liquidity profile of the asset or liability.

WECC invests in U.S. Government obligations that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at December 31, 2016:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	\$ 441,126	\$ -	\$ 441,126	\$ -



The following table presents assets measured at fair value on a recurring basis at December 31, 2015:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	\$ 581,249	\$ -	\$ 581,249	\$ -

**Note 3 - Net Investment Return**

Net investment return consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Operating investments		
Interest and dividends	\$ 169,848	\$ 125,447
Net realized and unrealized gain (loss)	(26,853)	(67,633)
	\$ 142,995	\$ 57,814

**Note 4 - Property and Equipment**

Property and equipment consists of the following at December 31, 2016 and 2015:

	2016	2015
Equipment	\$ 916,957	\$ 887,425
Software	1,961,031	1,944,177
Furniture and fixtures	368,011	368,011
Leasehold improvements	1,277,848	1,256,425
	4,523,847	4,456,038
Less accumulated depreciation	(3,703,327)	(3,253,383)
	\$ 820,520	\$ 1,202,655

**Note 5 - Net Assets**

WECC reports information regarding statutory and non-statutory related earnings to the FERC in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2016. As of December 31, 2016 and 2015, the breakdown of such earnings included in unrestricted net assets consisted of the following:

	2016	2015
Non-statutory earnings	\$ 5,776,091	\$ 5,115,510
Statutory earnings	6,070,818	4,119,786
	\$ 11,846,909	\$ 9,235,296

**Note 6 - Leases**

WECC leases office space and equipment under various operating leases expiring at various dates through 2021. Future minimum lease payments are as follows:

Years Ending December 31,	
2017	\$ 1,173,005
2018	1,199,392
2019	1,196,348
2020	407,748
2021	855
Total minimum lease payments	\$ 3,977,348

Rent expense for the years ended December 31, 2016 and 2015 totaled \$942,563 and \$923,785, respectively.

**Note 7 - Functional Allocation of Expenses**

The costs of programs and supporting services have been summarized on a functional basis. WECC's expenses are classified as Statutory Expenses or Non-statutory Expenses as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

Total operating expenses by function were as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Program Services		
Statutory services	\$ 18,676,027	\$ 17,759,849
Non-statutory services	1,059,266	972,017
	19,735,293	18,731,866
Support Services		
Management and general	7,716,365	8,147,618
	\$ 27,451,658	\$ 26,879,484

#### **Note 8 - Employee Benefits**

WECC sponsors a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying statement of activities was \$1,250,216 and \$1,146,977 for the years ended December 31, 2016 and 2015, respectively.

In 2006, WECC adopted a 457(b) deferred compensation plan to provide certain employees of WECC with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2016 and 2015 was \$18,000. This plan is entirely funded by employee salary deferrals.

#### **Note 9 - Commitments and Contingencies**

On May 26, 2015, Staff of the Office of Enforcement (Enforcement) of FERC, NERC, WECC, and Peak Reliability entered into a Stipulation and Consent Agreement (Agreement), Docket No. IN14-11-000, to resolve a non-public investigation conducted by Enforcement and NERC pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined possible violations of NERC Reliability Standards by WECC as the Reliability Coordinator (WECC RC) for the Western interconnection related to a system event in the Pacific Southwest on September 8, 2011 (September 8 event). WECC neither admits nor denies that WECC RC violated Reliability Standards described in the Agreement, but agreed to pay a total civil penalty of \$16 million, of which \$3 million is to be paid to the United States Treasury and NERC, divided in equal amounts over a three-year period. Enforcement and NERC agreed to give WECC a partial civil penalty offset for the remaining \$13 million in exchange for WECC and Peak implementing Reliability Enhancement measures as set forth in the Agreement. The value of the Reliability Enhancements actually incurred is expected to substantially exceed the amount of the credited offset. Peak did not exist as a separate entity at the time of the September 8 event, but is a party to the Agreement as the successor to WECC as the Reliability Coordinator for the Western Interconnection. WECC and Peak also committed to certain measures, subject to compliance monitoring, as detailed in the Agreement. As of December 31, 2016, WECC had paid \$2 million of the penalty and accrued the remaining reasonable estimate of expected penalties totaling \$1 million.

WECC is a defendant in certain other legal matters. WECC is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on WECC's financial position, changes in net assets or cash flows.

**ATTACHMENT 10**

**METRICS CONCERNING ADMINISTRATIVE COSTS IN  
2016 NERC AND REGIONAL ENTITY  
BUDGETS AND ACTUAL COSTS**

**Analysis of Indirect (Administrative Services) Costs  
2016 Actual versus 2016 Budget**

2016 ACTUAL					2016 BUDGET					
Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect		Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
\$ 66,543,126	\$ 37,449,580	\$ 29,093,546	43.7%	\$ 1.29	NERC	\$ 67,186,665	\$ 36,744,230	\$ 30,442,435	45.3%	\$ 1.21
6,453,193	5,509,078	944,115	14.6%	5.84	FRCC	7,261,527	6,388,331	873,196	12.0%	7.32
10,650,663	6,201,263	4,449,400	41.8%	1.39	MRO	11,354,641	6,825,231	4,529,410	39.9%	1.51
13,646,717	9,183,045	4,463,672	32.7%	2.06	NPCC	15,072,998	9,620,222	5,452,776	36.2%	1.76
18,606,041	13,034,910	5,571,131	29.9%	2.34	RF	19,367,210	13,835,158	5,532,052	28.6%	2.50
16,675,221	8,404,010	8,271,211	49.6%	1.02	SERC	16,350,325	9,163,091	7,187,234	44.0%	1.27
9,582,865	4,533,836	5,049,029	52.7%	0.90	SPP RE	10,095,819	5,464,121	4,631,698	45.9%	1.18
10,967,245	6,824,774	4,142,471	37.8%	1.65	Texas RE	11,782,215	7,557,810	4,224,405	35.9%	1.79
25,647,505	16,640,971	9,006,534	35.1%	1.85	WECC	28,083,548	17,761,805	10,321,743	36.8%	1.72
<b>\$ 178,772,575</b>	<b>\$ 107,781,466</b>	<b>\$ 70,991,109</b>	<b>39.7%</b>	<b>\$ 1.52</b>	<b>TOTAL/AVERAGE</b>	<b>\$ 186,554,948</b>	<b>\$ 113,359,999</b>	<b>\$ 73,194,949</b>	<b>39.2%</b>	<b>\$ 1.55</b>

2016 ACTUAL FTEs					2016 BUDGETED FTEs					
Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs		Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
192.66	121.94	70.72	36.7%	1.72	NERC	192.48	121.25	71.23	37.0%	1.70
30.68	26.13	4.55	14.8%	5.74	FRCC	30.59	26.12	4.47	14.6%	5.84
41.56	30.71	10.85	26.1%	2.83	MRO	43.00	32.51	10.49	24.4%	3.10
36.61	28.61	8.00	21.9%	3.58	NPCC	36.86	27.86	9.00	24.4%	3.10
71.27	56.53	14.74	20.7%	3.84	RF	72.20	57.60	14.60	20.2%	3.95
65.00	41.80	23.20	35.7%	1.80	SERC	78.12	51.13	26.99	34.5%	1.89
28.76	24.64	4.12	14.3%	5.98	SPP RE	32.25	27.75	4.50	14.0%	6.17
57.40	43.65	13.75	24.0%	3.17	Texas RE	60.00	46.25	13.75	22.9%	3.36
131.20	90.30	40.90	31.2%	2.21	WECC	140.50	94.10	46.40	33.0%	2.03
<b>655.13</b>	<b>464.30</b>	<b>190.83</b>	<b>29.1%</b>	<b>2.43</b>	<b>AVERAGE</b>	<b>686.00</b>	<b>484.57</b>	<b>201.43</b>	<b>29.4%</b>	<b>2.41</b>

2016 ACTUAL SPEND per FTE					2016 BUDGETED SPEND per FTE				
Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE		Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	
\$ 345,391	\$ 307,115	\$ 411,391	\$ 151,010	NERC	\$ 349,067	\$ 303,058	\$ 427,382	\$ 158,163	
210,366	210,866	207,498	30,777	FRCC	237,382	244,576	195,346	28,545	
256,272	201,930	410,083	107,060	MRO	264,061	209,943	431,784	105,335	
372,759	320,973	557,959	121,925	NPCC	408,926	345,306	605,864	147,932	
261,064	230,584	377,960	78,169	RF	268,244	240,194	378,908	76,621	
256,542	201,053	356,518	127,249	SERC	209,298	179,212	266,292	92,002	
333,259	184,040	1,225,492	175,588	SPP RE	313,049	196,905	1,029,266	143,619	
191,067	156,352	301,271	72,168	Texas RE	196,370	163,412	307,229	70,407	
195,484	184,285	220,209	68,647	WECC	199,883	188,755	222,451	73,464	
<b>\$ 272,881</b>	<b>\$ 232,137</b>	<b>\$ 372,012</b>	<b>\$ 108,362</b>	<b>AVERAGE</b>	<b>\$ 271,948</b>	<b>\$ 233,942</b>	<b>\$ 363,377</b>	<b>\$ 106,699</b>	

Analysis of Administrative (Indirect) Costs  
2014, 2015 and 2016 Actual

	2014 ACTUAL SPEND					2015 ACTUAL SPEND					2016 ACTUAL SPEND				
	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 54,691,400	\$ 29,363,275	\$ 25,328,125	46.3%	\$ 1.16	\$ 64,947,005	\$ 36,493,510	\$ 28,453,494	43.8%	\$ 1.28	\$ 66,543,126	\$ 37,449,580	\$ 29,093,546	43.7%	\$ 1.29
FRCC	6,000,323	5,392,738	607,585	10.1%	8.88	6,678,049	5,915,982	762,067	11.4%	7.76	6,453,193	5,509,078	944,115	14.6%	5.84
MRO	9,614,099	5,738,225	3,875,874	40.3%	1.48	9,834,552	5,902,604	3,931,948	40.0%	1.50	10,650,663	6,201,263	4,449,400	41.8%	1.39
NPCC	14,603,378	9,318,451	5,284,927	36.2%	1.76	13,322,350	8,268,245	5,054,105	37.9%	1.64	13,646,717	9,183,045	4,463,672	32.7%	2.06
RFC	19,662,681	12,169,645	7,493,036	38.1%	1.62	17,623,307	12,185,655	5,437,652	30.9%	2.24	18,606,041	13,034,910	5,571,131	29.9%	2.34
SERC	15,543,014	8,558,961	6,984,053	44.9%	1.23	16,012,666	8,018,781	7,993,885	49.9%	1.00	16,675,221	8,404,010	8,271,211	49.6%	1.02
SPP RE	9,818,192	4,681,698	5,136,494	52.3%	0.91	10,085,689	4,626,032	5,459,657	54.1%	0.85	9,582,865	4,533,836	5,049,029	52.7%	0.90
Texas RE	9,831,713	6,185,472	3,646,241	37.1%	1.70	11,130,083	6,345,141	4,784,942	43.0%	1.33	10,967,245	6,824,774	4,142,471	37.8%	1.65
WECC	25,438,046	16,428,769	9,009,277	35.4%	1.82	25,173,376	15,653,152	9,520,224	37.8%	1.64	25,647,505	16,640,971	9,006,534	35.1%	1.85
<b>TOTAL/Average</b>	<b>\$ 165,202,846</b>	<b>\$ 97,837,234</b>	<b>\$ 67,365,612</b>	<b>40.8%</b>	<b>\$ 1.45</b>	<b>\$ 174,807,077</b>	<b>\$ 103,409,102</b>	<b>\$ 71,397,974</b>	<b>40.8%</b>	<b>\$ 1.45</b>	<b>\$ 178,772,575</b>	<b>\$ 107,781,466</b>	<b>\$ 70,991,109</b>	<b>39.7%</b>	<b>\$ 1.52</b>

3-Year Average 40.4% \$ 1.47

	2014 ACTUAL FTEs					2015 ACTUAL FTEs					2016 ACTUAL FTEs				
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	177.31	111.31	66.00	37.2%	1.69	192.97	119.38	73.59	38.1%	1.62	192.66	121.94	70.72	36.7%	1.72
FRCC	25.59	22.44	3.15	12.3%	7.12	27.81	23.89	3.92	14.1%	6.09	30.68	26.13	4.55	14.8%	5.74
MRO	39.59	28.94	10.65	26.9%	2.72	40.39	30.30	10.09	25.0%	3.00	41.56	30.71	10.85	26.1%	2.83
NPCC	36.28	27.28	9.00	24.8%	3.03	36.66	27.74	8.92	24.3%	3.11	36.61	28.61	8.00	21.9%	3.58
RFC	69.23	55.48	13.75	19.9%	4.03	67.60	54.04	13.56	20.1%	3.99	71.27	56.53	14.74	20.7%	3.84
SERC	67.38	45.77	21.61	32.1%	2.12	65.90	42.00	23.90	36.3%	1.76	65.00	41.80	23.20	35.7%	1.80
SPP RE	29.41	24.91	4.50	15.3%	5.54	30.09	25.59	4.50	15.0%	5.69	28.76	24.64	4.12	14.3%	5.98
Texas RE	52.00	40.50	11.50	22.1%	3.52	55.00	41.25	13.75	25.0%	3.00	57.40	43.65	13.75	24.0%	3.17
WECC	117.80	79.30	38.50	32.7%	2.06	125.00	82.80	42.20	33.8%	1.96	131.20	90.30	40.90	31.2%	2.21
<b>TOTAL/Average</b>	<b>614.59</b>	<b>435.93</b>	<b>178.66</b>	<b>29.1%</b>	<b>2.44</b>	<b>641.42</b>	<b>446.99</b>	<b>194.43</b>	<b>30.3%</b>	<b>2.30</b>	<b>655.13</b>	<b>464.30</b>	<b>190.83</b>	<b>29.1%</b>	<b>2.43</b>

3-Year Average 29.5% 2.39

	2014 ACTUAL SPEND per FTE				2015 ACTUAL SPEND per FTE				2016 ACTUAL SPEND per FTE			
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 308,451	\$ 263,797	\$ 383,759	\$ 142,847	\$ 336,565	\$ 305,692	\$ 386,649	\$ 147,450	\$ 345,391	\$ 307,115	\$ 411,391	\$ 151,010
FRCC	234,479	240,318	192,884	23,743	240,131	247,634	194,405	27,403	210,366	210,866	207,498	30,777
MRO	242,842	198,280	363,932	97,900	243,490	194,805	389,688	97,350	256,272	201,930	410,083	107,060
NPCC	402,519	341,585	587,214	145,671	363,403	298,062	566,604	137,864	372,759	320,973	557,959	121,925
RFC	284,020	219,352	544,948	108,234	260,700	225,493	401,007	80,439	261,064	230,584	377,960	78,169
SERC	230,677	186,999	323,186	103,652	242,984	190,923	334,472	121,303	256,542	201,053	356,518	127,249
SPP RE	333,839	187,945	1,141,443	174,651	335,240	180,810	1,213,257	181,474	333,259	184,040	1,225,492	175,588
Texas RE	189,071	152,728	317,064	70,120	202,365	153,822	347,996	86,999	191,067	156,352	301,271	72,168
WECC	215,943	207,172	234,007	76,479	201,387	189,048	225,598	76,162	195,484	184,285	220,209	68,647
<b>TOTAL/Average</b>	<b>\$ 268,802</b>	<b>\$ 224,433</b>	<b>\$ 377,060</b>	<b>\$ 109,611</b>	<b>\$ 272,534</b>	<b>\$ 231,348</b>	<b>\$ 367,217</b>	<b>\$ 111,313</b>	<b>\$ 272,881</b>	<b>\$ 232,137</b>	<b>\$ 372,012</b>	<b>\$ 108,362</b>

3-Year Average \$ 271,405 \$ 229,306 \$ 372,097 \$ 109,762