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June 1, 2020

VIA ELECTRONIC FILING

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

**Re: North American Electric Reliability Corporation
Docket No. RR21-_-000
Report of Comparisons of Budgeted to Actual Costs for 2020
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 2020 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 8. The Table of Contents to the narrative text list the 8 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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I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2020 for NERC and the six Regional Entities.¹ The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.² In subsequent orders, the Commission has clarified and modified the information to be included in the annual actual-to-budgeted cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2020, 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, 2020.
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2020 budgets and actual results.

This filing includes the following attachments:

Attachment 1: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 3: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

¹ Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council, Inc. (“NPCC”), ReliabilityFirst Corporation (“ReliabilityFirst”), SERC Reliability Corporation (“SERC”), Texas Reliability Entity, Inc. (“Texas RE”), and Western Electricity Coordinating Council (“WECC”).

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

Attachment 4: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 5: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 6: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 7: 2020 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 8: Metrics Concerning Administrative Costs in 2020 NERC and Regional Entity Budgets and Actual Costs

II. NOTICES AND COMMUNICATIONS

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

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III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2020 – NERC AND REGIONAL ENTITIES

As noted above, in the *2008 ERO Budget Order*, the Commission directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, “in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those

deviations.”³ In its June 19, 2008 Order addressing NERC’s April 1, 2008 compliance filing to the *2008 ERO Budget Order*, the Commission provided additional direction concerning the presentation of the annual filings comparing NERC’s and the Regional Entities’ actual to budgeted expenditures:

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

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

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:

³ *2008 ERO Budget Order* at P 23.

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

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 2020 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 7**, as follows:

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2020, as prepared by its independent public accounting firm.

The comparisons provided in **Attachments 1 through 7** 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, total Expenses, and Fixed Asset Additions 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 2020 budget, 2020 actual amounts, and the variance, for major line-item categories of Funding, Expenses, and Fixed Asset Additions.
- For those entities that engaged in both statutory and non-statutory activities in 2020, the comparisons include separate summary tables for statutory programs and non-statutory activities (or for statutory and non-statutory programs combined), prepared using the NERC-supplied template, showing the entity's 2020 budget, 2020 actual amounts, and the variance, for major line-item categories of Funding, Expenses and

Fixed Asset Additions.⁵

- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2020 budget, 2020 actual amounts, and the variance, for major line-item categories of Funding, Expenses, and Fixed Asset Additions, for each of the statutory programs⁶ (direct costs) and for the administrative functions⁷ (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, on the immediately following page(s). Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than \$10,000 over or under the budgeted amount.

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2020 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2020); (ii) the impact of the entity's 2020 results on its reserves for statutory programs (*e.g.*, whether reserves needed to be used to fund expenditures during 2020)⁸; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable, how costs were allocated between statutory programs and non-statutory activities in 2020.

NERC has provided additional information in its 2020 report in **Attachment 1**, including: (1) actual cost to budget variances for Consultants and Contracts expense, by

⁵ NPCC, Texas RE and WECC had non-statutory activities in 2020 and each has provided information for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, and SERC did not have non-statutory activities in 2020.

⁶ Statutory programs encompass Reliability Standards, Compliance Operations and Enforcement, Reliability Assessment and Performance (or System) Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection). Some of the entities have reported budgeted and actual cost amounts and variances for departments or sub-groups within these programs.

⁷ The administrative functions are Technical Committees and Member Forums (not used by all entities), General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting. Some of the Regional Entities report budget and actual expenditure information for some or all of the overhead functions on a combined basis, in particular to protect the confidentiality of compensation information for departments that have a limited number of staff members.

⁸ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" for the 2020 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 2020; a negative "Change in Working Capital" means the entity's total actual funding was less than its total actual expenditures for the year.

department, (2) analysis of the sources of changes in its Operating Reserves for 2020, and (3) actual cost to budget variances for Financing Activity. The table on page 5 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2020 by NERC program area, and is accompanied by a discussion of the principal reasons for actual cost-to-budget variances for Consultants and Contracts expense in the program areas. The analysis of changes in Operating Reserves is provided on page 12 of **Attachment 1**, including a table which shows the changes in each category of Operating Reserves due to 2020 budgeted operations and approved uses of reserves. The Statements of Activities in **Attachment 1** show budget, actual and variance amounts for Financing Activity and explanations are provided for significant variances. In addition, on page 9 of **Attachment 1**, NERC has provided an actual cost-to budget comparison for 2020 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).

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 the indirect cost functions contain specific explanations of significant variances on a line-item or expense category basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2020 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/or Regional Entities in 2020, as identified by NERC's review of the comparisons.

- All entities⁹ were impacted by the global Covid-19 pandemic, commencing in March 2020 and continuing through the end of the year, particularly with respect to Meetings

⁹ The term "entities" used herein includes both NERC and Regional Entities.

and Travel expenses. The pandemic resulted in the cancellation of all or virtually all travel and in-person meetings from March through December, and many staff members worked remotely rather than in their entity's offices. As a result, Meetings and Travel expenses for all entities were well below budget.

- Due to the pandemic, resulting in many staff members working remotely, some entities' Office Costs were below budget due to reduced needs for office supplies and office maintenance. Other entities' Office Costs, and in some cases Computer and Software CapEx, were over budget due to unplanned purchases of hardware, software, and supplies for use by staff members to facilitate working from home or in other remote environments.
- Some entities were under budget in Workshop and Seminar attendance fees, due to the cancellation of scheduled in-person workshops, seminars, and other meetings. (Generally, entities charge attendance fees for workshops and seminars to cover the costs for the meeting space and other out-of-pocket meeting costs, if held at locations other than the entity's office.)
- Correspondingly, entities incurred lower Meetings expenses than budgeted due to the cancellation of in-person workshops, seminars, board or trustee meetings, and meetings of members, particularly the cancellation of meetings and other events that were to be held at locations other than the entity's offices. (Entities were able to hold some scheduled meetings, workshops or other events virtually.) However, in some cases cancellations of meetings and other events scheduled to be held at third-party facilities resulted in cancellation charges being incurred.
- Several entities experienced over-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 able to maintain staffing at fuller levels than reflected in the labor vacancy or float rates assumed in their budgets.¹⁰ Additionally, some entities added unbudgeted staff during 2020 to meet specific emergent needs. Other entities experienced under-budget variances in Salary Expense and related Personnel Expenses 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.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced higher (or lower) than budgeted Employee Benefits expenses and Retirement costs due to decisions by employees to participate (or not to

¹⁰ In developing their annual budgets, NERC and some of the Regional Entities attempt to address the "vacant position" variance issue by including an "attrition factor," "vacancy factor" or "labor float factor" in 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.

participate) in the entity's benefits programs, or due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget. Employee Benefits expense was also lower than budgeted for some entities due to employees not utilizing educational or training program benefits to the extent assumed in the budget; or due to lower than budgeted relocation expenses (budgeted in Employee Benefits) being incurred in connection with hiring new employees.

- In order to address unfilled positions or changing resource needs in particular program areas, some entities transferred one or more employees (either fully or as a proportional allocation of the employee's time) from one program area to another during 2020. Such employee transfers or reallocations of employee time resulted in actual cost-to-budget variances in Personnel Expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- Some entities were able to spend less on Consultants and Contracts than budgeted as a result of having work that was budgeted to be performed by contractors and consultants handled by internal staff of the entity. As entities have increased their staffing and expertise over time, thereby increasing in-house capabilities, entities have seen less need to use outside services. 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. Further, as noted above, some entities were able to maintain full staffing levels (compared to their budgeted vacancy rates) for part or all of the year, thereby enabling internal staff to perform tasks that may have been budgeted for consultants or contractors.
- Some entities experienced lower than budgeted Consultants and Contracts expense or Professional Services expense because projects for which use of consultants, contractors, or outside professional services was planned were cancelled or deferred due to the pandemic, including as a cost-saving measure given the uncertain economic conditions during the pandemic, or delayed for other reasons. Other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration of projects requiring consultant or contractor assistance, the need to conduct unplanned, emergent projects requiring consultant or contractor assistance, or the completion of projects in 2020 that had been anticipated to be completed in 2019.
- Another cause of over-budget Consultants and Contracts or Professional Services expense for some entities was the need to employ a search firm (or make greater use of search firms than budgeted) to assist in locating candidates to fill vacant positions, including unexpected vacancies in senior management positions or in the entity's board of trustees or directors.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in another program area or areas responsible for incurring, or benefitting from, the cost.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2020 budget were either (i) completed, or at least initiated, in late 2019, (ii) not carried out in 2020 (*e.g.*,

delayed/deferred to 2021 or later), or (iii) initiated later in 2020 than assumed in the budget and therefore not completed in 2020. This resulted in reduced actual IT costs, Fixed Assets Additions, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2019 were not fully completed in 2019, resulting in unbudgeted or over-budget expenditures in 2020.

- Some entities budgeted certain expenditures as expenses, but then determined that the expenditure(s) needed to be capitalized, based on the entity's capitalization policy or the capitalization requirements of GAAP. In other instances, the reverse occurred.
- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due either to (i) higher or lower total Indirect Expenses for an entity 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 realized higher (or lower) funding from Interest or Investment Income than budgeted due to higher-than-projected (or lower-than-projected) interests rates or returns earned on cash balances or investments.

In addition to the above-described causes of actual-to-budget variances, NERC and the Regional Entities experienced other above- or below-budget variances in individual line items for actual Funding, Expenses and Fixed Asset Additions (and for NERC, in Financing Activity) due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1 through 7**.

NERC and the six Regional Entities are taking the actual cost-to-budget comparisons for 2020, as well as year-to-date actual cost-to-budget experience for 2021, into account in developing their business plans and budgets for 2022, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2021.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2020 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to

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

Attachment 8 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2020 budgets and 2020 actual costs. In addition, **Attachment 8** provides a comparison of these metrics values for 2018, 2019 and 2020 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 8**). (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 8**).
- 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 8**).

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 2019.

V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission’s

requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2020.

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ATTACHMENT 1

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

North American Electric Reliability Corporation 2020 Audited Results - Actual to Budget Variance Analysis

For the year ending December 31, 2020, NERC was \$605k (0.7%) under budget for total funding and was \$4.2M (5.1%) under budget for total expenses, fixed asset additions, and net financing activity, inclusive of expenses associated with the Cybersecurity Risk Information Sharing Program (CRISP).

In 2020, NERC was faced with the challenge of (1) funding an unbudgeted expenditure of \$3.8M to develop the ERO Secure Evidence Locker (SEL)¹ and (2) achieving a minimal increase to the 2021 budget to provide relief to industry during the uncertainty of the pandemic despite the significant cost pressures in 2021 for ERO SEL annual support costs and additional development costs for Align. NERC was able to address these challenges in 2020 through cost savings in other areas. These cost savings efforts allowed NERC to increase its Operating Contingency Reserve and cash fund 2020 Align development costs originally budgeted to be financed and cash fund a portion (\$1.8M)² of the initial \$3.8M investment for the ERO SEL while financing the remaining \$2.0M.

The cost savings efforts in 2020 included (1) deferring hiring for open positions; (2) reduced spending on meeting and travel expenses (as a result of pandemic conditions); and (3) narrowing the scope of or deferring, but not eliminating, consulting, contract, and professional services resources and certain system enhancements. These cost savings efforts were, therefore, the primary driver for the under budget variances in these areas as shown in the actual to budget variance analyses below.

Another actual to budget variance was related to the financing activity proceeds allocation, which was collectively \$166k (100.0%) higher than budgeted for all of the program areas for laptop leases. Laptop lease financing proceeds were not included in the 2020 budget. Also, the financing activity principal payments allocation was \$350k (39.1%) lower than budgeted due to certain capital lease costs that were budgeted as principal payments but were charged to Office Costs for proper accounting treatment.

¹ The ERO SEL was developed to complement the Align tool, which manages all ERO Enterprise-developed work products used in Compliance Monitoring and Enforcement Program (CMEP) activities. The ERO SEL addresses stakeholder concerns regarding evidence collection, supporting the transfer, management, retention, and destruction of sensitive registered entity files used in CMEP activities.

² FERC accepted NERC's petition to expend funds from the Operating Contingency Reserve in 2020 on the capital investment for the ERO SEL in its [Order](#) on June 22, 2020 in Docket No. RR19-8-001.

Actual vs Budget – Including CRISP

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING^A	\$ 81,401,919	\$ 82,006,951	\$ (605,032)	(0.7%)
EXPENDITURES				
Personnel	\$ 44,941,875	\$ 46,598,160	\$ (1,656,285)	(3.6%)
Meetings and Travel	1,087,997	3,323,250	(2,235,253)	(67.3%)
Consultants and Contracts	11,751,668	12,435,902	(684,234)	(5.5%)
Office Rent	3,650,315	3,450,468	199,847	5.8%
Office Costs, Professional, and Misc. ^B	11,391,247	11,696,724	(305,476)	(2.6%)
Other Non-Operating	(350,487)	306,623	(657,110)	(214.3%)
Fixed Asset Additions ^B	6,903,028	4,706,349	2,196,679	46.7%
Net Financing Activity ^C	(909,653)	139,558	(1,049,211)	(751.8%)
TOTAL EXPENDITURES	\$ 78,465,990	\$ 82,657,034	\$ (4,191,044)	(5.1%)
RESERVE INCREASE (DECREASE)	\$ 2,935,929	\$ (650,083)	\$ 3,586,012	(551.6%)
FTEs	202.2	213.4	(11.2)	(5.2%)

A - Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments.

B - Excludes depreciation expense.

C - A positive amount indicates that NERC is paying off more principal than it is receiving in loan proceeds. A negative amount indicates that NERC is receiving more in loan proceeds than it is paying off principal.

Actual vs Budget – Excluding CRISP

	YTD Actual	YTD Budget	\$ Over (Under)	% Over (Under)
TOTAL FUNDING^A	\$ 73,010,724	\$ 73,210,796	\$ (200,072)	(0.3%)
EXPENDITURES				
Personnel	\$ 44,276,026	\$ 45,970,424	\$ (1,694,398)	(3.7%)
Meetings and Travel	1,070,602	3,274,050	(2,203,448)	(67.3%)
Consultants and Contracts	6,017,931	5,758,402	259,529	4.5%
Office Rent	3,650,315	3,450,468	199,847	5.8%
Office Costs, Professional, and Misc. ^B	11,140,821	11,084,759	56,062	0.5%
Other Non-Operating	(340,020)	306,623	(646,643)	(210.9%)
Fixed Asset Additions ^B	6,838,108	4,568,850	2,269,258	49.7%
Net Financing Activity ^C	(909,653)	139,558	(1,049,211)	(751.8%)
TOTAL EXPENDITURES	\$ 71,744,130	\$ 74,553,134	\$ (2,809,004)	(3.8%)
RESERVE INCREASE (DECREASE)	\$ 1,266,595	\$ (1,342,338)	\$ 2,608,932	(194.4%)
FTEs	199.3	210.6	(11.2)	(5.3%)

A - Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments.

B - Excludes depreciation expense.

C - A positive amount indicates that NERC is paying off more principal than it is receiving in loan proceeds. A negative amount indicates that NERC is receiving more in loan proceeds than it is paying off principal.

Summary of Variances by Major Categories (including CRISP)

- Funding was under budget \$605k (0.7%) primarily attributable to \$289k lower than budget investment income (from lower interest rates) and \$387k lower than budget third-party revenues for the CRISP program.
- Personnel expenses were under budget by \$1.7M (3.6%).
Under appropriate accounting guidance, certain labor costs that were budgeted as expenses were capitalized and reflected as costs associated with applicable software/tool projects. For 2020, \$970k was capitalized toward these projects and reflected in fixed asset additions. Before recognizing the capitalization of labor costs, the personnel expense category was under budget \$685k (1.5%) largely because of deferred hiring of open positions and certain E-ISAC positions that were budgeted as FTEs but filled with contract labor. These amounts were partially offset by higher expenses in several departments because of lower attrition and transition costs and also because of gains in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Other Non-Operating expenses creating a net \$0 budget impact
- Meetings and Travel expenses were collectively under budget \$2.2M (67.3%). Meeting and conference call expenses were under budget \$420k (37.8%) and travel \$1.8M (82.1%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- Contracts and Consultants expenses were under budget \$684k (5.5%). See below for a brief description of the variances by department.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	\$ Over (Under)	% Over (Under)
Reliability Standards and Risk Issue Management	\$ 180,180	\$ 40,320	\$ 139,860	346.9%
Compliance Assurance	116,489	50,000	66,489	133.0%
Organization Registration and Certification	38,964	40,320	(1,356)	(3.4%)
Compliance Enforcement	116,489	-	116,489	100.0%
Power System Analysis	-	63,000	(63,000)	(100.0%)
Reliability Assessment and Technical Committees	88,264	365,320	(277,056)	(75.8%)
Advanced System Analytics and Modeling	110,000	175,000	(65,000)	(37.1%)
Performance Analysis	164,116	149,250	14,866	10.0%
Situation Awareness	(104,132)	-	(104,132)	(100.0%)
Event Analysis	84,046	10,000	74,046	740.5%
E-ISAC	2,374,590	1,412,500	962,090	68.1%
Training, Education and Personnel Certification	324,775	392,000	(67,225)	(17.1%)
General and Administrative and Executive	(51,566)	-	(51,566)	(100.0%)
Legal and Regulatory	169,728	300,000	(130,272)	(43.4%)
External Affairs	111,140	20,000	91,140	455.7%
Information Technology	1,424,421	1,805,692	(381,271)	(21.1%)
Human Resources and Administration	794,774	760,000	34,774	4.6%
Finance and Accounting	75,651	175,000	(99,349)	(56.8%)
TOTAL (excluding CRISP)	\$ 6,017,931	\$ 5,758,402	\$ 259,529	4.5%
CRISP	5,733,737	6,677,500	(943,763)	(14.1%)
TOTAL (including CRISP)	\$ 11,751,668	\$ 12,435,902	\$ (684,234)	(5.5%)

- Reliability Standards and Risk Issue Management was over budget mostly due to unbudgeted needs for technical analysis support/knowledge transfer and Standards administrative support.
- Compliance Assurance was over budget because of training costs on the Align project that were budgeted in fixed assets but recorded in contracts and consultants.
- Compliance Enforcement was over budget as a result of training costs on the Align project that were budgeted in fixed assets but recorded in contracts and consultants.
- Power System Analysis was under budget because a contractor budgeted for knowledge transfer/training related to a resources subcommittee was deferred, for cost savings purposes.
- Reliability Assessment and Technical Committees was under budget due to the deferral of environmental regulatory analysis related support, for cost savings purposes.
- Advanced System Analytics and Modeling was under budget because of the deferral of probabilistic analysis support, for cost savings purposes.
- Situation Awareness was under budget due to the reversal of a possible payment for Situation Awareness for FERC, NERC, and the Regions (SAFNR) v2 that had been accrued in 2019 and was reversed in 2020 when it was determined that it was not due.

- Event Analysis was over budget primarily due to an unbudgeted contractor working on The Event Analysis Management System (TEAMS).
 - E-ISAC was over budget primarily because of costs for watch officer FTE positions being filled with contract labor instead.
 - Training, Education and Personnel Certification was under budget primarily due to less support needed for the System Operator Certification and Continuing Education (SOCCED) system.
 - General and Administrative and Executive was under budget as a result of a tenant improvement allowance reimbursement from the 2019 Atlanta office renovations.
 - Legal and Regulatory was under budget primarily attributable to a reduced need for internal audit support.
 - External Affairs was over budget due to a contractor that was used in lieu of an FTE for regional and stakeholder relations.
 - Information Technology was under budget largely as a result of underspend in application and infrastructure support, for cost savings purposes.
 - Finance and Accounting was under budget due to underspend for process documentation support, for cost savings purposes.
- Office Rent expense was over budget \$200k (5.8%) largely as a result of the difference between the manner in which rent costs and the use of deferred rent reserves are budgeted for assessment determination versus audited financial statement reporting under generally accepted accounting principles (GAAP).
 - Office Costs, Professional Services, and Miscellaneous expenses were collectively \$305k (2.6%) under budget. Office costs were \$178k (2.0%) over budget because of higher than budgeted software license and support costs. Professional services were \$450k (17.9%) under budget primarily as a result of lower than anticipated spending on government relations, legal fees, and timing of Board of Trustee retirements and replacements.
 - Other Non-Operating expenses were under budget \$657k (214.3%) because of gains in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Personnel expenses creating a net \$0 budget impact, as well as the elimination of excise taxes due to recent tax law changes, and lower interest expense because of borrowings that did not occur in 2019.
 - Fixed Asset Purchases (excluding depreciation) were over budget \$2.2M (4.8%) mainly because of the unbudgeted capital investment costs of the Secure Evidence Locker project, partially offset by the deferral of hardware and software expenses for cost savings purposes, as well as the postponement of Atlanta office renovation costs.

- Net Financing Activity in the 2020 budget anticipated that NERC would make principal payments beginning in early 2020 on borrowings for ERO projects, but because borrowings for ERO projects were not made until December 2020, actual payments are lower than budget. Additionally, budgeted borrowings for certain audio video equipment purchases were not made, which eliminated the budgeted payments, and also certain software license and maintenance costs on leased equipment were budgeted as lease payments but were more appropriately charged to Office Costs.

Summary of Variances by Program

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD Actual	YTD Budget	\$	%
			Over (Under)	Over (Under)
Reliability Standards and Risk Issue Management	\$ 3,599,129	\$ 3,918,311	\$ (319,182)	(8.1%)
Compliance Assurance	6,846,090	5,156,756	1,689,334	32.8%
Organization Registration and Certification	1,204,326	1,354,660	(150,334)	(11.1%)
Compliance Enforcement	4,665,240	3,279,697	1,385,543	42.2%
Power System Analysis	1,183,251	1,705,525	(522,273)	(30.6%)
Reliability Assessment and Technical Committees	1,910,391	2,199,387	(288,995)	(13.1%)
Advanced System Analytics and Modeling	1,165,725	1,392,641	(226,917)	(16.3%)
Performance Analysis	1,703,749	2,055,961	(352,211)	(17.1%)
Situation Awareness	2,374,133	2,942,190	(568,057)	(19.3%)
Event Analysis	2,683,884	2,426,341	257,543	10.6%
E-ISAC	12,054,519	12,370,912	(316,393)	(2.6%)
Training, Education and Personnel Certification	1,371,929	1,599,516	(227,587)	(14.2%)
General and Administrative and Executive	7,569,160	8,580,315	(1,011,155)	(11.8%)
Legal and Regulatory	3,896,902	4,588,376	(691,473)	(15.1%)
External Affairs	2,695,350	3,003,778	(308,428)	(10.3%)
Information Technology	11,718,424	12,830,975	(1,112,550)	(8.7%)
Human Resources and Administration	2,794,575	2,724,553	70,022	2.6%
Finance and Accounting	2,307,350	2,423,239	(115,889)	(4.8%)
TOTAL (excluding CRISP)	\$ 71,744,130	\$ 74,553,134	\$ (2,809,004)	(3.8%)
CRISP	6,721,860	8,103,900	(1,382,040)	(17.1%)
TOTAL (including CRISP)	\$ 78,465,990	\$ 82,657,034	\$ (4,191,044)	(5.1%)

- Reliability Standards and Risk Issue Management – Under budget mainly because of lower than budget personnel and meeting and travel costs.
- Compliance Assurance – Over budget primarily due to higher personnel expenses and unbudgeted costs for the Secure Evidence Locker, which were partially offset by lower meeting and travel costs.
- Organization Registration and Certification – Under budget due to personnel expenses and fixed asset additions.
- Compliance Enforcement – Over budget primarily due to Secure Evidence Locker Costs, which were partially offset by lower personnel costs.

- Power System Analysis – Under budget largely attributable to lower than budget personnel and travel costs.
- Reliability Assessment and Technical Committees – Under budget because of lower than budget meeting and travel costs and also the deferral of environmental regulatory analysis related support, for cost savings purposes.
- Advanced System Analytics and Modeling – Under budget because of lower than budget meeting and travel costs and also the deferral of probabilistic analysis support, for cost savings purposes.
- Performance Analysis – Under budget primarily due to the deferral of GADS/TADS/DADS enhancements, for cost savings purposes.
- Situation Awareness – Under budget largely because of a budgeted video wall replacement for which the costs were deferred due to the pandemic and also because of the reversal of an accrual of a possible payment for SAFNR v2 that had been accrued in 2019 and was reversed in 2020 when it was determined that it was not due.
- Event Analysis – Over budget due to higher than budget personnel costs, partially offset by lower than budget travel costs.
- E-ISAC – Under budget primarily attributable to lower personnel costs related to lower than budgeted for watch officer position FTEs during the year, which was largely offset by contractor costs for the watch officers. This under budget amount was partially offset by higher workshop expenses related to cancellation fees because of the pandemic.
- Training, Education, and Personnel Certification – Under budget largely because of lower than budget personnel, travel, and support costs for the SOCCED system.
- General and Administrative and Executive – Under budget primarily due to the postponement of Atlanta office renovation costs, as well as lower than budget meeting and travel expenses
- Legal and Regulatory – Under budget mainly in personnel, consultant, and outside legal costs.
- External Affairs – Under budget mainly as a result of lower than budgeted personnel expense and lobbying expense.
- Information Technology – After adding back labor costs that had been budgeted as personnel expense in the Information Technology department but charged during the year as capital labor, for proper accounting treatment, to other departments for project work performed in those departments, Information Technology was \$480k (3.7%) under budget. This under budget amount was mostly due to underspend in Contracts and Consultants and Fixed Assets for cost savings purposes, and these under budget variances are partially offset by higher personnel costs (when adding back the labor costs discussed above) due to lower than budgeted attrition.
- CRISP – Under budget mainly due to the timing and implementation of Operational Technology (OT) pilot program costs that were deferred to 2021 and will be paid with CRISP reserves.

Board of Trustees Expenses

As detailed in the following table, Board of Trustee expenses were under budget \$280k (15.5%) mostly due to reduced meeting and travel expenses due to the pandemic and also timing of Board of Trustee retirements and replacements, and was partially offset by search fees for two trustees instead of one budgeted search.

Board of Trustee Expenses	YTD Actual	YTD Budget	Over (Under)	Over (Under)
Meetings and Travel Expenses				
Quarterly Board Meetings	\$ 74,509	\$ 185,000	\$ (110,491)	(59.7%)
Trustee Travel	38,536	165,000	(126,464)	(76.6%)
Total	\$ 113,045	\$ 350,000	\$ (236,955)	(67.7%)
Professional Services				
Independent Trustee Fees	\$ 1,281,250	\$ 1,410,000	\$ (128,750)	(9.1%)
Trustee Search Fees	135,677	50,000	85,677	171.4%
Total	\$ 1,416,927	\$ 1,460,000	\$ (43,073)	(3.0%)
Total Board of Trustee Expenses	\$ 1,529,971	\$ 1,810,000	\$ (280,029)	(15.5%)

Summary of CRISP Variances

	YTD Actual	YTD Budget	\$ Over (Under)	% Over (Under)
TOTAL FUNDING^A	\$ 8,391,195	\$ 8,796,155	\$ (404,960)	(4.6%)
EXPENDITURES				
Personnel	\$ 665,849	\$ 627,736	\$ 38,114	6.1%
Meetings and Travel	17,395	49,200	(31,805)	(64.6%)
Consultants and Contracts	5,733,737	6,677,500	(943,763)	(14.1%)
Office Rent	-	-	-	0.0%
Office Costs, Professional, and Misc. ^B	250,426	611,965	(361,539)	(59.1%)
Other Non-Operating	(10,467)	-	(10,467)	(100.0%)
Fixed Asset Additions ^B	64,920	137,500	(72,580)	(52.8%)
Net Financing Activity ^C	-	-	-	(100.0%)
Allocations ^D	697,084	692,255	4,829	0.7%
TOTAL EXPENDITURES	\$ 7,418,944	\$ 8,796,155	\$ (1,377,211)	(15.7%)
RESERVE INCREASE (DECREASE)	\$ 972,251	\$ 0	\$ 972,251	100.0%
FTEs	2.9	2.8	0.1	2.8%

A - Penalty income from a registered entity is recorded as penalty revenue for financial statement reporting purposes following the closure of an enforcement matter. For variance and true-up reporting purposes, penalty income is not included in funding until the NERC Board of Trustees and FERC have approved the release of previously collected penalty income from the Assessment Stabilization Reserve to offset assessments.

B - Excludes depreciation expense.

C - A positive amount indicates that NERC is paying off more principal than it is receiving in loan proceeds. A negative amount indicates that NERC is receiving more in loan proceeds than it is paying off principal.

D - Includes Indirect Cost, Fixed Asset Additions, and Net Financing Activity allocations.

- **Funding** – Under budget \$405k (4.6%) mainly because of lower third party funding of CRISP expenses by CRISP participants due to lower revenue requirements to fund actual program costs.
- **Expenditures** – Under budget by \$1.4M (15.7%) primarily due to under budget variances for Consultants and Contracts and Office Costs, Professional Fees and Miscellaneous, which are in turn primarily due to the reduced need for outside audit support costs and the timing and implementation of Operational Technology (OT) pilot program consulting and software costs that were deferred to 2021. CRISP participants approved placing the \$1.0M of operational technology

(OT) pilot program funds collected from CRISP participants during 2020 into a reserve that will be used to fund OT pilot program costs in 2021.

Allocation of Indirect Expenses, Fixed Asset Purchases, and Net Financing Activities to Program Areas

Total expenses (excluding fixed asset purchases and net financing activity) of the administrative programs were \$29.7M, which was \$2.2M (6.9%) under budget. The actual allocation of these indirect expenses (excluding fixed asset purchases and net financing activity) per program area FTE (i.e. direct FTE) was \$230k, which was over budget by \$1k (0.5%) per FTE. While the actual dollars were lower than the budget dollars by \$2.2M, the budget dollars were split among 139 FTEs and the actual dollars were split among 129 FTEs, resulting in the \$1k difference per FTE.

The \$2.2M under budget amount was driven primarily by lower personnel expenses due to certain costs that were transferred from the administrative programs to the statutory programs and capitalized for proper accounting treatment, lower than budget meeting and travel costs due to the pandemic, and lower than budget contractor, and outside legal costs.

Total fixed asset additions for the administrative programs were \$922k, which was \$463k (33.4%) under budget largely due to the deferral of hardware and software costs for cost savings purposes, as well as the postponement of Atlanta office renovation costs. The actual allocation of fixed assets per program area FTE (i.e. direct FTE) was \$2.8k under budget.

Total net financing activity for the administrative programs was \$382k, which was \$518k (57.5%) under budget. The 2020 budget anticipated budgeted borrowings for certain audio visual equipment purchases that were not made during the year, which eliminated the budgeted payments, and also certain software license and maintenance costs on leased equipment were budgeted as lease payments but the actual costs were more appropriately charged to Office Costs.

Use of Statutory Funds for Non-Statutory Activities

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

Operating Reserves Analysis

Reserve Account	1/1/2020		Unbudgeted Funding/(Use)	Operating and Financing Activity Versus Budget ⁽²⁾	12/31/2020 Ending Balance ⁽³⁾
	Beginning Balance	Budgeted Funding/(Use) ⁽¹⁾			
Operating Contingency	\$ 6,199,083	\$ (654,036)	\$ -	\$ 2,437,867	7,982,913
Future Obligations	2,119,719	(485,958)	-	24,140	1,657,901
Assessment Stabilization	2,521,000	-	-	-	2,521,000
System Operator	777,274	-	-	218,946	996,220
CRISP (Defense Fund)	500,000	-	-	-	500,000
CRISP (Special Projects)	-	-	-	1,049,549	1,049,549
Total Reserves	\$ 12,117,076	\$ (1,139,994)	\$ -	\$ 3,730,502	\$ 14,707,584

NOTES:

(1) The 2020 Business Plan & Budget contained a budgeted use of Operating Contingency Reserves totaling \$654,036 to lower assessments. The Future Obligations Reserve decrease of \$485,958 is a budgeted use of deferred rent reserves to fund a portion of office lease costs.

(2) This column reflects the actual reserve impact of operating and financing activities versus budget. In 2020, NERC was under budget primarily due to the deferral of some open FTE positions to 2021, lower than budget meeting and travel costs, lower than budget software and hardware spending, reduction of the Atlanta meeting space renovation costs, and minimal debt service on ERO projects. Of the approved capital investment of \$3.8M for the ERO SEL project, \$3.1M of capital costs were incurred during the year, with approximately \$1.3M funded by loan financing and \$1.8M by the use of Operating Contingency reserves. Due to the timing of implementation and revised completion date of the ERO SEL project, \$700k of approved capital spending budget and approved borrowing is being carried over to 2021. We expect to be at or below the total ERO SEL project capital spending budget of \$3.8M and approved total debt financing of \$2.0M, but a portion of the costs and related financing will be incurred in 2021 versus 2020.

CRISP Special Projects Reserve - Due to the delayed timing of the OT pilot project, the CRISP participants have agreed to carryover \$1.0M of unused funding to 2021.

(3) The Operating Contingency Reserve at year-end was higher than target but was reduced by \$1.8 million in the 2021 Business Plan & Budget for Align project delay costs.

As of December 31, 2020 the balance in reserves was \$14.7M, \$5.9M more than the budget of \$8.8M, including \$8.0M in the Operating Contingency Reserve (OCR), \$2.5M in the Assessment Stabilization Reserve (ASR), and \$1.0M in the CRISP reserve for OT pilot project costs. The primary drivers behind the over budget amount in the OCR were lower than budget meeting and travel spend due to the pandemic and intentional cost reductions in certain areas to help fund the Align and Secure Evidence Locker projects. Additionally, the CRISP participants chose to reserve \$1.0M that had been collected in 2020 for OT pilot projects costs but that was unable to be spent and will now be spent in 2021 on the OT pilot projects.

North American Electric Reliability Corporation Statement of Activities (including CRISP)

	YTD Actual*	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	72,011,373	72,011,373	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	72,011,373	72,011,373	-	0.0%
Third-Party Funding (CRISP)				
Testing, Renewal, & Continuing Ed Fees	1,751,310	1,735,000	16,310	0.9%
Services & Software	53,000	60,000	(7,000)	(11.7%)
Miscellaneous Funding	61,132	-	61,132	
Interest & Investment Income	97,130	386,000	(288,870)	(74.8%)
Total Funding (A)	81,401,919	82,006,950	(605,031)	(0.7%)
Expenses				
Personnel Expenses				
Salaries	34,850,998	35,462,611	(611,613)	(1.7%)
Payroll Taxes	2,154,925	2,113,486	41,439	2.0%
Benefits	4,598,641	5,420,461	(821,820)	(15.2%)
Retirement Costs	3,337,311	3,601,601	(264,290)	(7.3%)
Total Personnel Expenses	44,941,875	46,598,159	(1,656,284)	(3.6%)
Meetings and Travel Expenses				
Meetings & Conference Calls	692,207	1,112,250	(420,043)	(37.8%)
Travel	395,790	2,211,000	(1,815,210)	(82.1%)
Total Meetings and Travel Expenses	1,087,997	3,323,250	(2,235,253)	(67.3%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	11,751,668	12,435,902	(684,234)	(5.5%)
Office Rent	3,650,315	3,450,468	199,847	5.8%
Office Costs	9,280,701	9,102,374	178,327	2.0%
Professional Services	2,061,984	2,511,600	(449,616)	(17.9%)
Miscellaneous	48,562	82,750	(34,188)	(41.3%)
Total Operating Expenses, excluding Depreciation	26,793,230	27,583,094	(789,864)	(2.9%)
Total Direct Expenses	72,823,102	77,504,503	(4,681,401)	(6.0%)
Indirect Expenses	-	-	-	
Other Non-Operating Expenses	(350,487)	306,623	(657,110)	(214.3%)
Total Expenses (B)	72,472,615	77,811,126	(5,338,511)	(6.9%)
Change in Net Assets (=A-B)	8,929,304	4,195,824	4,733,480	112.8%
Fixed Asset Additions, excluding Right of Use Assets (C)				
Fixed Asset Additions, excluding Right of Use Assets (C)	6,903,029	4,706,349	2,196,680	46.7%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(1,457,770)	(1,338,000)	(119,770)	9.0%
Loan or Financing Lease - Principal Payments (+)	548,116	1,477,558	(929,442)	(62.9%)
Net Financing Activity (D)	(909,654)	139,558	(1,049,212)	(751.8%)
Total Budget (=B+C+D)	78,465,990	82,657,033	(4,191,043)	(5.1%)
Change in Working Capital (=A-B-C-D)	2,935,929	(650,083)	3,586,012	(551.6%)
FTEs	202.22	213.38	(11.16)	(5.2%)

* 12/31/2020 actual amounts are based on the audited financial statements, with the exception of penalty income and depreciation expense as described in footnotes A and B, respectively, in the table on page 1 of this report.

Reliability Standards and Risk Issue Management Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	8,256,730	8,256,730	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	8,256,730	8,256,730	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	33	-	33	
Interest & Investment Income	10,463	45,862	(35,399)	(77.2%)
Total Funding (A)	8,267,225	8,302,592	(35,366)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	2,505,151	2,622,756	(117,605)	(4.5%)
Payroll Taxes	161,111	165,506	(4,394)	(2.7%)
Benefits	343,020	416,307	(73,288)	(17.6%)
Retirement Costs	246,127	290,052	(43,925)	(15.1%)
Total Personnel Expenses	3,255,409	3,494,622	(239,213)	(6.8%)
Meetings and Travel Expenses				
Meetings & Conference Calls	16,733	59,800	(43,067)	(72.0%)
Travel	42,094	220,000	(177,906)	(80.9%)
Total Meetings and Travel Expenses	58,827	279,800	(220,973)	(79.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	180,180	40,320	139,860	346.9%
Office Rent	-	-	-	
Office Costs	63,596	50,050	13,546	27.1%
Professional Services	-	-	-	
Miscellaneous	655	500	155	31.0%
Total Operating Expenses, excluding Depreciation	244,432	90,870	153,562	169.0%
Total Direct Expenses	3,558,668	3,865,292	(306,624)	(7.9%)
Indirect Expenses	3,868,283	4,090,936	(222,653)	(5.4%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	7,426,951	7,956,227	(529,276)	(6.7%)
Change in Net Assets (=A-B)	840,274	346,364	493,910	142.6%
Fixed Asset Additions, excluding Right of Use Assets (C)				
Fixed Asset Additions, excluding Right of Use Assets (C)	160,657	177,804	(17,147)	(9.6%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(21,644)	-	(21,644)	
Loan or Financing Lease - Principal Payments (+)	71,444	168,560	(97,117)	(57.6%)
Net Financing Activity (D)	49,799	168,560	(118,761)	(70.5%)
Total Budget (=B+C+D)	7,637,407	8,302,592	(665,185)	(8.0%)
Change in Working Capital (=A-B-C-D)	629,818	0	629,818	
FTEs	16.80	17.86	(1.06)	(5.9%)

Explanation of Variances by Category – Reliability Standards and Risk Issue Management

- **Funding** – Investment and interest income was \$35k (77.2%) under budget due to lower interest rates.
- **Personnel Expenses** – Under budget \$239k (6.8%) primarily due to lower FTEs than budgeted, lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$221k (79.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$140k (346.9%) over budget mostly due to unbudgeted needs for technical analysis support/knowledge transfer and Standards administrative support.
 - Office costs were \$14k (27.1%) greater than budget mainly due to higher than budgeted telephone expense.
- **Financing Activity** – In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the Standards project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$53k of related budgeted loan payments in 2020 was unnecessary.

Compliance Assurance Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	9,266,836	9,266,836	-	0.0%
Penalties Released	-	-	-	-
Total NERC Funding	9,266,836	9,266,836	-	0.0%
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	37	-	37	-
Interest & Investment Income	11,733	43,448	(31,715)	(73.0%)
Total Funding (A)	9,278,607	9,310,285	(31,678)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	3,196,926	2,845,488	351,439	12.4%
Payroll Taxes	195,466	173,091	22,375	12.9%
Benefits	583,195	550,322	32,874	6.0%
Retirement Costs	325,503	314,652	10,851	3.4%
Total Personnel Expenses	4,301,090	3,883,552	417,538	10.8%
Meetings and Travel Expenses				
Meetings & Conference Calls	5,746	84,800	(79,054)	(93.2%)
Travel	35,333	350,000	(314,667)	(89.9%)
Total Meetings and Travel Expenses	41,079	434,800	(393,721)	(90.6%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	116,489	50,000	66,489	133.0%
Office Rent	-	-	-	-
Office Costs	447,136	330,508	116,628	35.3%
Professional Services	6,830	-	6,830	-
Miscellaneous	2,175	500	1,675	335.0%
Total Operating Expenses, excluding Depreciation	572,631	381,008	191,623	50.3%
Total Direct Expenses	4,914,800	4,699,360	215,440	4.6%
Indirect Expenses	4,338,003	3,875,623	462,380	11.9%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	9,252,803	8,574,983	677,820	7.9%
Change in Net Assets (=A-B)	25,804	735,301	(709,498)	(96.5%)
Fixed Asset Additions, excluding Right of Use Assets (C)				
	2,711,937	1,071,946	1,639,991	153.0%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(670,130)	(602,333)	(67,796)	11.3%
Loan or Financing Lease - Principal Payments (+)	80,119	265,689	(185,570)	(69.8%)
Net Financing Activity (D)	(590,011)	(336,645)	(253,366)	75.3%
Total Budget (=B+C+D)	11,374,730	9,310,285	2,064,445	22.2%
Change in Working Capital (=A-B-C-D)	(2,096,123)	0	(2,096,123)	-
FTEs	18.84	16.92	1.92	11.3%

Explanation of Variances by Category – Compliance Assurance

- **Funding** – Investment and interest income was \$32k (73.0%) under budget due to lower interest rates.
- **Personnel Expenses** – Over budget \$418k (10.8%) primarily due to higher than budgeted FTEs.
- **Meetings and Travel Expenses** – Under budget \$394k (90.6%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$66k (133.0%) over budget primarily due to certain costs on the Align project that were budgeted in fixed assets but recorded as expenses in contracts and consultants for proper accounting treatment.
 - Office Costs were \$117k (35.3%) greater than budget mainly due to unbudgeted software license and support costs for the Secure Evidence Locker.
- **Indirect Expenses** – Over budget \$462k (11.9%) primarily because the department received a larger allocation of the administrative departments' costs than had been budgeted due to the additional FTEs that Compliance Assurance had during the year compared to budget.
- **Fixed Asset Additions**
 - Software was over budget \$1.7M (185.2%) mainly due to unbudgeted costs for the Secure Evidence Locker.
 - The fixed asset additions allocation was under budget \$34k (20.0%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity**
 - In addition to the discussion on page 1 regarding borrowings, the budget assumed that \$602k of loan proceeds would be received for the Align project but, as noted earlier, NERC did not borrow for Align but instead borrowed \$646k for the Secure Evidence Locker, which resulted in \$44k more being borrowed than was budgeted.
 - In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the Align project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$156k of related budgeted loan payments in 2020 was unnecessary.

Organization Certification and Registration Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	2,496,349	2,496,349	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	2,496,349	2,496,349	0	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	10	-	10	
Interest & Investment Income	3,114	12,069	(8,955)	(74.2%)
Total Funding (A)	2,499,473	2,508,418	(8,945)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	856,741	800,810	55,930	7.0%
Payroll Taxes	52,552	48,962	3,590	7.3%
Benefits	136,443	136,308	135	0.1%
Retirement Costs	94,024	90,053	3,971	4.4%
Total Personnel Expenses	1,139,761	1,076,134	63,627	5.9%
Meetings and Travel Expenses				
Meetings & Conference Calls	3,282	4,400	(1,118)	(25.4%)
Travel	12,372	50,000	(37,628)	(75.3%)
Total Meetings and Travel Expenses	15,654	54,400	(38,746)	(71.2%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	38,964	40,320	(1,356)	(3.4%)
Office Rent	-	-	-	
Office Costs	9,947	10,850	(903)	(8.3%)
Professional Services	-	-	-	
Miscellaneous	-	250	(250)	(100.0%)
Total Operating Expenses, excluding Depreciation	48,911	51,420	(2,509)	(4.9%)
Total Direct Expenses	1,204,326	1,181,954	22,372	1.9%
Indirect Expenses	1,151,275	1,076,562	74,713	6.9%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,355,601	2,258,516	97,085	4.3%
Change in Net Assets (=A-B)	143,872	249,902	(106,030)	(42.4%)
Fixed Asset Additions, excluding Right of Use Assets (C)	35,772	246,791	(211,018)	(85.5%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(6,442)	(133,333)	126,892	(95.2%)
Loan or Financing Lease - Principal Payments (+)	21,263	136,445	(115,182)	(84.4%)
Net Financing Activity (D)	14,821	3,112	11,710	376.3%
Total Budget (=B+C+D)	2,406,194	2,508,418	(102,224)	(4.1%)
Change in Working Capital (=A-B-C-D)	93,279	(0)	93,279	
FTEs	5.00	4.70	0.30	6.4%

Explanation of Variances by Category – Organization Certification and Registration

- **Meetings and Travel Expenses** – Under budget \$39k (71.2%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Fixed Asset Additions**
 - Software was under budget \$200k (100.0%) primarily due to enhancements and modifications for Entity Registration CORES that were deferred for costs savings purposes.
 - The fixed asset additions allocation was under budget \$11k (23.5%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity**
 - In addition to the discussion on page 1 regarding borrowings, the budget assumed that \$133k of proceeds would be received for the Entity Registration CORES project but, as discussed above, that borrowing did not occur.
 - In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the Entity Registration CORES project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$106k of related budgeted loan payments in 2020 was unnecessary.

Compliance Enforcement Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	6,248,089	6,248,089	(0)	(0.0%)
Penalties Released	-	-	-	-
Total NERC Funding	6,248,089	6,248,089	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	21	-	21	-
Interest & Investment Income	6,757	31,379	(24,622)	(78.5%)
Total Funding (A)	6,254,867	6,279,468	(24,601)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	1,724,213	1,829,637	(105,425)	(5.8%)
Payroll Taxes	116,050	113,039	3,011	2.7%
Benefits	151,522	230,971	(79,449)	(34.4%)
Retirement Costs	164,769	197,746	(32,977)	(16.7%)
Total Personnel Expenses	2,156,554	2,371,393	(214,840)	(9.1%)
Meetings and Travel Expenses				
Meetings & Conference Calls	3,796	6,200	(2,404)	(38.8%)
Travel	7,250	55,000	(47,750)	(86.8%)
Total Meetings and Travel Expenses	11,046	61,200	(50,154)	(82.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	116,489	-	116,489	-
Office Rent	-	-	-	-
Office Costs	448,517	389,208	59,309	15.2%
Professional Services	1,219	-	1,219	-
Miscellaneous	125	500	(375)	(75.0%)
Total Operating Expenses, excluding Depreciation	566,350	389,708	176,642	45.3%
Total Direct Expenses	2,733,950	2,822,301	(88,352)	(3.1%)
Indirect Expenses	2,498,266	2,799,061	(300,795)	(10.7%)
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	5,232,216	5,621,363	(389,147)	(6.9%)
Change in Net Assets (=A-B)	1,022,651	658,106	364,546	55.4%
Fixed Asset Additions, excluding Right of Use Assets (C)	2,654,774	1,025,155	1,629,618	159.0%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(659,836)	(602,333)	(57,502)	9.5%
Loan or Financing Lease - Principal Payments (+)	46,141	235,283	(189,143)	(80.4%)
Net Financing Activity (D)	(613,695)	(367,050)	(246,645)	67.2%
Total Budget (=B+C+D)	7,273,294	6,279,468	993,826	15.8%
Change in Working Capital (=A-B-C-D)	(1,018,427)	0	(1,018,427)	-
FTEs	10.85	12.22	(1.37)	(11.2%)

Explanation of Variances by Category – Compliance Enforcement

- **Funding** – Investment and interest income was \$24k (78.5%) under budget due to lower interest rates.
- **Personnel Expenses** – Under budget \$215k (9.1%) primarily due to lower than budgeted FTEs, lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$50k (82.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$116k (100.0%) over budget primarily due to certain costs on the Align project that were budgeted in fixed assets but recorded as expenses in contracts and consultants for proper accounting treatment.
 - Office Costs were \$59k (15.2%) greater than budget mainly due to unbudgeted software license and support costs for the Secure Evidence Locker.
- **Indirect Expenses** – Under budget \$301k (10.7%) primarily because the administrative departments' costs that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$1.7M (185.2%) mainly due to unbudgeted costs for the Secure Evidence Locker.
 - The fixed asset additions allocation was under budget \$44k (36.2%) largely because the administrative departments' fixed asset additions that get allocated to the program areas were lower than budgeted.
- **Financing Activity** – In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the Align project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$156k of related budgeted loan payments in 2020 was unnecessary.

Power System Analysis Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	3,303,889	3,303,889	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	3,303,889	3,303,889	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	9	-	9	
Interest & Investment Income	2,983	16,897	(13,913)	(82.3%)
Total Funding (A)	3,306,882	3,320,786	(13,904)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	861,495	1,119,087	(257,592)	(23.0%)
Payroll Taxes	53,454	70,659	(17,205)	(24.3%)
Benefits	123,844	179,975	(56,131)	(31.2%)
Retirement Costs	94,067	125,854	(31,787)	(25.3%)
Total Personnel Expenses	1,132,860	1,495,575	(362,715)	(24.3%)
Meetings and Travel Expenses				
Meetings & Conference Calls	4,773	15,600	(10,827)	(69.4%)
Travel	9,642	80,000	(70,358)	(87.9%)
Total Meetings and Travel Expenses	14,415	95,600	(81,185)	(84.9%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	63,000	(63,000)	(100.0%)
Office Rent	-	-	-	
Office Costs	35,977	50,850	(14,873)	(29.2%)
Professional Services	-	-	-	
Miscellaneous	-	500	(500)	(100.0%)
Total Operating Expenses, excluding Depreciation	35,977	114,350	(78,373)	(68.5%)
Total Direct Expenses	1,183,251	1,705,525	(522,273)	(30.6%)
Indirect Expenses	1,102,921	1,507,187	(404,266)	(26.8%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,286,173	3,212,711	(926,539)	(28.8%)
Change in Net Assets (=A-B)	1,020,709	108,074	912,635	844.5%
Fixed Asset Additions, excluding Right of Use Assets (C)	34,270	65,507	(31,237)	(47.7%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(6,171)	-	(6,171)	
Loan or Financing Lease - Principal Payments (+)	20,370	42,568	(22,198)	(52.1%)
Net Financing Activity (D)	14,199	42,568	(28,369)	(66.6%)
Total Budget (=B+C+D)	2,334,641	3,320,786	(986,145)	(29.7%)
Change in Working Capital (=A-B-C-D)	972,241	(0)	972,241	
FTEs	4.79	6.58	(1.79)	(27.2%)

Explanation of Variances by Category – Power System Analysis

- **Funding** – Investment and interest income was \$14k (82.3%) under budget due to lower interest rates.
- **Personnel Expenses** – Under budget \$363k (24.3%) primarily due to lower than budgeted FTEs, lower than budget medical premiums due to lower than budget rates, and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$81k (84.9%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$63k (100.0%) under budget primarily due to a contractor budgeted for resources subcommittee support that was not required.
 - Office Costs were \$15k (29.2%) greater than budget mainly due to unbudgeted software license and support costs.
- **Indirect Expenses** – Under budget \$404k (26.8%) primarily because the administrative departments' costs that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.
- **Fixed Asset Additions** – The fixed asset additions allocation was under budget \$31k (47.7%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Reliability Assessments and Technical Committees Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	3,797,751	3,797,751	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	3,797,751	3,797,751	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	14	-	14	
Interest & Investment Income	4,360	16,897	(12,537)	(74.2%)
Total Funding (A)	3,802,124	3,814,648	(12,523)	(0.3%)
Expenses				
Personnel Expenses				
Salaries	1,222,246	1,085,988	136,258	12.5%
Payroll Taxes	72,484	65,067	7,418	11.4%
Benefits	172,039	195,596	(23,556)	(12.0%)
Retirement Costs	131,199	119,946	11,253	9.4%
Total Personnel Expenses	1,597,968	1,466,597	131,372	9.0%
Meetings and Travel Expenses				
Meetings & Conference Calls	100,654	214,600	(113,946)	(53.1%)
Travel	26,327	95,000	(68,673)	(72.3%)
Total Meetings and Travel Expenses	126,981	309,600	(182,619)	(59.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	88,264	365,320	(277,056)	(75.8%)
Office Rent	-	-	-	
Office Costs	95,662	57,370	38,292	66.7%
Professional Services	-	-	-	
Miscellaneous	1,517	500	1,017	203.4%
Total Operating Expenses, excluding Depreciation	185,443	423,190	(237,747)	(56.2%)
Total Direct Expenses	1,910,391	2,199,387	(288,995)	(13.1%)
Indirect Expenses	1,611,785	1,507,187	104,598	6.9%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	3,522,176	3,706,573	(184,397)	(5.0%)
Change in Net Assets (=A-B)	279,948	108,074	171,874	159.0%
Fixed Asset Additions, excluding Right of Use Assets (C)	50,081	65,507	(15,425)	(23.5%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(9,018)	-	(9,018)	
Loan or Financing Lease - Principal Payments (+)	29,768	42,568	(12,799)	(30.1%)
Net Financing Activity (D)	20,750	42,568	(21,818)	(51.3%)
Total Budget (=B+C+D)	3,593,007	3,814,648	(221,641)	(5.8%)
Change in Working Capital (=A-B-C-D)	209,117	0	209,117	
FTEs	7.00	6.58	0.42	6.4%

Explanation of Variances by Category – Reliability Assessments and Technical Committees

- **Funding** – Investment and interest income was \$13k (74.2%) under budget due to lower interest rates.
- **Personnel Expenses** – Over budget \$131k (9.0%) primarily due to higher than budgeted FTEs, partially offset by lower than budget medical premiums due to lower than budget rates and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$183k (59.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$277k (75.8%) under budget primarily due to the deferral of environmental regulatory analysis related support, for cost savings purposes.
 - Office Costs were \$38k (66.7%) greater than budget mainly due to unbudgeted software license and support costs.
- **Fixed Asset Additions**
 - The fixed asset additions allocation was under budget \$15k (23.5%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Advanced System Analytics and Modeling Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	2,534,330	2,534,330	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	2,534,330	2,534,330	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	9	-	9	
Interest & Investment Income	2,753	12,069	(9,316)	(77.2%)
Total Funding (A)	2,537,092	2,546,399	(9,308)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	700,449	744,840	(44,391)	(6.0%)
Payroll Taxes	49,677	47,379	2,298	4.9%
Benefits	77,893	107,035	(29,142)	(27.2%)
Retirement Costs	81,419	83,147	(1,728)	(2.1%)
Total Personnel Expenses	909,438	982,401	(72,963)	(7.4%)
Meetings and Travel Expenses				
Meetings & Conference Calls	7,574	26,600	(19,026)	(71.5%)
Travel	11,771	85,000	(73,229)	(86.2%)
Total Meetings and Travel Expenses	19,345	111,600	(92,255)	(82.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	110,000	175,000	(65,000)	(37.1%)
Office Rent	-	-	-	
Office Costs	126,941	123,140	3,801	3.1%
Professional Services	-	-	-	
Miscellaneous	-	500	(500)	(100.0%)
Total Operating Expenses, excluding Depreciation	236,941	298,640	(61,699)	(20.7%)
Total Direct Expenses	1,165,725	1,392,641	(226,917)	(16.3%)
Indirect Expenses	1,017,727	1,076,562	(58,835)	(5.5%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,183,451	2,469,203	(285,752)	(11.6%)
Change in Net Assets (=A-B)	353,640	77,196	276,444	358.1%
Fixed Asset Additions, excluding Right of Use Assets (C)	31,623	46,791	(15,168)	(32.4%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(5,695)	-	(5,695)	
Loan or Financing Lease - Principal Payments (+)	18,796	30,405	(11,609)	(38.2%)
Net Financing Activity (D)	13,102	30,405	(17,303)	(56.9%)
Total Budget (=B+C+D)	2,228,176	2,546,399	(318,223)	(12.5%)
Change in Working Capital (=A-B-C-D)	308,916	(0)	308,916	
FTEs	4.42	4.70	(0.28)	(6.0%)

Explanation of Variances by Category – Advanced System Analytics and Modeling

- **Meetings and Travel Expenses** – Under budget \$92k (82.7%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$277k (75.8%) under budget primarily due to the deferral of probabilistic analysis support, for cost savings purposes.
- **Fixed Asset Additions**
 - The fixed asset additions allocation was under budget \$15k (32.4%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Performance Analysis
Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	3,365,988	3,365,988	0	0.0%
Penalties Released	-	-	-	
Total NERC Funding	3,365,988	3,365,988	0	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	53,000	60,000	(7,000)	(11.7%)
Miscellaneous Funding	12	-	12	
Interest & Investment Income	3,693	14,483	(10,790)	(74.5%)
Total Funding (A)	3,422,692	3,440,470	(17,778)	(0.5%)
Expenses				
Personnel Expenses				
Salaries	757,230	712,968	44,262	6.2%
Payroll Taxes	52,658	49,986	2,672	5.3%
Benefits	91,142	112,656	(21,514)	(19.1%)
Retirement Costs	82,348	78,657	3,691	4.7%
Total Personnel Expenses	983,377	954,267	29,111	3.1%
Meetings and Travel Expenses				
Meetings & Conference Calls	3,408	30,000	(26,592)	(88.6%)
Travel	6,502	40,000	(33,498)	(83.7%)
Total Meetings and Travel Expenses	9,910	70,000	(60,090)	(85.8%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	164,116	149,250	14,866	10.0%
Office Rent	-	-	-	
Office Costs	297,769	281,944	15,825	5.6%
Professional Services	-	-	-	
Miscellaneous	27	500	(473)	(94.7%)
Total Operating Expenses, excluding Depreciation	461,912	431,694	30,218	7.0%
Total Direct Expenses	1,455,199	1,455,961	(761)	(0.1%)
Indirect Expenses	1,365,412	1,291,874	73,537	5.7%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,820,611	2,747,835	72,776	2.6%
Change in Net Assets (=A-B)	602,081	692,635	(90,554)	(13.1%)
Fixed Asset Additions, excluding Right of Use Assets (C)	290,976	656,149	(365,173)	(55.7%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(7,640)	-	(7,640)	
Loan or Financing Lease - Principal Payments (+)	25,218	36,486	(11,269)	(30.9%)
Net Financing Activity (D)	17,578	36,486	(18,909)	(51.8%)
Total Budget (=B+C+D)	3,129,165	3,440,470	(311,305)	(9.0%)
Change in Working Capital (=A-B-C-D)	293,527	(0)	293,527	
FTEs	5.93	5.64	0.29	5.1%

Explanation of Variances by Category – Performance Analysis

- **Funding** – Investment and interest income was \$11k (74.5%) under budget due to lower interest rates.
- **Personnel expenses** – Benefits were under budget \$22k (19.1%) due to lower than budget medical premiums due to lower than budget rates.
- **Meetings and Travel Expenses** – Under budget \$22k (34.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$15k (10.0%) under budget primarily due to unbudgeted support for the Misoperation Information Data Analysis System (MIDAS).
- **Fixed Asset Additions**
 - Software was under budget \$351k (58.6%) due to the deferral of Generation Availability Data System (GADS), Transmission Availability Data System (TADS), and Demand Response Availability Data System (DADS) enhancements, for cost savings purposes.
 - The fixed asset additions allocation was under budget \$14k (24.4%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

Situation Awareness Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	4,312,217	4,312,217	(0)	(0.0%)
Penalties Released	-	-	-	-
Total NERC Funding	4,312,217	4,312,217	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	12	-	12	-
Interest & Investment Income	3,693	14,483	(10,790)	(74.5%)
Total Funding (A)	4,315,921	4,326,699	(10,778)	(0.2%)
Expenses				
Personnel Expenses				
Salaries	959,134	900,228	58,906	6.5%
Payroll Taxes	64,803	59,293	5,510	9.3%
Benefits	205,282	227,569	(22,287)	(9.8%)
Retirement Costs	95,581	100,163	(4,581)	(4.6%)
Total Personnel Expenses	1,324,800	1,287,253	37,547	2.9%
Meetings and Travel Expenses				
Meetings & Conference Calls	36,045	30,000	6,045	20.2%
Travel	6,875	35,000	(28,125)	(80.4%)
Total Meetings and Travel Expenses	42,921	65,000	(22,079)	(34.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	(104,132)	-	(104,132)	-
Office Rent	-	-	-	-
Office Costs	1,109,947	1,225,844	(115,897)	(9.5%)
Professional Services	-	-	-	-
Miscellaneous	598	500	98	19.6%
Total Operating Expenses, excluding Depreciation	1,006,412	1,226,344	(219,932)	(17.9%)
Total Direct Expenses	2,374,133	2,578,597	(204,464)	(7.9%)
Indirect Expenses	1,365,412	1,291,874	73,537	5.7%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	3,739,545	3,870,471	(130,926)	(3.4%)
Change in Net Assets (=A-B)	576,377	456,228	120,148	26.3%
Fixed Asset Additions, excluding Right of Use Assets (C)	42,426	349,049	(306,623)	(87.8%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(7,640)	-	(7,640)	-
Loan or Financing Lease - Principal Payments (+)	25,218	107,180	(81,962)	(76.5%)
Net Financing Activity (D)	17,578	107,180	(89,602)	(83.6%)
Total Budget (=B+C+D)	3,799,549	4,326,699	(527,151)	(12.2%)
Change in Working Capital (=A-B-C-D)	516,373	(0)	516,373	-
FTEs	5.93	5.64	0.29	5.1%

Explanation of Variances by Category – Situation Awareness

- **Funding** – Investment and interest income was \$11k (74.5%) under budget due to lower interest rates.
- **Meetings and Travel Expenses** – Under budget \$22k (34.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses** – Contract and consultant expenses were \$104k (100.0%) under budget primarily due to the reversal of a possible payment for SAFNR v2 that had been accrued in 2019 and was reversed in 2020 when it was determined that it was not due.
- **Fixed Asset Additions**
 - Software was under budget \$43k (100.0%) since that amount had been budgeted for SAFNR v3 enhancements but was used for a SAFNR v3 disaster recovery site for which the charges are in office costs.
 - Equipment and servers was under budget \$250k (100.0%) since that amount had been budgeted for a video wall replacement for which the costs were deferred due to the pandemic.
 - The fixed asset additions allocation was under budget \$14k (24.4%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.
- **Financing Activity** – In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the SAFNR v3 project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$71k of related budgeted loan payments in 2020 was unnecessary.

Event Analysis Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	4,709,719	4,709,719	(0)	(0.0%)
Penalties Released	-	-	-	-
Total NERC Funding	4,709,719	4,709,719	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	-	-	-	-
Services & Software	-	-	-	-
Miscellaneous Funding	19	-	19	-
Interest & Investment Income	6,078	24,138	(18,060)	(74.8%)
Total Funding (A)	4,715,816	4,733,857	(18,040)	(0.4%)
Expenses				
Personnel Expenses				
Salaries	2,012,519	1,651,223	361,296	21.9%
Payroll Taxes	110,133	94,949	15,184	16.0%
Benefits	207,894	259,683	(51,789)	(19.9%)
Retirement Costs	194,770	181,837	12,933	7.1%
Total Personnel Expenses	2,525,316	2,187,691	337,625	15.4%
Meetings and Travel Expenses				
Meetings & Conference Calls	6,750	33,600	(26,850)	(79.9%)
Travel	24,958	150,000	(125,042)	(83.4%)
Total Meetings and Travel Expenses	31,707	183,600	(151,893)	(82.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	84,046	10,000	74,046	740.5%
Office Rent	-	-	-	-
Office Costs	42,575	44,550	(1,975)	(4.4%)
Professional Services	-	-	-	-
Miscellaneous	240	500	(260)	(52.0%)
Total Operating Expenses, excluding Depreciation	126,862	55,050	71,812	130.4%
Total Direct Expenses	2,683,884	2,426,341	257,543	10.6%
Indirect Expenses	2,247,288	2,153,124	94,164	4.4%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	4,931,173	4,579,465	351,708	7.7%
Change in Net Assets (=A-B)	(215,356)	154,392	(369,748)	(239.5%)
Fixed Asset Additions, excluding Right of Use Assets (C)	69,828	93,581	(23,753)	(25.4%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(12,574)	-	(12,574)	-
Loan or Financing Lease - Principal Payments (+)	41,505	60,811	(19,306)	(31.7%)
Net Financing Activity (D)	28,931	60,811	(31,880)	(52.4%)
Total Budget (=B+C+D)	5,029,931	4,733,857	296,074	6.3%
Change in Working Capital (=A-B-C-D)	(314,115)	(0)	(314,115)	-
FTEs	9.76	9.40	0.36	3.8%

Explanation of Variances by Category – Event Analysis

- **Funding** – Investment and interest income was \$18k (74.8%) under budget due to lower interest rates.
- **Personnel Expenses** – Over budget \$338k (15.4%) primarily due to employee transition costs, partially offset by lower than budget medical premiums due to lower than budget rates and lower than budget parking/transportation costs because of the pandemic.
- **Meetings and Travel Expenses** – Under budget \$152k (82.7%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$74k (740.5%) over budget primarily because of an unbudgeted contractor working on The Event Analysis Management System (TEAMS).
- **Fixed Asset Additions**
 - The fixed asset additions allocation was under budget \$24k (25.4%) largely because the administrative departments' fixed asset additions allocated to the program areas were lower than budgeted.

E-ISAC (excluding CRISP) Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	22,417,776	22,417,776	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	22,417,776	22,417,776	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	60,062	-	60,062	
Interest & Investment Income	19,761	106,207	(86,446)	(81.4%)
Total Funding (A)	22,497,599	22,523,983	(26,384)	(0.1%)
Expenses				
Personnel Expenses				
Salaries	6,108,822	7,024,462	(915,641)	(13.0%)
Payroll Taxes	407,736	433,408	(25,672)	(5.9%)
Benefits	638,256	981,788	(343,532)	(35.0%)
Retirement Costs	589,420	758,234	(168,815)	(22.3%)
Total Personnel Expenses	7,744,233	9,197,892	(1,453,659)	(15.8%)
Meetings and Travel Expenses				
Meetings & Conference Calls	305,747	90,000	215,747	239.7%
Travel	41,991	325,000	(283,009)	(87.1%)
Total Meetings and Travel Expenses	347,738	415,000	(67,262)	(16.2%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	2,374,590	1,412,500	962,090	68.1%
Office Rent	-	-	-	
Office Costs	1,114,195	1,025,974	88,221	8.6%
Professional Services	545	-	545	
Miscellaneous	557	250	307	122.8%
Total Operating Expenses, excluding Depreciation	3,489,887	2,438,724	1,051,163	43.1%
Total Direct Expenses	11,581,859	12,051,616	(469,758)	(3.9%)
Indirect Expenses	7,305,990	9,473,746	(2,167,756)	(22.9%)
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	18,887,848	21,525,362	(2,637,514)	(12.3%)
Change in Net Assets (=A-B)	3,609,751	998,621	2,611,130	261.5%
Fixed Asset Additions, excluding Right of Use Assets (C)	699,673	695,706	3,966	0.6%
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(40,879)	-	(40,879)	
Loan or Financing Lease - Principal Payments (+)	134,935	302,914	(167,979)	(55.5%)
Net Financing Activity (D)	94,055	302,914	(208,859)	(68.9%)
Total Budget (=B+C+D)	19,681,576	22,523,983	(2,842,407)	(12.6%)
Change in Working Capital (=A-B-C-D)	2,816,023	(0)	2,816,023	
FTEs	31.73	41.36	(9.63)	(23.3%)

Explanation of Variances by Category – E-ISAC (excluding CRISP)

- **Funding**
 - Miscellaneous funding was \$60k (100.0%) over budget due to the receipt of unbudgeted revenue related to the E-ISAC's partnership with the Downstream Natural Gas Information Sharing and Analysis Center.
 - Investment and interest income was \$86k (81.4%) under budget due to lower interest rates.
- **Personnel Expenses** – Under budget \$1.5M (15.8%) primarily because of costs for watch officer FTE positions being filled with contract labor instead and also the transfer of personnel costs to the CRISP department for E-ISAC staff time worked in CRISP.
- **Meetings and Travel Expenses**
 - Meeting/workshop expenses were over budget \$216k (239.7%) because of conference space cancellation fees as a result of the pandemic. Typically, workshop expenses are covered by fees from attendees, but there were no fees since the workshop was cancelled.
 - Travel was under budget \$283k (87.1%) due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$962k (68.1%) over budget primarily due to costs for watch officer FTE positions being filled with contract labor instead.
 - Office Costs were \$88k (8.6%) greater than budget mainly due to unbudgeted software license and support costs.
- **Indirect Expenses** – Under budget \$2.2M (22.9%) primarily because the administrative departments' costs that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.
- **Fixed Asset Additions**
 - Software was over budget \$189k (66.5%) mainly due because of labor costs that were capitalized and added to the cost of the E-ISAC sharing platform for proper accounting treatment.
 - The fixed asset additions allocation was under budget \$185k (44.9%) largely because the administrative departments' fixed asset additions that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.

- **Financing Activity** – In addition to the discussion on page 1 regarding principal payments, the 2020 budget assumed that a borrowing would occur in 2019 for the SAFNR v3 project, but that borrowing did not occur since the project was able to be funded with cash and, as a result, the \$35k of related budgeted loan payments in 2020 was unnecessary.

CRISP Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	945,577	945,577	(0)	(0.0%)
Penalties Released	-	-	-	
Total NERC Funding	945,577	945,577	(0)	(0.0%)
Third-Party Funding (CRISP)	7,427,974	7,814,577	(386,603)	(4.9%)
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	405	-	405	
Interest & Investment Income	17,238	36,000	(18,762)	(52.1%)
Total Funding (A)	8,391,195	8,796,155	(404,960)	(4.6%)
Expenses				
Personnel Expenses				
Salaries	553,867	469,799	84,068	17.9%
Payroll Taxes	21,342	28,378	(7,036)	(24.8%)
Benefits	53,591	78,933	(25,342)	(32.1%)
Retirement Costs	37,051	50,627	(13,576)	(26.8%)
Total Personnel Expenses	665,849	627,736	38,114	6.1%
Meetings and Travel Expenses				
Meetings & Conference Calls	1,274	13,200	(11,926)	(90.3%)
Travel	16,121	36,000	(19,879)	(55.2%)
Total Meetings and Travel Expenses	17,395	49,200	(31,805)	(64.6%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	5,733,737	6,677,500	(943,763)	(14.1%)
Office Rent	-	-	-	
Office Costs	158,819	436,715	(277,895)	(63.6%)
Professional Services	91,607	175,000	(83,393)	(47.7%)
Miscellaneous	-	250	(250)	(100.0%)
Total Operating Expenses, excluding Depreciation	5,984,163	7,289,465	(1,305,301)	(17.9%)
Total Direct Expenses	6,667,408	7,966,400	(1,298,993)	(16.3%)
Indirect Expenses	667,739	645,937	21,802	3.4%
Other Non-Operating Expenses	(10,467)	-	(10,467)	
Total Expenses (B)	7,324,680	8,612,337	(1,287,658)	(15.0%)
Change in Net Assets (=A-B)	1,066,515	183,817	882,698	480.2%
Fixed Asset Additions, excluding Right of Use Assets (C)				
	85,668	165,574	(79,906)	(48.3%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(3,736)	-	(3,736)	
Loan or Financing Lease - Principal Payments (+)	12,333	18,243	(5,911)	(32.4%)
Net Financing Activity (D)	8,596	18,243	(9,647)	(52.9%)
Total Budget (=B+C+D)	7,418,944	8,796,155	(1,377,211)	(15.7%)
Change in Working Capital (=A-B-C-D)	972,251	0	972,251	
FTEs	2.90	2.82	0.08	2.8%

Explanation of Variances by Category – CRISP

- **Funding**
 - Third-Party Funding, which represents funding of CRISP expenses by CRISP participants, was under budget \$387k (4.9%) due to the lower revenue requirement to fund actual program costs.
 - Investment and interest income was \$19k (52.1%) under budget due to lower interest rates.
- **Personnel Expenses**
 - Salaries were \$84.1k (17.9%) over budget largely because of the transfer of personnel costs to the CRISP department for E-ISAC staff time worked in CRISP.
 - Benefits were \$25.3k (32.1%) under budget because of lower than budget medical premiums due to lower than budget rates and also lower than budget parking/transportation costs because of the pandemic.
 - Retirement cost benefits were under budget \$13.6 (26.8%) mainly due to lower than budgeted discretionary 401k contributions.
- **Meetings and Travel Expenses** – Under budget \$32k (64.6%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and consultant expenses were \$944k (14.1%) under budget largely because of \$600k that had been collected in 2020 for OT pilot projects costs but that was unable to be spent; these funds have been reserved by the CRISP participants, and will now be spent in 2021 on the OT pilot projects. Additionally, there was less need for outside audit support.
 - Office Costs were \$278k (63.6%) lower than budget mainly due to software related to the OT pilot project costs discussed above that will be deferred to 2021.
 - Professional services were \$84k (47.7%) under budget primarily because of no need for outside legal costs.
- **Fixed Asset Additions**
 - Computers were under budget \$50k (100.0%) because the costs related to this line item were charged to Office Costs for proper accounting treatment.
 - Software was under budget \$23k (25.8%) mainly due to decreased needs in this area.

Training, Education and Personnel Certification Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	1,010,158	1,010,158	(0)	(0.0%)
Penalties Released	-	-	-	-
Total NERC Funding	1,010,158	1,010,158	(0)	(0.0%)
Third-Party Funding (CRISP)	-	-	-	-
Testing, Renewal, & Continuing Ed Fees	1,751,310	1,735,000	16,310	0.9%
Services & Software	-	-	-	-
Miscellaneous Funding	490	-	490	-
Interest & Investment Income	4,503	12,069	(7,566)	(62.7%)
Total Funding (A)	2,766,461	2,757,227	9,234	0.3%
Expenses				
Personnel Expenses				
Salaries	591,466	584,874	6,592	1.1%
Payroll Taxes	44,934	42,165	2,770	6.6%
Benefits	96,006	116,632	(20,626)	(17.7%)
Retirement Costs	60,975	64,295	(3,320)	(5.2%)
Total Personnel Expenses	793,381	807,966	(14,585)	(1.8%)
Meetings and Travel Expenses				
Meetings & Conference Calls	11,056	46,650	(35,594)	(76.3%)
Travel	6,302	40,000	(33,698)	(84.2%)
Total Meetings and Travel Expenses	17,358	86,650	(69,292)	(80.0%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	324,775	392,000	(67,225)	(17.1%)
Office Rent	-	-	-	-
Office Costs	236,400	312,400	(76,000)	(24.3%)
Professional Services	-	-	-	-
Miscellaneous	15	500	(485)	(97.0%)
Total Operating Expenses, excluding Depreciation	561,190	704,900	(143,710)	(20.4%)
Total Direct Expenses	1,371,929	1,599,516	(227,587)	(14.2%)
Indirect Expenses	1,137,459	1,076,562	60,897	5.7%
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	2,509,389	2,676,078	(166,689)	(6.2%)
Change in Net Assets (=A-B)	257,072	81,149	175,923	216.8%
Fixed Asset Additions, excluding Right of Use Assets (C)	35,343	46,791	(11,447)	(24.5%)
Financing Activity				
Loan or Financing Lease - Borrowing (-)	(6,364)	-	(6,364)	-
Loan or Financing Lease - Principal Payments (+)	21,008	30,405	(9,398)	(30.9%)
Net Financing Activity (D)	14,643	30,405	(15,762)	(51.8%)
Total Budget (=B+C+D)	2,559,375	2,753,274	(193,899)	(7.0%)
Change in Working Capital (=A-B-C-D)	207,086	3,953	203,133	5138.5%
FTEs	4.94	4.70	0.24	5.1%

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

- **Meetings and Travel Expenses** – Under budget \$69k (80.0%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Personnel expenses** – Benefits were under budget \$21k (17.7%) due to lower than budget medical premiums due to lower than budget rates.
- **Operating Expenses**
 - Contract and consultant expenses were \$67k (17.1%) under budget largely because of less consulting hours needed for the System Operator Certification and Continuing Education (SOCCED) system.
 - Office Costs were \$76k (24.3%) lower than budget mainly due to reduced software license and support costs.
- **Fixed Asset Additions**
 - The fixed asset additions allocation was under budget \$11k (24.5%) largely because the administrative departments' fixed asset additions that get allocated to the program areas were lower than budgeted and also because the department's FTEs were lower than budgeted.

Administrative Services Statement of Activities

	YTD Actual	YTD Budget	\$ Over/(Under)	% Inc/(Dec)
Funding				
NERC Funding				
NERC Assessments	(654,036)	(654,036)	-	0.0%
Penalties Released	-	-	-	
Total NERC Funding	(654,036)	(654,036)	-	0.0%
Third-Party Funding (CRISP)	-	-	-	
Testing, Renewal, & Continuing Ed Fees	-	-	-	
Services & Software	-	-	-	
Miscellaneous Funding	-	-	-	
Interest & Investment Income	-	-	-	
Total Funding (A)	(654,036)	(654,036)	-	0.0%
Expenses				
Personnel Expenses				
Salaries	12,800,742	13,070,451	(269,709)	(2.1%)
Payroll Taxes	752,525	721,605	30,920	4.3%
Benefits	1,718,514	1,826,687	(108,173)	(5.9%)
Retirement Costs	1,140,058	1,146,339	(6,281)	(0.5%)
Total Personnel Expenses	16,411,839	16,765,082	(353,243)	(2.1%)
Meetings and Travel Expenses				
Meetings & Conference Calls	185,368	456,800	(271,432)	(59.4%)
Travel	148,253	650,000	(501,747)	(77.2%)
Total Meetings and Travel Expenses	333,621	1,106,800	(773,179)	(69.9%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	2,524,149	3,060,692	(536,543)	(17.5%)
Office Rent	3,650,315	3,450,468	199,847	5.8%
Office Costs	5,093,220	4,762,971	330,249	6.9%
Professional Services	1,961,783	2,336,600	(374,817)	(16.0%)
Miscellaneous	42,653	77,000	(34,347)	(44.6%)
Total Operating Expenses, excluding Depreciation	13,272,120	13,687,731	(415,611)	(3.0%)
Total Direct Expenses	30,017,580	31,559,613	(1,542,033)	(4.9%)
Indirect Expenses	(29,677,560)	(31,866,236)	2,188,676	(6.9%)
Other Non-Operating Expenses	(340,020)	306,623	(646,643)	(210.9%)
Total Expenses (B)	0	(0)	0	(100.0%)
Change in Net Assets (=A-B)	(654,036)	(654,036)	(0)	0.0%
Fixed Asset Additions, excluding Right of Use Assets (C)				
	-	-	-	
Financing Activity				
Loan or Financing Lease - Borrowing (-)	-	-	-	
Loan or Financing Lease - Principal Payments (+)	-	-	-	
Net Financing Activity (D)	-	-	-	
Total Budget (=B+C+D)	0	(0)	0	(100.0%)
Change in Working Capital (=A-B-C-D)	(654,036)	(654,036)	(0)	0.0%
FTEs	73.3	74.3	(0.93)	(1.3%)

Summary of Direct Expenses, Fixed Asset Additions, and Net Financing Activity by Administrative Program

	Administrative Services (in whole dollars)					
	Direct Expenses, Fixed Asset Additions, and Net Financing Activity			FTEs		
	2020 Actual	2020 Budget	Over (Under)	2020 Actual	2020 Budget	Over (Under)
			Budget			Budget
General and Administrative	\$ 10,264,510	\$ 11,584,094	\$ (1,319,584)	16.3	16.9	(0.6)
Legal and Regulatory	3,896,902	4,588,376	(691,473)	13.2	15.0	(1.9)
Information Technology	11,718,424	12,830,975	(1,112,550)	26.2	24.4	1.8
Human Resources	2,794,575	2,724,553	70,022	9.8	9.4	0.4
Finance and Accounting	2,307,350	2,423,239	(115,889)	7.8	8.5	(0.7)
Total Administrative Services	\$ 30,981,762	\$ 34,151,236	\$ (3,169,474)	73.3	74.3	(0.9)

Explanation of Variances by Category – All Administrative Services Programs

- **Meetings and Travel Expenses** – Under budget \$773k (69.9%) because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
- **Operating Expenses**
 - Contract and Consultant expenses were under budget \$537k (17.5%) primarily due to underspend in application and infrastructure support in the Information Technology department and underspend for process documentation support in the Finance and Accounting department, both for cost savings purposes, and also to a reduced need for internal audit support.
 - Professional Services expenses were under budget \$375k (16.0%) primarily as a result of lower than anticipated spending on government relations, legal fees, and timing of Board of Trustee retirements and replacements.
 - Miscellaneous expenses were under budget \$34k (44.6%) mostly because of reduced employee engagement expense due to the pandemic.
- **Other Non-Operating Expenses** – Under budget in total by \$647k (210.9%) largely because of gains in the value of the non-qualified deferred compensation plans which are being equally offset by the increases in Personnel expenses creating a net \$0 budget impact, as well as and the elimination of excise taxes due to recent tax law changes, and also lower interest expense since budgeted borrowings in 2019 did not occur.

○ **Fixed Asset Additions**

- Software expenditures were \$321k (160.4%) over budget primarily because of labor costs that were capitalized and added to the cost of the Endpoint Management, Microsoft Teams, and Windows 10 projects for proper accounting treatment
- Equipment and Servers expenditures were \$450k (65.7%) under budget mainly attributable to underspend in the Information Technology department, for cost savings purposes.
- Capital lease asset purchases were over budget \$166k (100%) due to an unbudgeted borrowing for the Information Technology department for laptops.
- Leasehold improvements were under budget \$500k (100%) because of the postponement of Atlanta office renovation costs.

Financial Statements and Report of
Independent Certified Public
Accountants

North American Electric Reliability Corporation

December 31, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
North American Electric Reliability Corporation

We have audited the accompanying financial statements of North American Electric Reliability Corporation (a New Jersey non-profit corporation), which comprise the statements of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of selected expenses shown on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Atlanta, Georgia
May 13, 2021

North American Electric Reliability Corporation

STATEMENTS OF FINANCIAL POSITION

December 31,

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 35,472,052	\$ 43,183,981
Cash - regulatory designated	2,521,000	2,521,000
Restricted cash	500,000	500,000
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$10,467, respectively	5,760,870	3,855,447
Prepaid expenses	5,627,726	3,602,899
Total current assets	49,881,648	53,663,327
Long-term assets		
Property and equipment, net	15,214,603	11,971,747
Security deposits	125,585	125,585
Non-qualified deferred compensation plan assets	3,001,854	2,374,247
Total long-term assets	18,342,042	14,471,579
Total assets	\$ 68,223,690	\$ 68,134,906
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,024,812	\$ 10,316,902
Accrued retirement liabilities	24,022	24,022
Current portion of long-term debt	201,494	-
Deferred revenue	10,217,634	16,371,330
Deferred rent	551,600	485,954
Capital lease obligations	550,523	536,125
Regional assessments collected in advance	11,275,227	15,167,169
Total current liabilities	36,845,312	42,901,502
Long-term liabilities		
Accrued retirement liabilities	409,712	336,906
Deferred rent	1,673,680	2,032,312
Deferred compensation	2,416,743	1,948,835
Insurance reserve	500,000	500,000
Long-term debt	1,090,220	-
Capital lease obligations	209,374	605,834
Total long-term liabilities	6,299,729	5,423,887
Total liabilities	43,145,041	48,325,389
Net assets		
Net assets without donor restrictions	22,557,649	17,288,517
Net assets, regulatory designated funds	2,521,000	2,521,000
Total net assets	25,078,649	19,809,517
Total liabilities and net assets	\$ 68,223,690	\$ 68,134,906

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

North American Electric Reliability Corporation

STATEMENTS OF ACTIVITIES

For the years ended December 31,

	2020	2019
Revenues:		
NERC assessments	\$ 72,011,373	\$ 68,883,995
Penalty income	-	3,071,000
Third-party funding	7,427,974	6,192,287
Testing / fees	1,751,310	1,822,961
Services and software	53,000	45,000
Workshops	-	618,104
Interest	97,130	589,893
Miscellaneous revenues	61,132	323
	81,401,919	81,223,563
Expenses:		
Salaries and other compensation	34,447,835	34,106,785
Employee benefit costs	6,753,566	6,888,384
Retirement and savings plans	3,337,311	3,133,781
Travel and meetings	1,087,997	4,209,865
Services	13,813,652	15,180,674
Rent and tenant expense	3,650,315	3,583,461
Office costs	1,898,022	1,800,128
Computer software and supplies	7,382,679	4,463,112
Depreciation and amortization	3,660,172	3,554,031
Property and other tax expense	36,665	(18,652)
Provision for bad debts	(10,386)	10,540
Loss (gain) on disposal of fixed assets	(150)	5,482
Miscellaneous expenses	48,562	86,503
Interest	26,547	48,427
	76,132,787	77,052,521
Change in net assets	5,269,132	4,171,042
Total net assets, beginning of year	19,809,517	15,638,475
Total net assets, end of year	\$ 25,078,649	\$ 19,809,517

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

North American Electric Reliability Corporation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2020	2019
Cash flows from operating activities		
Change in total net assets	\$ 5,269,132	\$ 4,171,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,660,172	3,554,031
Straight-line rent accrual	(292,986)	(103,174)
(Gain) loss on disposal of fixed assets	(150)	5,482
Provision for bad debts	(10,386)	(10,468)
Non-qualified deferred compensation	467,908	424,693
Change in cash attributable to changes in operating assets and liabilities:		
Accounts receivable	(1,895,037)	171,975
Prepaid expenses	(2,024,827)	(955,471)
Receipt of funds for regional entities	108,415,963	117,697,346
Disbursements of funds to regional entities	(108,415,963)	(117,697,346)
Accounts payable and accrued expenses	3,707,910	334,086
Deferred revenue	(6,153,696)	2,612,357
Deferred revenue - penalties	-	(2,071,000)
Regional assessments collected in advance	(3,891,942)	2,455,210
Deferred compensation plan assets	(627,607)	(287,563)
Accrued retirement liabilities	72,806	(1,918,984)
	(1,718,703)	8,382,216
Cash flows from investing activities		
Purchases of property and equipment	(6,903,028)	(4,560,697)
Proceeds from sales of property and equipment	150	2,175
	(6,902,878)	(4,558,522)
Cash flows from financing activities		
Proceeds from non-revolving credit facility and capital leases	1,457,770	299,187
Debt service	-	(427,577)
Capital lease payments	(548,118)	(467,440)
	909,652	(595,830)
Net cash provided by (used in) financing activities	909,652	(595,830)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(7,711,929)	3,227,864
Cash, cash equivalents, restricted cash, and regulatory designated cash, beginning of year	46,204,981	42,977,117
Cash, cash equivalents, restricted cash, and regulatory designated cash, end of year	\$ 38,493,052	\$ 46,204,981
Supplemental disclosure of non-cash information		
Fixed asset purchases within accounts payable	\$ 2,481,535	\$ 916,381
Supplemental disclosure of cash paid		
Interest	\$ 25,529	\$ 48,427

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

North American Electric Reliability Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

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

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

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

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

The Corporation entered into separate delegation agreements, which were approved by FERC, with the following regional entities: Florida Reliability Coordinating Council ("FRCC"), Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council ("NPCC"), Reliability First Corporation ("RFC"), SERC Reliability Corporation ("SERC"), Texas Reliability Entity ("TRE") and Western Electricity Coordinating Council ("WECC") (collectively the "Regional Entities"). Through these agreements, the Corporation has delegated certain ERO responsibilities and functions to the Regional Entities. Effective August 31, 2019, FERC approved the dissolution of FRCC and the transfer of its responsibilities to SERC.

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

NOTE 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 ("U.S. GAAP").

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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

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

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. NERC did not have any net assets with donor restrictions at December 31, 2020 and 2019, respectively.

Cash and Cash Equivalents, Including Regulatory Designated and Restricted Cash

The Corporation considers all highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. The Corporation maintains its cash balances with one bank. The accounts at the bank are insured up to certain limits by the Federal Deposit Insurance Corporation. Balances in these accounts may exceed Federally-insured limits from time to time. Regulatory designated cash of \$2,521,000 represents penalty revenue collected as of December 31, 2020 and 2019, respectively, but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures. Restricted cash of \$500,000 has been set aside for an insurance reserve and is recorded in current assets and non-current liabilities and is restricted from use for any other purpose.

Use of Estimates

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

Revenue Recognition and Deferred Revenue

The Corporation recognizes revenue in accordance with guidance issued under ASC Topic 606.

The Corporation generates revenues from the following principal activities:

- Assessments to LSEs
- Third-party funding
- Fees for services
- Penalty assessment

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

The Corporation recognizes revenue upon completion of the following:

1. A customer agrees to the Corporation's terms and conditions through a contract that has commercial substance;

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

2. The performance obligations in the contract are identified (typically, the Corporation has only one performance obligation which occurs with a short period of time);
3. The transaction price is determined (based on amounts determined at the time the transaction is initiated);
4. The transaction price is allocated to the various performance obligations (typically not required since only one performance obligation is involved); and
5. The Corporation satisfies its performance obligations.

Annually, the Board of Trustees approves an operating budget for the Corporation that includes a provision for working capital and operating reserves, which are recovered through assessments to LSEs. 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 2020 and 2019, the assessments to LSEs made up approximately 88.5% and 84.8%, respectively, of the total funding for the Corporation.

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

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

The Corporation also generates funding from the collection of fees charged for various services. These services include management of some contracts associated with the Electricity Information Sharing and Analysis Center ("E-ISAC"), the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters. Fees generated for contract management, testing, certifications, services and software, workshops and other services are recognized when the test is taken, service rendered and/or workshops are completed. Control transfers to the customer at a point in time.

Penalty income is derived from FERC's approval of assessment of penalties to registered entities regarding enforcement of NERC's Reliability Standards. The penalty income from a registered entity is recorded as penalty revenue following closure of the enforcement matter including exhaustion of appeals and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as "regulatory designated" cash and net assets. Penalty income is considered NERC's only variable consideration and is estimated at the most likely amount that is expected to be earned at a point in time.

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

The ending balance of regional assessments collected in advance and not yet remitted to the Regional Entities based upon the remittance schedule set forth in the delegation agreements at December 31, 2020 and 2019 was \$11,275,227 and \$15,167,169, respectively.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Accounts Receivable

Accounts receivable are recorded at the original invoice amount, less an estimated allowance for uncollectible accounts. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectability based on past experience and an analysis of current accounts receivable collectability. Changes in the estimated collectability of accounts receivable are recorded in the results of operations for the period in which the estimate is revised. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible. The ending accounts receivable balance at December 31, 2020 and 2019, was \$5,760,870 and \$3,855,447, respectively, net of an allowance of doubtful accounts of \$0 and \$10,467, respectively.

Property and Equipment

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

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

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

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

Compensated Absences

Employees of the Corporation are entitled to paid time off depending on length of service. At December 31, 2020 and 2019, the Corporation has recorded accrued compensated absences of approximately \$937,437 and \$734,711, respectively, 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 ("IRS") concluding that it is exempt from federal income taxes under Section 501(c)(6) of the IRC. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2020.

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. There were no positions recognized for the year ended December 31, 2020 and 2019. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2017. Tax years 2017 through 2020 remain subject to examination by major tax jurisdictions.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Accounting Standards Issued But Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2019-10 extended the effective date an additional year and therefore, ASU No. 2016-02 will be effective for fiscal years beginning after December 15, 2021, with early adoption permitted. An entity may elect to adopt the new standard using either 1) a modified retrospective approach with restated comparative period financial statements or 2) a prospective approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the date of adoption. We anticipate adopting this standard on January 1, 2022.

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 other events occurring subsequent to December 31, 2020 through May 13, 2021, the date the financial statements were available for issuance, noting none requiring disclosure.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2020	2019
Software	\$ 22,820,227	\$ 16,713,179
Furniture and equipment	9,766,820	9,207,947
Leasehold improvements	1,296,443	1,296,444
	33,883,490	27,217,570
Accumulated depreciation and amortization	(18,668,887)	(15,245,823)
Property and equipment, net	\$ 15,214,603	\$ 11,971,747

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$3,660,172 and \$3,554,031, respectively.

NOTE 4 - NON-REVOLVING CREDIT FACILITY AND LINE OF CREDIT

The Corporation secured a non-revolving credit facility on November 1, 2016 to finance certain capital expenditures approved and authorized by the Board of Trustees and FERC under the Capital Financing Program, for annual expenditures made from January 1, 2017 through December 31, 2019. The size of this credit facility is \$5,000,000 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, 2019, there were no borrowings outstanding on this facility.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The Corporation secured a non-revolving credit facility on September 11, 2020 totaling \$8,000,000 to finance certain capital expenditures or refinance existing lease obligations, as approved and authorized by the Board of Trustees and FERC. This facility had a floating interest rate of LIBOR plus 225 basis points during 2020, which yielded a rate of 2.25% as of December 31, 2020. The facility is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. The credit facility is available for approved expenditures through December 5, 2021, and contains three categories of potential projects to be financed:

1. ERO Secure Evidence Locker (ERO SEL) Project - The credit facility allows for a borrowing capacity of \$3,800,000 for the ERO SEL project. Borrowings for up to \$2,000,000 were approved for the ERO SEL project by the Board of Trustees on May 14, 2020 and by FERC on June 22, 2020. As of December 31, 2020, there were \$1,291,714 of borrowings outstanding on this facility.
2. ERO Capital Projects - The credit facility allows for a borrowing capacity of \$2,900,000 for certain capital expenditures under the Capital Financing Program as approved during NERC's annual Business Plan and Budget filing. As of December 31, 2020, there were no borrowings approved or outstanding on this facility.
3. Technology Lease Refinance - The credit facility allows for a borrowing capacity of \$1,300,000 for certain technology lease refinancing. As of December 31, 2020, there were no borrowings approved or outstanding on this facility.

Principal payments on the credit facility are as follows:

Year Ending December 31,

2021	\$	201,494
2022		250,698
2023		257,038
2024		263,538
2025		270,203
Thereafter		48,743
Total	\$	1,291,714

The Corporation has a line of credit with a bank that renews annually and currently expires in June 2021. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. The line of credit accrues interest at 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, 2020 and 2019. At December 31, 2020 and 2019, the available amount under the line of credit was reduced by open letters of credit totaling \$109,798, which represent security deposits for the Corporation's office lease agreements.

Both loan agreements contain various positive and negative covenants, and the Corporation was in compliance with these covenants as of December 31, 2020 and 2019.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE 5 - NET ASSETS

NERC's Working Capital and Operating Reserve Policy established a separate Future Obligation Reserve, System Operator Certification Reserve, and Operating Contingency Reserve. The purpose of these reserves is to spread the use of available operating surpluses over a number of years in order to avoid wide swings in annual member assessments and billings that could otherwise result from applying all of these funds as an offset to assessments and billings in a single year. The reserves are approved by NERC's Board of Trustees and FERC and are available to offset future assessments and billings.

The Future Obligation Reserve includes funding that has been received to satisfy future obligations under the office lease agreements to which the Corporation is a party. At December 31, 2020 and 2019, \$1,657,901 and \$2,518,266, respectively, is designated in the Future Obligation Reserve.

The System Operator Certification Reserve supports the system operator certification program and includes surplus funding from operator certification and testing fees that are above incurred expenses. At December 31, 2020 and 2019, \$996,220 and \$777,274, respectively, is designated in the System Operator Certification Reserve.

The Operating Contingency Reserve includes reserves for contingencies that were not anticipated, assumed to be likely or the timing of which was uncertain, at the time of preparation and approval of the Corporation's business plan and budget. The determination of the amount of the Operating Contingency Reserve shall take into consideration the projected costs and risks of ongoing operations, projected resource requirements associated with the significant ongoing or emerging reliability initiatives, capital-spending forecasts, and other factors that the Board, Finance and Audit and Committee, and management consider appropriate. At December 31, 2020 and 2019, \$7,982,913 and \$6,199,083, respectively, is designated in the Operating Contingency Reserve. Of the \$7,982,913 reserve balance at December 31, 2020, \$1,800,000 has been approved by NERC's Board of Trustees and FERC to be used in 2021 for capital project costs, resulting in a balance of \$6,182,913 unavailable for general expenditures within one year.

Penalty income from a registered entity is recorded as penalty revenue following closure of the enforcement matter, including exhaustion of appeals and is to be used to reduce future NERC assessments. Penalty revenues collected but not yet approved by NERC's Board of Trustees and FERC to be released to fund expenditures are reflected in the statement of financial position as "regulatory designated" cash and net assets. At December 31, 2020 and 2019, the regulatory designated net assets balance is \$2,521,000.

In 2020, the CRISP participants agreed to reserve funds that had been collected in 2020 and were intended to be spent during the year on special projects but were not. The amount of the unused funds in the Special Projects Reserve at December 31, 2020 is \$1,049,549 and is expected to be spent in 2021 on special projects.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE 6 - REGIONAL ASSESSMENTS COLLECTED IN ADVANCE

In addition to the Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the Regional Entities. The regional assessment is based on approved budgets of the Regional Entities and remitted to the Regional Entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the Regional Entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for December 31, 2020 and 2019 were as follows:

	2020	2019
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$ 116,712,162	\$ 114,211,050
Total regional assessments remitted to regional entities	(116,222,552)	(114,211,050)
Billings over remittances	\$ 489,610	\$ -

As of December 31, 2020 and 2019, 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 \$11,275,227 and \$15,167,169, respectively.

NOTE 7 - DEFERRED COMPENSATION

Deferred Compensation Plan

The Corporation established a deferred compensation plan for certain employees in 2012 in accordance with IRC Section 457(b). The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the IRC. In 2014, the plan was amended to allow the Corporation to make discretionary, non-elective contributions to the plan on behalf of the employee. While the Corporation has the discretion to make contributions to this plan, the balances are primarily comprised of funds contributed by the employees. The liability for this deferred compensation plan was \$2,416,743 and \$1,948,835 at December 31, 2020 and 2019, respectively, and is included in deferred compensation non-current liabilities on the statements of financial position.

In 2015, the Corporation established a 457(f) nonqualified deferred compensation plan for certain key employees. The plan allows the Corporation to make discretionary, annual awards that vest over time. The vesting period of each award for each participant is specified in writing. When the award is made, the Corporation makes a contribution to the 457(f) plan and records the contribution as non-qualified deferred compensation plan assets on the statements of financial position. The Corporation 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 the long-term accrued retirement liabilities, and accounts payable and accrued expenses (for awards payable within 12 months) on the statements of financial position. As of December 31, 2020 and 2019, the accrued liability for this deferred compensation plan was \$398,989 and \$289,504, respectively.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

At December 31, 2020 and 2019, the Corporation holds investments to fund future liabilities of the 457(b) and 457(f) non-qualified deferred compensation plans totaling \$3,001,854 and \$2,374,247, respectively. These investments are reported at fair market value and are included in the non-qualified deferred compensation plan assets on the statement of financial position. Investments are primarily held in mutual funds. Realized and unrealized gains on non-qualified deferred compensation plan assets totaling \$403,163 and \$411,433 in 2020 and 2019, respectively, are deducted from deferred compensation expense, which is included in salaries and other compensation expense on the statements of activities.

Fair Value Measurements - Deferred Compensation Plan

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

- Level 1 - Quoted prices (unadjusted) in active markets for identified assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs developed using the DC Plan's estimates and assumptions which reflect those that market participants would use.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019.

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

The valuation methodologies described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the DC Plan believes its valuation methodologies 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 availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

For the years ended December 31, 2020 and 2019, there were no transfers in or out of Levels 1, 2 or 3.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Retiree Medical Benefits

Effective September 1, 2007, the Board of Trustees approved and adopted a policy to provide medical coverage for a limited number of current and transitional retirees and their dependents up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2017 Social Security Administration Actuarial Period Life Table, annual inflation rate of 2.3% and discount rate of 4.8%. At December 31, 2020 and 2019, the total accrued retiree medical benefits liability was \$179,939 and \$196,227, respectively, and is included in current and non-current accrued retirement liabilities on the statement of financial position. The retiree medical expense related to this policy was \$7,734 and \$9,492 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating Leases

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

Approximate future minimum payments on office lease space at December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 3,881,000
2022	3,090,000
2023	2,258,000
2024	2,379,000
2025	2,068,000
Thereafter	<u>-</u>
Future obligation	<u>\$ 13,676,000</u>

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The difference between rent expense calculated ratably over the lease term and actual payments under the agreements are recorded as a deferred rent obligation on the statement of financial position in the amount of \$2,225,280 and \$2,518,266 at December 31, 2020 and 2019, respectively. Office rent and tenant expense was \$3,650,315 and \$3,583,461 for the years ended December 31, 2020 and 2019, respectively.

Capital Leases

The Corporation has entered into capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$542,874 and \$471,602 for the years ended December 31, 2020 and 2019, respectively.

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Assets leased by the Corporation under capital leases are included in property and equipment, net and capital lease obligation on the statement of financial position as of December 31, 2020 and 2019 consisted of the following:

	2020	2019
Office equipment leases (audio visual, computers, etc.)	\$ 2,474,467	\$ 2,308,411
Accumulated depreciation	(1,741,458)	(1,198,584)
Net book value	\$ 733,009	\$ 1,109,827

The following is a schedule of future minimum lease payments under these capital leases, together with the future obligation net of interest as of December 31, 2020 and 2019:

Year Ending December 31,	
2021	\$ 564,912
2022	134,457
2023	49,219
2024	31,899
2025	-
Total minimum lease payment	780,487
Less: Amounts representing interest	(20,590)
Future obligations, net of interest	\$ 759,897

Contractual Commitments

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

Year Ending December 31,	
2021	\$ 269,000
2022	263,000
2023	76,000
2024	-
2025	-
Thereafter	-
Future obligation	\$ 608,000

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

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE 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 IRS 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 IRS Code 401(a)(17). The Corporation’s expenses related to the Plan for the years ended December 31, 2020 and 2019 were \$3,337,311 and \$3,133,781, respectively. No contributions are accrued as of December 31, 2020 and 2019.

NOTE 10 - CONCENTRATION OF CREDIT RISK

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

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE 11 - FUNCTIONAL CLASSIFICATION

The Corporation is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NERC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NERC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities) as defined by FERC. Costs not specifically attributable to a specific program or supporting activity are recorded as administrative program expenses. The following table summarizes operational and administrative programs on a functional basis for the years ended December 31, 2020 and 2019:

	2020	2019
Operational programs:		
Reliability standards	\$ 3,606,504	\$ 3,345,843
Registration and certification	1,595,021	1,470,063
Compliance assurance	4,914,800	5,306,808
Compliance enforcement	2,838,964	2,697,285
Reliability assessment and performance analysis	6,152,821	7,358,040
Event analysis	2,742,321	2,832,819
Situation awareness	2,410,431	2,987,346
Training, education and operator certification	1,371,929	1,479,464
E-ISAC	18,486,472	16,574,173
Total operational programs	44,119,263	44,051,841
Administrative programs:		
General and administrative	10,456,292	10,893,400
Legal and regulatory	3,896,902	4,896,095
Information technology	12,558,405	12,073,414
Human resources	2,794,575	2,587,793
Finance and accounting	2,307,350	2,549,978
Total administrative programs	32,013,524	33,000,680
Total expenses	\$ 76,132,787	\$ 77,052,521

NOTE 12 - LIQUIDITY AND AVAILABILITY

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

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 35,472,052	\$ 43,183,981
Accounts receivable	5,760,870	3,855,447
	<u>41,232,922</u>	<u>47,039,428</u>
Financial assets at December 31		
Less: Assets unavailable for general expenditures within one year		
Regional assessments collected in advance	11,275,227	15,167,169
Board-designated operating reserves - operating contingency	6,182,913	6,199,083
Board-designated operating reserves - future obligation	1,657,901	2,518,266
Board-designated operating reserves - system operator certification	996,220	777,274
	<u>20,112,261</u>	<u>24,661,792</u>
Total financial assets unavailable for general expenditure within one year		
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 21,120,661</u>	<u>\$ 22,377,636</u>

NOTE 13 - REVENUES

The following table shows the Corporation's revenues disaggregated according to the timing of satisfaction of performance obligations for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue recognized at a point in time:		
Testing/fees	\$ 1,751,310	\$ 1,822,961
Penalty income	-	3,071,000
Services and software	53,000	45,000
Workshops	-	618,104
Miscellaneous revenues	61,132	323
	<u>1,865,442</u>	<u>5,557,388</u>
Total revenue recognized at a point in time		
Revenue recognized over time:		
NERC assessments	72,011,373	68,883,995
Third-party funding	7,427,974	6,192,287
Interest	97,130	589,893
	<u>79,536,477</u>	<u>75,666,175</u>
Total revenue recognized over time		
Total revenues	<u>\$ 81,401,919</u>	<u>\$ 81,223,563</u>

North American Electric Reliability Corporation
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NOTE 14 - ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2020 and 2019 by each major revenue stream is as follows:

	<u>2020</u>	<u>2019</u>
Accounts receivable by each major revenue stream:		
NERC assessments	\$ 2,083,016	\$ 1,630,635
Third-party funding	137,312	-
Testing/fees	-	-
Other non-major revenue streams	231,782	288,641
Other receivables (non-revenue) - regional assessments	<u>3,308,760</u>	<u>1,936,171</u>
 Total accounts receivable	 <u>\$ 5,760,870</u>	 <u>\$ 3,855,447</u>

NOTE 15 - DEFERRED REVENUE

Deferred revenue (contract liability) as of December 31, 2020 and 2019 by each major revenue stream is as follows:

	<u>2020</u>	<u>2019</u>
Deferred revenue by each major revenue stream:		
NERC assessments	\$ 9,847,610	\$ 13,718,482
Third-party funding	270,374	2,496,448
Testing/fees	39,650	96,400
Other non-major revenue streams	<u>60,000</u>	<u>60,000</u>
 Total deferred revenue	 <u>\$ 10,217,634</u>	 <u>\$ 16,371,330</u>

SUPPLEMENTAL INFORMATION

North American Electric Reliability Corporation

SUPPLEMENTAL SCHEDULE OF SELECTED EXPENSES

For the years ended December 31,

	2020	2019
Employee benefit costs:		
Payroll taxes (FICA, SUI, FUI, Medicare)	\$ 2,154,925	\$ 2,052,327
Employee benefits - medical (medical, dental, vision)	3,577,822	3,479,530
Employee benefits - life / disability	342,298	350,694
Employee benefits - other	418,720	479,798
Insurance - workers' compensation	49,785	58,141
Relocation expenses	23,191	55,000
Educational	186,825	412,894
	\$ 6,753,566	\$ 6,888,384
Total employee benefit costs	\$ 6,753,566	\$ 6,888,384
Travel and meetings:		
Meetings	\$ 242,199	\$ 1,092,227
Workshops	250,000	657,941
Travel	395,790	2,288,161
Online meetings	200,008	171,536
	\$ 1,087,997	\$ 4,209,865
Total travel and meetings	\$ 1,087,997	\$ 4,209,865
Services:		
Insurance - commercial	\$ 225,166	\$ 152,725
Contract and consultants	11,751,668	12,737,309
Independent trustee fees	1,281,250	1,395,312
Search fees	135,677	90,623
Outside services	49,672	245,246
Accounting and auditing fees	136,219	119,777
Legal fees	234,000	439,682
	\$ 13,813,652	\$ 15,180,674
Total services	\$ 13,813,652	\$ 15,180,674
Office costs:		
Publications and subscriptions	\$ 327,828	\$ 235,779
Dues	96,557	85,283
Postage	3,780	7,951
UPS, express mail, etc.	35,383	36,734
Telephone	350,513	349,011
Office and equipment repair/services	152,579	125,786
Copying	21,998	28,474
Audio visual and computer equipment	274,844	257,839
Office supplies	187,129	273,947
Bank charges	39,776	27,543
Credit card merchant fees	95,428	90,701
Sales & use tax	9,123	-
Internet expenses	303,084	281,080
	\$ 1,898,022	\$ 1,800,128
Total office costs	\$ 1,898,022	\$ 1,800,128

ATTACHMENT 2

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

MIDWEST RELIABILITY ORGANIZATION

2020 MRO Budget True-Up

May 1, 2021



**MIDWEST
RELIABILITY
ORGANIZATION**

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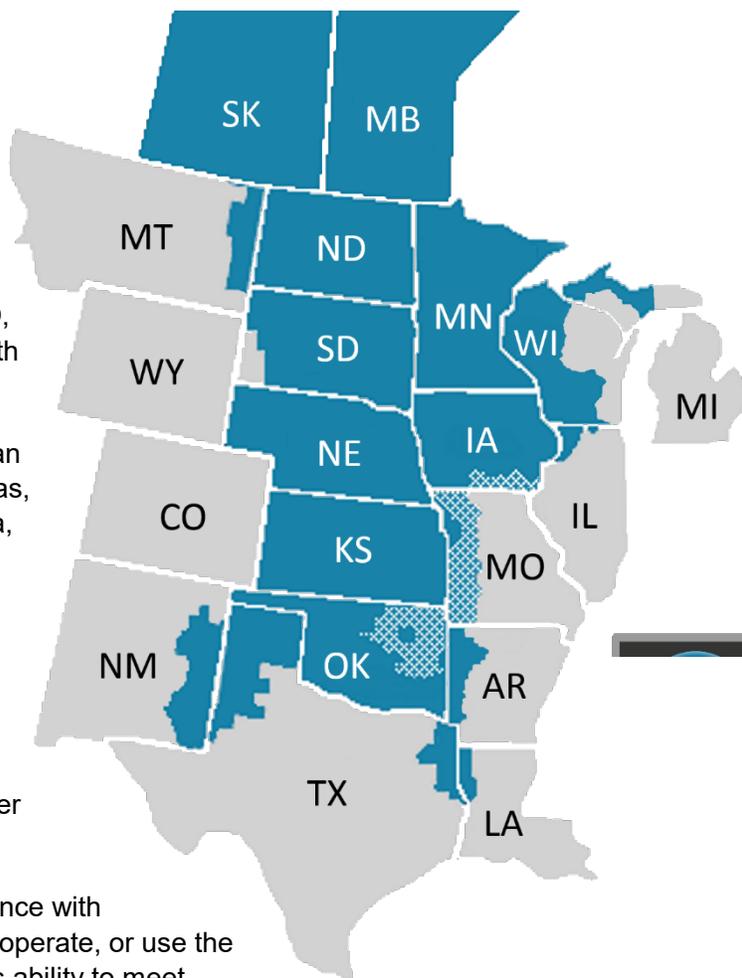
PREFACE

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

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

The MRO region spans the provinces of Saskatchewan and Manitoba, and all or parts of the states of Arkansas, Illinois, Iowa, Kansas, Louisiana, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wisconsin.

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



2020 STATUTORY SUMMARY BUDGET VARIANCE

Midwest Reliability Organization
Statement of Activity
12/31/2020

(In Whole Dollars)

		2020 YTD Actual	2020 YTD Budget	2020 YTD Variance	%
Funding					
ERO Funding					
	ERO Assessments	\$ 16,983,251	\$ 16,983,251	-	
	Penalty Sanctions	557,718	557,718	-	
A. Total ERO Funding		\$ 17,540,970	\$ 17,540,969	\$ -	
	Other Revenue	4,147	-	4,147	
Total Funding		\$ 17,545,117	\$ 17,540,969	\$ -	
Expenses					
Personnel Expenses					
	Salaries	\$ 9,786,020	\$ 9,334,262	451,758	
	Payroll Taxes	637,315	586,604	50,711	
	Benefits	1,010,281	1,061,581	(51,300)	
	Retirement Costs	1,488,902	1,500,244	(11,342)	
Total Personnel Expenses		\$ 12,922,518	\$ 12,482,691	\$ 439,827	3.5%
Meeting Expenses					
	Meetings & Conference Calls	\$ 10,124	\$ 175,900	(165,776)	
	Travel	75,846	1,108,732	(1,032,886)	
Total Meeting Expenses		\$ 85,970	\$ 1,284,632	\$ (1,198,662)	-93.3%
Operating Expenses					
	Consultants & Contracts	\$ 630,168	\$ 1,306,319	(676,151)	
	Office Rent	723,149	774,000	(50,851)	
	Office Costs	558,282	930,327	(372,045)	
	Professional Services	448,244	528,000	(79,756)	
Total Operating Expenses		\$ 2,359,842	\$ 3,538,646	\$ (1,178,804)	-33.3%
	Total Direct Expenses	\$ 15,368,330	\$ 17,305,969	\$ (1,937,639)	-11.2%
Indirect Expenses		\$ -	\$ -	\$ -	
Other Non-Operating Expenses		\$ (304,370)	\$ -	\$ (304,370)	
B. Total Expenses		\$ 15,063,960	\$ 17,305,969	\$ (2,242,009)	
Net Funding less Expenses (A-B)		\$ 2,481,157	\$ 235,000	\$ 2,246,156	
C. Fixed Asset Additions, excluding Right of Use Assets		\$ 784,100	\$ 235,000	\$ 549,100	233.7%
Total Budget (B + C)		\$ 15,848,059	\$ 17,540,969	\$ (1,692,910)	-9.7%
Change in Working Capital (A-B-C)		\$ 1,697,058	\$ -	\$ 1,697,057	
Head Count		60.00	63.00	(3.00)	
FTEs		60.23	63.00	(2.77)	
	Beginning WC-1/1/20 ¹	\$ 4,211,767	\$ 4,934,448	\$ (722,681)	
	Change to WC-2020	1,697,058	-	1,697,058	
	Working Capital at December 31, 2020	\$ 5,908,825	\$ 4,934,448	\$ 974,377	



¹ 2019 True-up provides a roll forward working capital balance of \$6M. Year-end adjustments not reflected in the 2019 report was restated in the beginning working capital for 2020. Net adjustments of \$1.9M include a transfer of excess working capital to the assessment stabilization reserve.



SUMMARY OF FINANCIALS AND RESOURCES

MRO staff reports the audited final numbers for the 2020 budget were 9.7 percent under budget. Budget underage is primarily due to the global pandemic. Variances to budget include decreases in meeting, travel, consulting, office costs, and professional service costs.

Personnel expenses had an overage of 3.5 percent attributed to turnover costs and internal promotions during the year. MRO employed 61 people, timing of staffing activities culminated in a net FTE of 60. The annual actuarial adjustment of MRO's Retiree Medical Plan resulted in an additional decrease to expenses. The adjustment is represented as a one-time non-operating cost.

Staff travel and meeting expenses were under budget as MRO transitioned to virtual means using WebEx technology through year-end.

Consultants and contracts was underspent as staff worked through remote capability and much of the cost to maintain onsite operations remained low. MRO used fewer external consultants, relying on internal staff to manage and maintain MRO's virtual environment. Office costs were under budget due to cancelled staff training and office maintenance costs. Fixed assets were over budget as a board-approved, but unbudgeted office expansion ensued that is due to be completed in the first quarter of 2021.

External professional services include costs for independent director retainers and travel expenses. Professional services were primarily underspent because no independent director travel expenses were incurred.

MRO staff believes the principal responsibilities under the delegation agreement were met in 2020. Some highlights:

- Conducted 16 audits, including 13 combined CIP/operations and planning audits, 1 CIP audit, and 2 operations and planning audits; MRO also participated in 1 combined CIP/operations and planning audit led by another Regional Entity, 3 operations and planning audits led by another Regional Entity, and 3 coordinated CIP audits led by another Regional Entity
- Participated in 1 CIP spot check led by FERC
- Completed 23 Compliance Oversight Plans (COPs) utilizing the new ERO process
- Submitted 199 noncompliances and 5 dismissals with FERC or the Applicable Governmental Authority
- Registered 14 new entities, added functions to 5 entities, removed 1 function, and deregistered 5 entities
- Participated in 1 certification and 1 certification review
- Completed the seasonal and long-term reliability assessments for the year
- Completed the first 2020 Regional Winter Assessment
- Provided analysis of 31 events in the Region and worked with registered entities on the completion of reports, recommendations, lessons learned, and reliability assessments
- Developed metrics based on data from the events and causes, as well as for the performance of protection systems, and assessed situation awareness information provided by registered entities
- Completed several workshops in support of regional reliability and security, in addition to other outreach activities



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

Meeting and Travel Expenses (Variance of \$1,198,662 (93.3%) under budget)

Meetings and travel were severely impacted by COVID-19. All scheduled in-person conferences, board, and staff meetings were cancelled or hosted via virtual formats. Most meetings and conferences were held as webinars or conference calls.

Consultants & Contracts (Variance of \$676,151 (51.8%) under budget)

Consultants and Contracts were underspent due to COVID-19. Internal IT staff maintained MRO's virtual environment, reducing the need for external IT support.

Office Costs (Variance of \$372,045 (40.0%) under budget)

The 2020 budget variance was primarily due to canceled in-person employee training, reduced equipment repairs and fewer purchases of office and computer supplies and reduced office maintenance expense due to reduced in-office presence of staff.

Professional Services (Variance of \$79,756 (15.1%) under budget)

External professional services experienced reduced costs due to cancelled travel for independent directors.

Fixed Assets

Purchases in leasehold improvements resulted in a variance of \$574,100 over budget. The one-time purchases were due to an approved unbudgeted office expansion. The majority of these costs were offset by the underages experienced in other budget areas.

MRO had no non-statutory activities in 2020; 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		2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	712,541	712,541	-	0.0%
	Penalty Sanctions	23,607	23,607	-	0.0%
A.	Total ERO Funding	\$ 736,148	\$ 736,148	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	252,964	306,795	(53,831)	-17.5%
	Payroll Taxes	17,928	18,021	(93)	-0.5%
	Employee Benefits	27,919	35,471	(7,552)	-21.3%
	Savings and Retirement	38,919	59,260	(20,341)	-34.3%
	Total Personnel Expenses	\$ 337,732	\$ 419,547	\$ (81,815)	-19.5%
Meeting Expenses					
	Meetings	-	1,400	(1,400)	-100.0%
	Travel - Staff Business	1,196	37,166	(35,971)	-96.8%
	Travel - Member Reimbursement	-	20,000	(20,000)	-100.0%
	Conference Calls	-	-	-	-
	Total Meeting Expenses	\$ 1,196	\$ 58,566	\$ (57,371)	-98.0%
Operating Expenses					
	Consultants	-	-	-	-
	Contract	-	-	-	-
	Building Rent and Facilities	-	-	-	-
	Office Costs	7,561	6,583	978	14.9%
	Professional Services	-	-	-	-
	Contingency	-	-	-	-
	Total Operating Expenses	\$ 7,561	\$ 6,583	\$ 978	14.9%
	Indirect Expenses	\$ 217,546	\$ 241,505	\$ (23,959)	-9.9%
Other Non-Operating Expenses					
	B. Total Expenses	\$ 564,034	\$ 726,201	\$ (162,167)	-22.3%
	Change in Assets (A-B)	\$ 172,114	\$ 9,947	\$ 162,167	1630.3%
Fixed Assets					
	Equipment CapEx	-	-	-	-
	Computer & Software CapEx	-	-	-	-
	Furniture & Fixtures CapEx	-	-	-	-
	Leasehold Improvements	-	-	-	-
	Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
	Allocation of Fixed Assets	30,858	9,947	20,911	210.2%
C.	Total Inc(Dec) in Fixed Assets	\$ 30,858	\$ 9,947	\$ 20,911	210.2%
	Total Budget (B+C)	\$ 594,893	\$ 736,148	\$ (141,256)	-19.2%
	Change in Working Capital (A-B-C)	\$ 141,255	\$ (0)	\$ 141,256	
	FTEs	1.88	2.08	(0.20)	-9.6%



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

Senior staff transitioned to program management. Executive staff transitioned to organizational management.

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Fixed Assets

Purchases in leasehold improvements resulted in a variance of \$600,864 over budget. The one-time purchases are due to an approved unbudgeted office expansion. The allocation of these costs is based upon FTEs.



2. Compliance Monitoring and Enforcement Program (CMEP)

COMPLIANCE MONITORING AND ENFORCEMENT PROGRAM		2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	11,466,158	11,466,158		0.0%
	Penalty Sanctions	381,686	381,686	-	0.0%
A. Total ERO Funding		\$ 11,847,844	\$ 11,847,844	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	4,993,728	4,934,233	59,495	1.2%
	Payroll Taxes	345,490	329,276	16,214	4.9%
	Employee Benefits	576,948	574,079	2,869	0.5%
	Savings and Retirement	786,419	779,300	7,119	0.9%
Total Personnel Expenses		\$ 6,702,585	\$ 6,616,888	\$ 85,697	1.3%
Meeting Expenses					
	Meetings	1,194	9,500	(8,306)	-87.4%
	Travel - Staff Business	27,037	338,166	(311,129)	-92.0%
	Travel - Member Reimbursement	717	63,200	(62,483)	-98.9%
	Conference Calls	-	-	-	
Total Meeting Expenses		\$ 28,948	\$ 410,866	\$ (381,918)	-93.0%
Operating Expenses					
	Consultants	13,274	403,000	(389,726)	-96.7%
	Contract	183,630	180,394	3,236	1.8%
	Building Rent and Facilities	-	-	-	
	Office Costs	84,798	171,150	(86,352)	-50.5%
	Professional Services	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses		\$ 281,703	\$ 754,544	\$ (472,841)	-62.7%
Indirect Expenses		\$ 3,536,200	\$ 3,904,719	\$ (368,519)	-9.4%
Other Non-Operating Expenses					
B. Total Expenses		\$ 10,549,435	\$ 11,687,017	\$ (1,137,581)	-9.7%
Change in Assets (A-B)		\$ 1,298,409	\$ 160,827	\$ 1,137,581	707.3%
Fixed Assets					
	Equipment CapEx	-	-	-	
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
	Allocation of Fixed Assets	165,864	160,827	5,036	3.1%
C. Total Inc(Dec) in Fixed Assets		\$ 165,864	\$ 160,827	\$ 5,036	3.1%
Total Budget (B+C)		\$ 10,715,299	\$ 11,847,844	\$ (1,132,545)	-9.6%
Change in Working Capital (A-B-C)		\$ 1,132,545	\$ (0)	\$ 1,132,545	
FTEs		32.34	33.63	(1.29)	-3.8%



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

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Operating Expenses

Consultants were underspent due to COVID-19. MRO internal staff managed the compliance workload during the pandemic which eliminated the need for consultants. Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance.



3. Reliability Assessment and Performance Analysis Program

RELIABILITY ASSESSMENT AND PERFORMANCE ANALYSIS		2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments	3,018,309	3,018,309	-	0.0%
	Penalty Sanctions	95,109	95,109	-	0.0%
A. Total ERO Funding		\$ 3,113,418	\$ 3,113,418	\$ -	0.0%
Expenses					
Personnel Expenses					
	Salaries	1,169,718	1,272,880	(103,162)	-8.1%
	Payroll Taxes	84,319	82,405	1,914	2.3%
	Employee Benefits	112,718	140,066	(27,348)	-19.5%
	Savings and Retirement	197,519	214,605	(17,086)	-8.0%
Total Personnel Expenses		\$ 1,564,274	\$ 1,709,956	\$ (145,682)	-8.5%
Meeting Expenses					
	Meetings	675	11,000	(10,325)	-93.9%
	Travel - Staff Business	16,844	120,000	(103,156)	-86.0%
	Travel - Member Reimbursement	1,563	147,000	(145,437)	-98.9%
	Conference Calls	-	-	-	-
Total Meeting Expenses		\$ 19,083	\$ 278,000	\$ (258,917)	-93.1%
Operating Expenses					
	Consultants	-	-	-	-
	Contract	46,083	81,400	(35,317)	-43.4%
	Building Rent and Facilities	-	-	-	-
	Office Costs	13,810	31,000	(17,190)	-55.5%
	Professional Services	-	-	-	-
	Contingency	-	-	-	-
Total Operating Expenses		\$ 59,893	\$ 112,400	\$ (52,507)	-46.7%
Indirect Expenses		\$ 910,839	\$ 972,987	\$ (62,147)	-6.4%
Other Non-Operating Expenses					
B. Total Expenses		\$ 2,554,089	\$ 3,073,343	\$ (519,254)	-16.9%
Change in Assets (A-B)		\$ 559,329	\$ 40,075	\$ 519,254	1295.7%
Fixed Assets					
	Equipment CapEx	-	-	-	-
	Computer & Software CapEx	-	-	-	-
	Furniture & Fixtures CapEx	-	-	-	-
	Leasehold Improvements	-	-	-	-
Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	-
	Allocation of Fixed Assets	42,722	40,075	2,647	6.6%
C. Total Inc(Dec) in Fixed Assets		\$ 42,722	\$ 40,075	\$ 2,647	6.6%
Total Budget (B+C)		\$ 2,596,811	\$ 3,113,418	\$ (516,607)	-16.6%
Change in Working Capital (A-B-C)		\$ 516,607	\$ (0)	\$ 516,607	
FTEs					
		8.33	8.38	(0.05)	-0.6%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Operating Expenses

Contracts

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

Office Costs

These costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance.



4. Training, Education, and Operator Certification Program

TRAINING, EDUCATION, AND OPERATOR CERTIFICATION PROGRAM	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	1,072,457	1,072,457	-	0.0%
Penalty Sanctions	33,708	33,708	-	0.0%
A. Total ERO Funding	\$ 1,106,165	\$ 1,106,165	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	293,776	453,752	(159,976)	-35.3%
Payroll Taxes	21,683	22,296	(613)	-2.8%
Employee Benefits	38,758	42,122	(3,364)	-8.0%
Savings and Retirement	63,017	69,351	(6,334)	-9.1%
Total Personnel Expenses	\$ 417,233	\$ 587,521	\$ (170,288)	-29.0%
Meeting Expenses				
Meetings	809	90,000	(89,191)	-99.1%
Travel - Staff Business	-	49,600	(49,600)	-100.0%
Travel - Member Reimbursement	-	20,000	(20,000)	-100.0%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 809	\$ 159,600	\$ (158,791)	-99.5%
Operating Expenses				
Consultants	-	-	-	-
Contract	-	-	-	-
Building Rent and Facilities	-	-	-	-
Office Costs	-	-	-	-
Professional Services	-	-	-	-
Contingency	-	-	-	-
Total Operating Expenses				0.0%
Indirect Expenses	\$ 282,109	\$ 344,841	\$ (62,733)	-18.2%
Other Non-Operating Expenses				
B. Total Expenses	\$ 700,151	\$ 1,091,962	\$ (391,811)	-35.9%
Change in Assets (A-B)	\$ 406,014	\$ 14,203	\$ 391,811	2758.7%
Fixed Assets				
Equipment CapEx	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	13,232	14,203	(971)	-6.8%
C. Total Inc(Dec) in Fixed Assets	\$ 13,232	\$ 14,203	\$ (971)	-6.8%
Total Budget (B+C)	\$ 713,383	\$ 1,106,166	\$ (392,782)	-35.5%
Change in Working Capital (A-B-C)	\$ 392,782	\$ (1)	\$ 392,782	
FTEs	2.58	2.97	(0.39)	-13.1%



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

Outreach and training initiatives were led by internal technical staff and other subject matter experts, allowing internal executive staff to spend time meeting priorities in other program areas. This resulted in a reduction in personnel costs, also reflected in the reduction in FTEs to this program.

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Indirect Expenses

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



5. Situation Awareness and Infrastructure Security Program

SITUATION AWARENESS AND INFRASTRUCTURE SECURITY	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments	713,786	713,786	-	0.0%
Penalty Sanctions	23,607	23,607	-	0.0%
A. Total ERO Funding	\$ 737,393	\$ 737,393	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	288,418	283,299	5,119	1.8%
Payroll Taxes	21,283	17,712	3,571	20.2%
Employee Benefits	38,718	35,471	3,247	9.2%
Savings and Retirement	51,268	42,759	8,509	19.9%
Total Personnel Expenses	\$ 399,687	\$ 379,241	\$ 20,446	5.4%
Meeting Expenses				
Meetings	929	2,000	(1,071)	-53.5%
Travel - Staff Business	1,774	18,400	(16,626)	-90.4%
Travel - Member Reimbursement	9,560	72,000	(62,440)	-86.7%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 12,263	\$ 92,400	\$ (80,137)	-86.7%
Operating Expenses				
Consultants	-	-	-	-
Contract	-	-	-	-
Building Rent and Facilities	-	-	-	-
Office Costs	7,609	14,300	(6,691)	-46.8%
Professional Services	-	-	-	-
Contingency	-	-	-	-
Total Operating Expenses	\$ 7,609	\$ 14,300	\$ (6,691)	-46.8%
Indirect Expenses	\$ 288,669	\$ 241,505	\$ 47,164	19.5%
Other Non-Operating Expenses				
B. Total Expenses	\$ 708,229	\$ 727,446	\$ (19,217)	-2.6%
Change in Assets (A-B)	\$ 29,164	\$ 9,947	\$ 19,217	193.2%
Fixed Assets				
Equipment CapEx	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Allocation of Fixed Assets	13,540	9,947	3,593	36.1%
C. Total Inc(Dec) in Fixed Assets	\$ 13,540	\$ 9,947	\$ 3,593	36.1%
Total Budget (B+C)	\$ 721,769	\$ 737,393	\$ (15,625)	-2.1%
Change in Working Capital (A-B-C)	\$ 15,624	\$ (0)	\$ 15,625	
FTEs	2.64	2.08	0.56	26.9%



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

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Indirect Expenses

There were higher indirect costs than budgeted allocated to this program area due to higher FTEs than budgeted. These costs are allocated to the delegated program areas based on the delegated program areas' FTEs.



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

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



6a. General and Administrative

GENERAL AND ADMINISTRATIVE		2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments				
	Penalty Sanctions				
	Other Revenue	4,147		\$4,147	
A. Total ERO Funding		\$ 4,147	\$ -	\$ 4,147	
Expenses					
Personnel Expenses					
	Salaries	839,790	532,287	307,503	57.8%
	Payroll Taxes	31,642	21,762	9,880	45.4%
	Employee Benefits	56,171	44,339	11,832	26.7%
	Savings and Retirement	117,295	82,843	34,452	41.6%
Total Personnel Expenses		\$ 1,044,898	\$ 681,231	\$ 363,667	53.4%
Meeting Expenses					
	Meetings	6,323	60,000	(53,677)	-89.5%
	Travel - Staff Business	7,532	63,000	(55,468)	-88.0%
	Travel - Member Reimbursement	4,282	119,700	(115,418)	-96.4%
	Conference Calls	-	-	-	
Total Meeting Expenses		\$ 18,138	\$ 242,700	\$ (224,562)	-92.5%
Operating Expenses					
	Consultants	31,492	32,000	(508)	-1.6%
	Contract	-	-	-	
	Building Rent and Facilities	-	-	-	
	Office Costs	81,488	53,500	27,988	52.3%
	Professional Services	-	-	-	
	Contingency	-	-	-	
Total Operating Expenses		\$ 112,979	\$ 85,500	\$ 27,479	32.1%
Indirect Expenses		\$ (1,176,015)	\$ (1,009,431)	\$ (166,584)	16.5%
Other Non-Operating Expenses					
B. Total Expenses		\$ -	\$ -	\$ -	
Change in Assets (A-B)		\$ 4,147	\$ -	\$ 4,147	
Fixed Assets					
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	-	-	-	
	Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
	Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets		\$ -	\$ -	\$ -	
Total Budget (B+C)		\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)		\$ 4,147	\$ -	\$ 4,147	
FTEs					
		2.84	1.92	0.92	47.9%



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

Personnel Expenses

An increase in executive staff resources were allocated to this program to meet organizational management priorities.

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Operating Expenses

Office Costs

These costs were over spent due to COVID-19. Increased executive staff presence in organizational management resulted in increased strategic planning and executive coaching costs.

Indirect Expenses

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



6b. Legal and Regulatory

LEGAL AND REGULATORY	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments				
Penalty Sanctions				
A. Total ERO Funding				
Expenses				
Personnel Expenses				
Salaries	670,298	334,870	335,428	100.2%
Payroll Taxes	20,855	17,818	3,037	17.0%
Employee Benefits	18,503	33,311	(14,808)	-44.5%
Savings and Retirement	34,350	60,417	(26,067)	-43.1%
Total Personnel Expenses	\$ 744,005	\$ 446,416	\$ 297,589	66.7%
Meeting Expenses				
Meetings	30	-	30	
Travel - Staff Business	2,147	19,000	(16,853)	-88.7%
Travel - Member Reimbursement	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 2,177	\$ 19,000	\$ (16,823)	-88.5%
Operating Expenses				
Consultants	9,211	-	9,211	
Contract	-	-	-	
Building Rent and Facilities	-	-	-	
Office Costs	9,960	13,094	(3,134)	-23.9%
Professional Services	387,244	447,000	(59,756)	-13.4%
Contingency	-	-	-	
Total Operating Expenses	\$ 406,415	\$ 460,094	\$ (53,679)	-11.7%
Indirect Expenses	\$ (1,152,597)	\$ (925,510)	\$ (227,087)	24.5%
Other Non-Operating Expenses				
B. Total Expenses	\$ -	\$ -	\$ -	
Change in Assets (A-B)	\$ -	\$ -	\$ -	
Fixed Assets				
Equipment CapEx	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (B+C)	\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTEs	0.86	2.77	(1.91)	-69.0%



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

Personnel Expenses

Higher salary costs are a direct result of the retirement of VP General Counsel and hiring of successor with overlapped timing to ensure transition of knowledge.

Meeting Expenses

All scheduled in-person conferences, board, and staff meetings were converted to virtual means due to COVID-19.

Operating Expenses

There was decreased spending in independent director costs due to COVID-19.

Indirect Expenses

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



6c. Information Technology

INFORMATION TECHNOLOGY	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments				
Penalty Sanctions				
A. Total ERO Funding				
Expenses				
Personnel Expenses				
Salaries	480,137	530,912	(50,775)	-9.6%
Payroll Taxes	33,680	37,021	(3,341)	-9.0%
Employee Benefits	70,457	75,718	(5,261)	-6.9%
Savings and Retirement	84,423	72,089	12,334	17.1%
Total Personnel Expenses	\$ 668,697	\$ 715,740	\$ (47,043)	-6.6%
Meeting Expenses				
Meetings	127	-	127	
Travel - Staff Business	152	10,000	(9,848)	-98.5%
Travel - Member Reimbursement	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses	\$ 280	\$ 10,000	\$ (9,720)	-97.2%
Operating Expenses				
Consultants	55,188	286,200	(231,013)	-80.7%
Contract	209,079	227,275	(18,196)	-8.0%
Building Rent and Facilities	-	-	-	
Office Costs	161,358	335,150	(173,792)	-51.9%
Professional Services	-	-	-	
Contingency	-	-	-	
Total Operating Expenses	\$ 425,625	\$ 848,625	\$ (423,000)	-49.8%
Indirect Expenses	\$ (1,094,602)	\$ (1,574,365)	\$ 479,763	-30.5%
Other Non-Operating Expenses				
B. Total Expenses	\$ -	\$ -	\$ -	
Change in Assets (A-B)	\$ -	\$ -	\$ -	
Fixed Assets				
Equipment CapEx	-	-	-	
Computer & Software CapEx	158,236	210,000	(51,764)	-24.6%
Furniture & Fixtures CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets	\$ 158,236	\$ 210,000	\$ (51,764)	-24.6%
Allocation of Fixed Assets	(158,236)	(210,000)	51,764	-24.6%
C. Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	
Total Budget (B+C)	\$ -	\$ -	\$ -	
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	
FTEs	3.97	4.44	(0.47)	-10.6%



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

Consultants and Contracts were underspent due to COVID-19. MRO used fewer external consultants, relying instead on internal staff to manage workload. Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office and computer supplies and equipment maintenance.

Indirect Expenses

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

Fixed Assets

Purchases in equipment resulted in a variance of \$51,764 under budget. Fewer purchases were made due to capital costs being covered by the office expansion.



6d. Human Resources

HUMAN RESOURCES	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding				
ERO Funding				
Assessments				
Penalty Sanctions				
A. Total ERO Funding				
Expenses				
Personnel Expenses				
Salaries	261,939	196,884	65,055	33.0%
Payroll Taxes	17,247	12,483	4,764	38.2%
Employee Benefits	24,654	23,022	1,632	7.1%
Savings and Retirement	34,525	29,612	4,913	16.6%
Total Personnel Expenses	\$ 338,366	\$ 262,001	\$ 76,365	29.1%
Meeting Expenses				
Meetings	-	-	-	
Travel - Staff Business	-	1,500	(1,500)	-100.0%
Travel - Member Reimbursement	-	-	-	
Conference Calls	-	-	-	
Total Meeting Expenses		\$ 1,500	\$ (1,500)	-100.0%
Operating Expenses				
Consultants	-	-	-	
Contract	39,294	47,000	(7,706)	-16.4%
Building Rent and Facilities	-	-	-	
Office Costs	75,369	102,500	(27,131)	-26.5%
Professional Services	-	20,000	(20,000)	-100.0%
Contingency	-	-	-	
Total Operating Expenses	\$ 114,663	\$ 169,500	\$ (54,837)	-32.4%
Indirect Expenses	\$ (453,029)	\$ (433,001)	\$ (20,028)	4.6%
Other Non-Operating Expenses				
B. Total Expenses	\$ -	\$ -	\$ -	-
Change in Assets (A-B)	\$ -	\$ -	\$ -	-
Fixed Assets				
Equipment CapEx	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Allocation of Fixed Assets	-	-	-	
C. Total Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Total Budget (B+C)	\$ -	\$ -	\$ -	-
Change in Working Capital (A-B-C)	\$ -	\$ -	\$ -	-
FTEs	1.24	1.35	(0.11)	-8.1%



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

Higher salary costs are a result of executive staff spending time in this program area over other support staff.

Operating Expenses

Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office supplies and office maintenance. Professional services associated with candidate selection and onboarding was was not used.



6e. Finance and Accounting

FINANCE AND ACCOUNTING		2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%
Funding					
ERO Funding					
	Assessments				
	Penalty Sanctions				
A. Total ERO Funding					
Expenses					
Personnel Expenses					
	Salaries	535,251	488,350	46,901	9.6%
	Payroll Taxes	43,188	27,810	15,378	55.3%
	Employee Benefits	45,435	57,982	(12,547)	-21.6%
	Savings and Retirement	81,167	90,008	(8,841)	-9.8%
	Total Personnel Expenses	\$ 705,040	\$ 664,150	\$ 40,890	6.2%
Meeting Expenses					
	Meetings	35	2,000	(1,965)	-98.2%
	Travel - Staff Business	3,042	10,000	(6,958)	-69.6%
	Travel - Member Reimbursement	-	-	-	
	Conference Calls	-	-	-	
	Total Meeting Expenses	\$ 3,077	\$ 12,000	\$ (8,923)	-74.4%
Operating Expenses					
	Consultants	6,918	15,000	(8,082)	-53.9%
	Contract	36,000	34,050	1,950	5.7%
	Building Rent and Facilities	723,149	774,000	(50,851)	-6.6%
	Office Costs	116,328	203,050	(86,722)	-42.7%
	Professional Services	61,000	61,000	(0)	
	Contingency	-	-	-	
	Total Operating Expenses	\$ 943,395	\$ 1,087,100	\$ (143,705)	-13.2%
Indirect Expenses					
		\$ (1,651,512)	\$ (1,763,250)	\$ 111,738	-6.3%
Other Non-Operating Expenses					
		(304,370)		(\$304,370)	
B. Total Expenses					
		\$ -	\$ -	\$ -	-
Change in Assets (A-B)					
		\$ -	\$ -	\$ -	-
Fixed Assets					
	Equipment CapEx	-	-	-	
	Computer & Software CapEx	-	-	-	
	Furniture & Fixtures CapEx	-	-	-	
	Leasehold Improvements	625,864	25,000	600,864	2403.5%
	Inc(Dec) in Fixed Assets	\$ 625,864	\$ 25,000	\$ 600,864	2403.5%
	Allocation of Fixed Assets	\$ (625,864)	\$ (25,000)	\$ (600,864)	2403.5%
C. Total Inc(Dec) in Fixed Assets					
		\$ -	\$ -	\$ -	-
Total Budget (B+C)					
		\$ -	\$ -	\$ -	-
Change in Working Capital (A-B-C)					
		\$ -	\$ -	\$ -	-
FTEs					
		3.55	3.38	0.17	5.0%



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

Office costs were underspent due to COVID-19. Reduced staff presence in the office resulted in reduced use of facility and need for office supplies, maintenance, and repairs.

Other Non-Operating Expenses

There is an annual actuarial assessment of the MRO Retiree Medical Plan. The 2020 adjustment resulted in a decrease in the deferred liability, primarily because the benefit discount rate increased while retiree benefit premiums decreased.

Fixed Assets

Purchases in leasehold improvements resulted in a variance of \$600,864 over budget. The one-time purchases are due to an approved unbudgeted office expansion. These costs were offset by the underages experienced in other budget areas.



SECTION B — SUPPLEMENTAL FINANCIAL INFORMATION

Statement of Activities and Capital Expenditures by Program 2020 Business Plan and Budget	Functions in Delegation Agreement											
	Statutory Total	Reliability Standards and Organization Registration and Certification (Section 300 & 500)	Compliance (Section 400)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 600&900)	Situation Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Funding												
ERO Funding												
NERC Assessments	16,983,251	712,541	11,466,158	3,018,309	1,072,457	713,786						
Assessment Stabilization Adjustment	557,717	23,607	381,686	95,109	33,708	23,607						
Membership Dues	-											
Testing Fees	-											
Services & Software	-											
Workshops & Miscellaneous Revenue	4,147							4,147				
Interest & Investment Income	-											
Total Funding (A)	17,545,115	736,148	11,847,844	3,113,418	1,106,165	737,393	-	4,147	-	-	-	-
Expenses												
Personnel Expenses												
Salaries	9,786,020	252,964	4,993,728	1,169,718	293,776	288,418	-	839,790	670,298	480,137	261,939	535,251
Payroll Taxes	637,315	17,928	345,490	84,319	21,683	21,283	-	31,642	20,855	33,680	17,247	43,188
Benefits	1,010,281	27,919	576,948	112,718	38,758	38,718	-	56,171	18,503	70,457	24,654	45,435
Retirement Costs	1,488,902	38,919	786,419	197,519	63,017	51,268	-	117,295	34,350	84,423	34,525	81,167
Total Personnel Expenses	12,922,518	337,732	6,702,585	1,564,274	417,233	399,687	-	1,044,898	744,005	668,697	338,366	705,040
Meeting Expenses												
Meetings	10,124	-	1,194	675	809	929	-	6,323	30	127	-	35
Travel	75,846	1,196	27,754	18,407	-	11,334	-	11,814	2,147	152	-	3,042
Total Meeting Expenses	85,970	1,196	28,948	19,083	809	12,263	-	18,138	2,177	280	-	3,077
Operating Expenses												
Consultants & Contracts	630,168	-	196,904	46,083	-	-	-	31,492	9,211	264,267	39,294	42,917
Office Rent	723,149	-	-	-	-	-	-	-	-	-	-	723,149
Office Costs	558,282	7,561	84,798	13,810	-	7,609	-	81,488	9,960	161,358	75,369	116,328
Professional Services	448,244	-	-	-	-	-	-	-	387,244	-	-	61,000
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	2,359,842	7,561	281,703	59,893	-	7,609	-	112,979	406,415	425,625	114,663	943,395
Total Direct Expenses	15,368,330	346,488	7,013,236	1,643,249	418,043	419,559	-	1,176,015	1,152,597	1,094,602	453,029	1,651,512
Indirect Expenses	-	205,404	3,533,392	910,116	281,885	288,440	-	(1,171,868)	(1,152,597)	(1,094,602)	(453,029)	(1,347,142)
Other Non-Operating Expenses	(304,370)	-	-	-	-	-	-	-	-	-	-	(304,370)
Total Expenses (B)	15,063,960	551,892	10,546,628	2,553,366	699,927	708,000	-	4,147	-	-	-	-
Change in Net Assets	2,481,155	184,256	1,301,216	560,052	406,238	29,393	-	-	-	-	-	-
Fixed Assets												
Computer & Software CapEx	784,100	-	-	-	-	-	-	-	-	158,236	-	625,864
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of Fixed Assets	-	30,858	530,831	136,729	42,348	43,333	-	-	-	(158,236)	-	(625,864)
Inc(Dec) in Fixed Assets (C)	784,100	30,858	530,831	136,729	42,348	43,333	-	-	-	-	-	-
TOTAL BUDGET (Total Expenses plus Fixed Asset Additions =B + C)	15,848,060	582,751	11,077,459	2,690,095	742,276	751,333	-	4,147	-	-	-	-
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)	1,697,055	153,397	770,385	423,323	363,889	(13,940)	-	-	-	-	-	-
FTEs	60.23	1.88	32.34	8.33	2.58	2.64	-	2.84	0.86	3.97	1.24	3.55

Midwest Reliability Organization

Financial Statements

December 31, 2020 and 2019

Midwest Reliability Organization

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Independent Auditors' Report

To the Board of Directors of
Midwest Reliability Organization

We have audited the accompanying financial statements of Midwest Reliability Organization (the Organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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.



Minneapolis, Minnesota
March 25, 2021

Midwest Reliability Organization

Statements of Financial Position

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,654,730	\$ 5,985,734
Restricted cash	360,504	557,718
Prepaid expenses	376,264	306,243
Total current assets	<u>9,391,498</u>	<u>6,849,695</u>
Property, Improvements and Equipment, Net	<u>1,612,369</u>	<u>1,228,039</u>
Other Assets		
Restricted cash, noncurrent	2,246,980	2,600,001
Security deposit, noncurrent	39,858	39,858
Investments	166,208	104,541
Capitalized software costs, net of accumulated amortization of \$493,681 and \$474,871, respectively	15,196	34,620
Total assets	<u>\$ 13,472,109</u>	<u>\$ 10,856,754</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable, trade	\$ 196,219	\$ 307,198
Accounts payable, construction	506,345	-
Accrued liabilities	1,908,952	1,114,263
Retirement plan contribution	733,675	658,750
Total current liabilities	<u>3,345,191</u>	<u>2,080,211</u>
Other Liabilities		
Postretirement medical benefit obligation	609,597	777,773
Deferred rent, noncurrent	446,917	501,761
Other retirement plan liability	166,208	104,541
Total liabilities	<u>4,567,913</u>	<u>3,464,286</u>
Net Assets (Without Donor Restrictions)	<u>8,904,196</u>	<u>7,392,468</u>
Total liabilities and net assets	<u>\$ 13,472,109</u>	<u>\$ 10,856,754</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Activities

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue		
Assessments	\$ 16,983,251	\$ 15,471,670
Penalty sanctions	7,483	315,769
Other	4,147	-
	<u>16,994,881</u>	<u>15,787,439</u>
Expenses		
Personnel expenses:		
Salaries	9,786,020	7,692,315
Payroll taxes	637,315	540,432
Employee benefits	1,010,281	835,914
Retirement benefits	1,543,882	1,301,258
	<u>12,977,498</u>	<u>10,369,919</u>
Meeting expenses:		
Meetings and Conference calls	10,124	122,501
Travel	75,846	411,964
	<u>85,970</u>	<u>534,465</u>
Operating expenses:		
Building rent and facilities	723,149	750,937
Consulting	630,168	833,094
Office costs	977,474	1,067,428
Professional services	448,244	596,171
	<u>2,779,035</u>	<u>3,247,630</u>
Total expenses	<u>15,842,503</u>	<u>14,152,014</u>
Change in net assets without donor restrictions before postretirement benefit related changes	<u>1,152,378</u>	<u>1,635,425</u>
Postretirement Benefit Related Changes		
Postretirement medical benefit obligation changes other than net periodic cost	(304,370)	261,178
Other components of net periodic pension cost	(54,980)	(40,292)
	<u>(359,350)</u>	<u>220,886</u>
Change in net assets without donor restrictions	1,511,728	1,414,539
Net Assets Without Donor Restrictions, Beginning	7,392,468	5,297,816
Cumulative effect of adoption of new accounting standard (Note 1)	-	680,113
Net Assets Without Donor Restrictions, Ending	<u>\$ 8,904,196</u>	<u>\$ 7,392,468</u>

See notes to financial statements

Midwest Reliability Organization

Statements of Cash Flows

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,511,728	\$ 1,414,539
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	400,385	483,667
Software amortization	18,809	18,758
Change in assets and liabilities:		
Prepaid expenses	(70,021)	(138,572)
Accounts payable, trade	(110,979)	46,536
Accrued liabilities	794,689	(15,207)
Retirement plan contribution	74,925	62,899
Deferred rent	(54,844)	(42,727)
Accrued retirement plan obligations	(106,509)	314,369
Net cash flows from operating activities	<u>2,458,183</u>	<u>2,144,262</u>
Cash Flows From Investing Activities		
Purchases of investments	(61,667)	-
Purchases of property, improvements and equipment and software	<u>(277,755)</u>	<u>(238,276)</u>
Net cash flows from investing activities	<u>(339,422)</u>	<u>(238,276)</u>
Net change in cash and cash equivalents	2,118,761	1,905,986
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>9,143,453</u>	<u>7,237,467</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 11,262,214</u>	<u>\$ 9,143,453</u>
Supplemental Cash Flow Disclosure		
Property, improvements and equipment additions included in accounts payable	<u>\$ 506,345</u>	<u>\$ -</u>

See notes to financial statements

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

1. Significant Accounting Policies

Services

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

In February 2018, the Organization amended its delegation agreement with NERC updating its geographical borders to include the reassignment of 93 of the 122 registered entities formerly registered in the Southwest Power Pool, Inc. Regional Entity to the Organization.

Financial Statement Presentation

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

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

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the Organization and/or passage of time. The Organization has no net assets with donor restrictions as of December 31, 2020 and 2019.

Cash, Cash Equivalents, and Restricted Cash

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the statement of cash flows as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,654,730	\$ 5,985,734
Restricted cash	360,504	557,718
Restricted cash, noncurrent	<u>2,246,980</u>	<u>2,600,001</u>
Total cash, cash equivalents and restricted cash	<u>\$ 11,262,214</u>	<u>\$ 9,143,453</u>

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

Property, Improvements and Equipment

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

Capitalized Software Costs

The Organization capitalizes software development costs incurred and purchased software in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled \$18,809 and \$18,758 for the years ended December 31, 2020 and 2019, respectively.

Tax Status

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

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2020 and 2019. The Organization's tax returns are subject to review and examination by federal and state authorities.

Revenue and Assessments

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

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

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

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

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

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.

Future Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. 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.

Subsequent Events

The Organization has evaluated subsequent events through March 25, 2021, which is the date that the financial statements were approved and available to be issued.

2. Liquidity and Availability of Financial Assets

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,654,730	\$ 5,985,734
Restricted cash, current	360,504	557,718
Total	<u>\$ 9,015,234</u>	<u>\$ 6,543,452</u>

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

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

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

3. NERC Transactions

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

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted assessment revenues (exclusive of penalty sanctions revenue described previously) were \$16,983,251 and \$15,471,670 for the years ended December 31, 2020 and 2019, respectively, which were equal to the amounts received from NERC.

4. Lease Commitments

The Organization has an operating lease for office space in St. Paul, Minnesota. On June 30, 2020, the Organization amended the lease to expand the square footage and to extend the term through October 31, 2032. As part of the amendment to the lease, the lessor agreed to provide a construction allowance for tenant improvements in the amount of \$834,800. As of December 31, 2020, no amounts have been drawn against the construction allowance. Rent expense was \$359,756 for each of the years ended December 31, 2020 and 2019.

Future expected minimum lease payments under the lease as of December 31, 2020 are as follows:

Years ending December 31:	
2021	\$ 529,645
2022	562,187
2023	574,891
2024	587,939
2025	601,046
Thereafter	<u>4,484,217</u>
Total	<u>\$ 7,339,925</u>

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

5. Property, Improvements and Equipment

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

	<u>2020</u>	<u>2019</u>
Equipment	\$ 2,488,449	\$ 2,464,884
Furniture	681,498	681,498
Leasehold improvements	981,030	981,030
Construction in progress	760,534	-
	4,911,511	4,127,412
Less accumulated depreciation	<u>(3,299,142)</u>	<u>(2,899,373)</u>
	\$ 1,612,369	\$ 1,228,039

Construction in progress at December 31, 2020 consists of an office expansion project. The expected remaining cost of the project is \$1,410,743 and is anticipated to be completed in 2021.

6. Line of Credit

The Organization has a revolving line of credit from National Cooperative Service Corporation (NCSC) with an established credit limit of \$2,000,000. The interest rate is equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the Wall Street Journal on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and expires on February 26, 2023. There were no outstanding balances at December 31, 2020 or 2019.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

7. Retirement Plans

Postretirement Health Plan

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

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 2,455,717	\$ 1,818,971
Service cost	334,207	239,206
Interest cost	77,410	74,863
Actuarial loss (gain)	(191,624) *	380,559 **
Benefits paid	<u>(61,050)</u>	<u>(57,882)</u>
Benefit obligation at end of year	<u>2,614,660</u>	<u>2,455,717</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	1,677,944	1,355,567
Actual return on plan assets	245,136	234,536
Employer contribution	143,033	145,723
Benefits paid	<u>(61,050)</u>	<u>(57,882)</u>
Fair value of plan assets at end of year	<u>2,005,063</u>	<u>1,677,944</u>
Unfunded status recognized as a noncurrent liability	<u>\$ (609,597)</u>	<u>\$ (777,773)</u>
Weighted average assumptions used to calculate the benefit obligation-discount rate	2.50 %	3.21 %

* Primary sources of actuarial gain in 2020 are: 1) A decrease in discount rate from 3.21 percent as of December 31, 2019 to 2.50 percent as of December 31, 2020; 2) Offset by pre-65 monthly premium decreases and; 3) an increase in the number of active participants (from 51 as of December 31, 2019 to 56 as of December 31, 2020).

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

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>
Components of net periodic benefit cost:		
Service cost	\$ 334,207	\$ 239,206
Interest cost	77,410	74,863
Expected return on plan assets	(93,789)	(76,554)
Amortization of prior service credit	(38,601)	(38,601)
	<u> </u>	<u> </u>
Net periodic benefit cost	<u>\$ 279,227</u>	<u>\$ 198,914</u>

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

Discount rate	3.21 %	4.20 %
Expected return on plan assets	5.50	5.50
Rate of compensation increases	N/A	N/A

The mortality assumptions for the plan were based on Pri-2012 headcount weighted mortality tables under scale MP-2020 during the year ended December 31, 2020. The mortality assumptions for the plan were based on Pri-2012 headcount weighted mortality tables under MP-2019 during the year ended December 31, 2019.

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:

	<u>2020</u>	<u>2019</u>
Health care cost trend rate assumed for next year	5.8 %	6.0 %
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

Plan related changes other than net periodic cost included in retirement benefit expense consist of the following:

	<u>2020</u>	<u>2019</u>
Actuarial loss (gain) arising during the year	\$ (342,971)	\$ 222,577
Amortization of prior year service cost	38,601	38,601
	<u> </u>	<u> </u>
Total	<u>\$ (304,370)</u>	<u>\$ 261,178</u>

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

December 31, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>
Equity securities	54 %	53 %
Debt securities	44	46
Other	2	1

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

	<u>2020</u>	<u>2019</u>
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Asset category:		
Cash equivalents	\$ 36,858	\$ 19,439
Mutual funds, bonds	875,223	763,806
Mutual funds, equities	<u>1,092,982</u>	<u>894,699</u>
Total	<u>\$ 2,005,063</u>	<u>\$ 1,677,944</u>

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, 2020 and 2019.

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

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2020 are as follows:

Years ending December 31:	
2021	\$ 46,528
2022	39,845
2023	53,538
2024	66,701
2025	67,360
2026-2030	<u>421,519</u>
Total	<u>\$ 695,491</u>

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 \$93,703 to the plan in 2021.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

Defined Contribution Retirement Plan

The Organization has a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50 percent matching contribution from the Organization. For employees to receive the nonelective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$475,998 and \$391,652 of employee deferrals as of December 31, 2020 and 2019, respectively. In addition, the Organization elected to make employer contributions in the amounts of \$668,611 and \$581,116 for the years ended December 31, 2020 and 2019, respectively.

As noted above, the Organization maintains a thrift savings plan and discretionary age-weighted contributions may be made by MRO. MRO also has a 457B plan. The 457B plan is approved by the President and CEO, as well as the Organization's Board of Directors. To the extent the discretionary age-weighted contribution is in excess of the IRS limitations as specified by the 457B plan, and the employee is an eligible participant in the 457B plan, the excess discretionary age-weighted contribution is credited in the 457B plan. For eligible participants, MRO contributed a total nonelective amount to the 457B plan of \$28,529 and \$56,055 for the years ended December 31, 2020 and 2019, respectively. The fair values of the Organization's 457B plan assets at December 31, 2020 and 2019 are \$166,208 and \$104,541, respectively. The plan assets consist of money market funds and mutual funds, which are Level 1 investments for which quoted prices are readily available. The 2019 statement of financial position was revised in 2020 to recognize the plan assets and obligation associated with the 457B plan, the amount of which was not considered by management to be material to the financial statements as a whole.

The Organization also had a 457F plan, which was terminated in 2020. To the extent the discretionary age-weighted contribution was in excess of the IRS limitations as specified by the 457F plan, and the employee was an eligible participant in the 457F plan, the excess discretionary age-weighted contribution was credited to the 457F plan. The Organization contributed \$0 and \$21,588 to the 457F plan for the years ended December 31, 2020 and 2019, respectively. Upon termination of the plan in 2020, all balances in the plan were distributed to its participants.

Midwest Reliability Organization

Notes to Financial Statements

December 31, 2020 and 2019

8. Functional Expenses

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

Description:	2020		
	Program Service Expenses	Management and General Expenses	Total Expenses
Salaries	\$ 8,542,074	\$ 1,243,946	\$ 9,786,020
Payroll taxes and employee benefits	2,785,636	405,842	3,191,478
Meetings and travel	62,565	23,405	85,970
Building rent and facilities	588,021	135,128	723,149
Consulting	402,395	227,773	630,168
Office costs	406,295	151,985	558,280
Professional services	281,820	166,424	448,244
Depreciation and amortization	340,863	78,331	419,194
Total	<u>\$ 13,409,669</u>	<u>\$ 2,432,834</u>	<u>\$ 15,842,503</u>

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

ATTACHMENT 3

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 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 3, 2021

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

Subject: NPCC 2020 True Up Actual vs. Budget Variance Analysis
True Up Filing Based on Audited 2020 Financial Statements

Dear Andy:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2020 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on March 30, 2021 and forwarded to NERC for its information and provision to FERC.

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

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 93/7 split for 2020 based upon direct program area FTEs. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC reports interest and investment income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses and fixed asset expenditures for NPCC's RE division for 2020 were \$14,942,338 which is \$1,659,311 or 9.99% under the 2020 operating budget of \$16,601,648. Actual total expenses and fixed asset expenditures for NPCC's CS division for 2020 were \$916,120 which is \$232,548 or 20.24% under the 2020 operating budget of \$1,148,668. In the aggregate, actual total expenses and fixed asset expenditures for the NPCC RE and CS divisions were \$15,858,458 which is \$1,891,858 or 10.66% under the 2020 total corporate expense budget of \$17,750,315. Indirect expenses are allocated to the direct programs based on FTE ratio.

Variances from budget in total for NPCC, total non-statutory, total statutory and total by statutory program area are reported using the template provided by NERC which presents actual and budgeted costs in a program-by-program format. A single consolidated budget versus actual cost comparison is presented for Administrative Services in order to be consistent with the presentation in NPCC's 2020 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.

Multiple open positions over varying periods throughout the year resulted in lower than budgeted personnel expenses. Staff was reallocated during the year to continue to meet NPCC's Regional Delegation Agreement (RDA) responsibilities. Despite not being fully staffed, NPCC performed all of its 2020 delegated responsibilities as outlined in the RDA as well as target attainment of its corporate goals and objectives for the calendar year.

Should you have any questions please do not hesitate to contact me via email at jhala@npcc.org or via telephone at (646) 632-7071.

Sincerely,

Jessica Hala

Jessica Hala
Director, Finance and Accounting

Enclosures

cc: Mr. Charles Dickerson – NPCC President & CEO
Ms. Jennifer Budd Mattiello – NPCC Senior Vice President & COO

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary
Total NPCC (RE and CS Divisions)

	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	15,338,736	15,338,736	-	0.00%
Penalty Sanctions	120,000	120,000	-	0.00%
Total ERO Funding	15,458,736	15,458,736	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	1,065,203	1,065,203	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	-100.00%
Interest & Investment Income	18,769	60,000	(41,231)	-68.72%
Miscellaneous	-	-	-	
Total Funding	16,542,708	16,651,439	(108,731)	-0.65%
Expenses				
Personnel Expenses				
Salaries	7,840,367	8,072,241	(231,874)	-2.87%
Payroll Taxes	502,744	503,882	(1,138)	-0.23%
Employee Benefits	1,732,597	2,066,645	(334,048)	-16.16%
Savings & Retirement	803,332	924,904	(121,572)	-13.14%
Total Personnel Expenses	10,879,040	11,567,673	(688,633)	-5.95%
Meeting Expenses				
Meetings & Conference Calls	42,088	411,750	(369,662)	-89.78%
Travel	100,172	902,700	(802,528)	-88.90%
Total Meeting Expenses	142,260	1,314,450	(1,172,190)	-89.18%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,945,687	2,147,510	(201,823)	-9.40%
Rent & Improvements	861,691	832,700	28,991	3.48%
Office Costs	724,906	685,981	38,925	5.67%
Professional Services	1,076,433	947,000	129,433	13.67%
Miscellaneous	12,020	55,000	(42,980)	-78.15%
Depreciation	-	-	-	
Total Operating Expenses	4,620,737	4,668,191	(47,454)	-1.02%
Indirect Expenses				
	-	-	-	
Other Non-Operating Expenses				
	-	-	-	
Total Expenses	15,642,037	17,550,314	(1,908,277)	-10.87%
Change in Net Assets	900,671	(898,875)	1,799,546	-200.20%
Fixed Asset Additions, excluding Right of Use Assets	216,421	200,000	16,421	8.21%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	15,858,458	17,750,314	(1,891,857)	-10.66%
Change in Working Capital (Total Funding less Total Budget)	684,251	(1,098,874)	1,783,125	-162.27%
FTE's	40.08	43.25	(3.17)	

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

TOTAL STATUTORY	2020	2020	2020 Variance	
	Actual	Budget	from Budget	
			Over(Under)	
Funding				
ERO Funding				
Assessments	15,338,736	15,338,736	-	0.00%
Penalty Sanctions	120,000	120,000	-	0.00%
Total ERO Funding	<u>15,458,736</u>	<u>15,458,736</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	
Interest & Investment Income	17,543	55,800	(38,257)	-68.56%
Miscellaneous	-	-	-	
Total Funding	<u>15,476,279</u>	<u>15,582,036</u>	<u>(105,757)</u>	<u>-0.68%</u>
Expenses				
Personnel Expenses				
Salaries	7,479,595	7,704,262	(224,667)	-2.92%
Payroll Taxes	478,025	479,019	(994)	-0.21%
Employee Benefits	1,682,760	1,943,384	(260,624)	-13.41%
Savings & Retirement	775,076	882,951	(107,875)	-12.22%
Total Personnel Expenses	<u>10,415,456</u>	<u>11,009,616</u>	<u>(594,160)</u>	<u>-5.40%</u>
Meeting Expenses				
Meetings & Conference Calls	41,866	397,750	(355,884)	-89.47%
Travel	94,847	845,900	(751,053)	-88.79%
Total Meeting Expenses	<u>136,713</u>	<u>1,243,650</u>	<u>(1,106,937)</u>	<u>-89.01%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,945,687	2,071,150	(125,463)	-6.06%
Rent & Improvements	861,691	832,700	28,991	3.48%
Office Costs	722,892	685,981	36,911	5.38%
Professional Services	1,076,433	947,000	129,433	13.67%
Miscellaneous	11,815	51,000	(39,185)	-76.83%
Depreciation	-	-	-	
Total Operating Expenses	<u>4,618,518</u>	<u>4,587,831</u>	<u>30,687</u>	<u>0.67%</u>
Indirect Expense Allocation	<u>(436,556)</u>	<u>(409,449)</u>	<u>(27,107)</u>	<u>6.62%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>14,734,131</u>	<u>16,431,647</u>	<u>(1,697,516)</u>	<u>-10.33%</u>
Change in Net Assets	<u>742,148</u>	<u>(849,611)</u>	<u>1,591,759</u>	<u>-187.35%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>208,207</u>	<u>170,000</u>	<u>38,206</u>	<u>22.47%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>14,942,338</u>	<u>16,601,647</u>	<u>(1,659,310)</u>	<u>-9.99%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>533,942</u>	<u>(1,019,611)</u>	<u>1,553,553</u>	<u>-152.37%</u>
FTE's	<u>37.94</u>	<u>41.09</u>	<u>(3.15)</u>	<u>-7.66%</u>

TOTAL STATUTORY

Workshop Fees

Under budget variance is a result of NPCC's Spring and Fall Compliance and Standards Workshops being converted to a virtual format to allow for remote participation due to in-person meeting and travel restrictions as a result of the COVID-19 pandemic. The virtual workshops have received positive feedback and high attendance. Fees are only charged for in-person workshops in order to offset the associated expenses. There are no fees collected for virtual workshop participation.

Interest & Investment Income

Interest & investment income earned from the investment of excess operating cash into a 100% U.S. Treasury Securities money market fund was lower than budgeted based on actual yields.

Personnel Expenses

Multiple open positions over varying periods throughout the year resulted in lower than budgeted personnel expenses. Staff was reallocated during the year to continue to meet NPCC's Regional Delegation Agreement (RDA) responsibilities. Despite not being fully staffed, NPCC performed all of its 2020 delegated responsibilities as outlined in the RDA as well as target attainment of its corporate goals and objectives for the calendar year. In response to the COVID-19 pandemic, NPCC also successfully adjusted recruiting and hiring procedures, conducting teleconference, WebEx and video conference interviews with candidates and remote onboarding. NPCC ended the year fully staffed, with the exception of the successor President and CEO budgeted to start in November 2020 and actually onboarded in March 2021.

Meeting Expenses

Under budget variance is due to travel being suspended since early March 2020 due to the COVID-19 pandemic. NPCC's Spring and Fall Compliance and Standards Workshops were converted to a remote attendance webinar format. The increased number of attendees encouraged NPCC to deliver a third workshop in the Summer to reach as wide an audience of participants as possible. Based on positive feedback received on the virtual format, NPCC will deliver workshops both in person and virtually going forward. From mid-March planned meetings and activities, including the 2020 Annual Meeting of NPCC Members, were conducted successfully via webinar, video conferencing and teleconference.

Professional Services

Over budget variance is related to legal fees and accounting fees. Legal fees associated with successor CEO search efforts were budgeted under consulting fees, but properly recorded under legal fees. There is an offsetting underage in consulting fees.

Miscellaneous

Under budget variance is related to remote working due to the COVID-19 pandemic. Miscellaneous expenses typically include services and items related working on-site such as document destruction services and carpet cleaning.

Fixed Assets

Over budget variance is due to the timing of a website development project, with more project benchmarks occurring during 2020 than originally projected. The website development project was completed in December 2020.

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.
2020 Statement of Activities Summary

RELIABILITY STANDARDS	2020 Variance			
	2020	2020	from Budget	
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments	1,063,510	1,063,510	-	0.00%
Penalty Sanctions	7,505	7,505	-	0.00%
Total ERO Funding	1,071,015	1,071,015	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	1,071,015	1,071,015	-	0.00%
Expenses				
Personnel Expenses				
Salaries	444,406	400,744	43,662	10.90%
Payroll Taxes	26,993	23,034	3,959	17.19%
Employee Benefits	116,624	110,172	6,452	5.86%
Savings & Retirement	42,599	43,833	(1,234)	-2.82%
Total Personnel Expenses	630,622	577,783	52,839	9.15%
Meeting Expenses				
Meetings & Conference Calls	879	5,000	(4,121)	-82.42%
Travel	13,077	90,900	(77,823)	-85.61%
Total Meeting Expenses	13,956	95,900	(81,944)	-85.45%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	20,000	(20,000)	-100.00%
Rent & Improvements	-	-	-	
Office Costs	2,092	-	2,092	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	2,092	20,000	(17,908)	-89.54%
Indirect Expense Allocation	393,667	366,700	26,967	7.35%
Other Non-Operating Expenses	-	-	-	
Total Expenses	1,040,337	1,060,383	(20,046)	-1.89%
Change in Net Assets	30,678	10,632	20,046	188.54%
Fixed Asset Additions, excluding Right of Use Assets	14,232	10,632	3,600	33.86%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	1,054,569	1,071,015	(16,446)	-1.54%
Change in Working Capital (Total Funding less Total Budget)	16,446	-	16,446	
FTE's	1.93	1.93	-	0.00%

RELIABILITY STANDARDS

Personnel Expenses

Over budget variance is due to the program area being fully staffed for the year. The 2020 budget included a staff vacancy factor of 6% based on recent actual staffing levels.

Consultants & Contracts

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

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

COMPLIANCE ENFORCEMENT and ORGANIZATION	2020	2020	2020 Variance from	
REGISTRATION	Actual	Budget	Budget	Over(Under)
Funding				
ERO Funding				
Assessments	9,034,625	9,034,625	-	0.00%
Penalty Sanctions	69,994	69,994	-	0.00%
Total ERO Funding	9,104,619	9,104,619	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	9,104,619	9,104,619	-	0.00%
Expenses				
Personnel Expenses				
Salaries	2,639,520	2,928,438	(288,918)	-9.87%
Payroll Taxes	171,853	202,717	(30,864)	-15.22%
Employee Benefits	686,147	732,104	(45,957)	-6.28%
Savings & Retirement	248,092	314,664	(66,572)	-21.16%
Total Personnel Expenses	3,745,612	4,177,923	(432,311)	-10.35%
Meeting Expenses				
Meetings & Conference Calls	-	15,000	(15,000)	-100.00%
Travel	23,539	300,400	(276,861)	-92.16%
Total Meeting Expenses	23,539	315,400	(291,861)	-92.54%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,166,132	1,097,150	68,982	6.29%
Rent & Improvements	-	-	-	
Office Costs	14,361	-	14,361	
Professional Services	-	-	-	
Miscellaneous	(436)	-	(436)	
Depreciation	-	-	-	
Total Operating Expenses	1,180,057	1,097,150	82,907	7.56%
Indirect Expense Allocation	3,246,874	3,420,003	(173,129)	-5.06%
Other Non-Operating Expenses	-	-	-	
Total Expenses	8,196,082	9,010,476	(814,394)	-9.04%
Change in Net Assets	908,537	94,143	814,394	865.06%
Fixed Asset Additions, excluding Right of Use Assets	118,907	99,157	19,750	19.92%
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	8,314,989	9,109,633	(794,644)	-8.72%
Change in Working Capital (Total Funding less Total Budget)	789,630	(5,014)	794,644	-15848.40%
FTE's	16.13	18.00	(1.88)	-10.42%

COMPLIANCE ENFORCEMENT and ORGANIZATION REGISTRATION

Total Expenses

Despite the under budget variance in total expenses and travel restrictions due to the COVID-19 pandemic in 2020, NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification program area was able to carry out all of its RDA duties which include conducting:

- 23 off-site Operations & Planning (O&P) audits
- 1 off-site CIP and Operations & Planning (O&P) audit
- 5 on-site O&P audits that were converted to virtual audits
- 1 off-site O&P spot check
- 5 on-site CIP audits
- 57 off-site CIP self-certifications
- Participated in 1 MRRE audit

In addition to the listed Compliance Monitoring activities, NPCC also:

- Performed 30 Inherent Risk Assessments (IRA)
- Developed 30 Compliance Oversight Plans (COP)
- Performed 4 Evaluation of Internal Controls (EIC) (4 O&P, 0 CIP)
- Processed 5 new Technical Feasibility Exception (TFE) submittals and 27 Material Change Reports (MCR)
- Closed 161 instances of non-compliance with NERC Reliability Standards
- Performed a Preliminary Screen on 230 incoming non-compliances
- Registered 4 new entities, delisted 8 entities, deactivated 2 functions, processed 3 entity name changes, and added new functions to 1 entity
- Completed 8 Internal Compliance Program (ICP) reviews for those entities in the Self-Logging program
- Conducted 4 compliance webinars attended by a total of 900 stakeholders

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	3,210,054	3,210,054	-	0.00%
Penalty Sanctions	21,115	21,115	-	0.00%
Total ERO Funding	<u>3,231,169</u>	<u>3,231,169</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>3,231,169</u>	<u>3,231,169</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	1,122,656	1,006,128	116,528	11.58%
Payroll Taxes	70,942	64,022	6,920	10.81%
Employee Benefits	279,908	218,787	61,121	27.94%
Savings & Retirement	110,698	109,418	1,280	1.17%
Total Personnel Expenses	<u>1,584,204</u>	<u>1,398,355</u>	<u>185,849</u>	<u>13.29%</u>
Meeting Expenses				
Meetings & Conference Calls	13,571	22,000	(8,429)	-38.31%
Travel	26,420	216,200	(189,780)	-87.78%
Total Meeting Expenses	<u>39,991</u>	<u>238,200</u>	<u>(198,209)</u>	<u>-83.21%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	480,877	533,000	(52,123)	-9.78%
Rent & Improvements	-	-	-	
Office Costs	11,385	-	11,385	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>492,262</u>	<u>533,000</u>	<u>(40,738)</u>	<u>-7.64%</u>
Indirect Expense Allocation	<u>1,107,735</u>	<u>1,031,701</u>	<u>76,034</u>	<u>7.37%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>3,224,192</u>	<u>3,201,256</u>	<u>22,936</u>	<u>0.72%</u>
Change in Net Assets	<u>6,977</u>	<u>29,913</u>	<u>(22,936)</u>	<u>-76.68%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>40,656</u>	<u>29,913</u>	<u>10,743</u>	<u>35.91%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>3,264,848</u>	<u>3,231,169</u>	<u>33,679</u>	<u>1.04%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>(33,679)</u>	<u>-</u>	<u>(33,679)</u>	
FTE's	<u>5.51</u>	<u>5.43</u>	<u>0.08</u>	<u>1.53%</u>

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS

Personnel Expenses

Over budget variance is due to this program area being fully staffed for the year and the addition of a partial reallocation of an FTE for a portion of the year to support this program area.

Consultants and Contracts

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

Office Costs

Un-budgeted office costs include home internet expense reimbursements and other remote working related expenses.

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2020 Variance			
	2020	2020	from Budget	
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments	171,524	171,524	-	0.00%
Penalty Sanctions	389	389		0.00%
Total ERO Funding	<u>171,913</u>	<u>171,913</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	-100.00%
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>171,913</u>	<u>239,413</u>	<u>(67,500)</u>	<u>-28.19%</u>
Expenses				
Personnel Expenses				
Salaries	25,482	11,793	13,689	116.08%
Payroll Taxes	1,476	939	537	57.26%
Employee Benefits	6,173	5,652	521	9.22%
Savings & Retirement	2,326	1,478	848	57.35%
Total Personnel Expenses	<u>35,457</u>	<u>19,862</u>	<u>15,595</u>	<u>78.52%</u>
Meeting Expenses				
Meetings & Conference Calls	-	185,000	(185,000)	-100.00%
Travel	640	15,000	(14,360)	-95.73%
Total Meeting Expenses	<u>640</u>	<u>200,000</u>	<u>(199,360)</u>	<u>-99.68%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	485	-	485	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>485</u>	<u>-</u>	<u>485</u>	
Indirect Expense Allocation	<u>20,445</u>	<u>19,000</u>	<u>1,445</u>	<u>7.61%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>57,027</u>	<u>238,862</u>	<u>(181,835)</u>	<u>-76.13%</u>
Change in Net Assets	<u>114,886</u>	<u>551</u>	<u>114,335</u>	<u>20749.54%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>737</u>	<u>551</u>	<u>186</u>	<u>33.83%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>57,764</u>	<u>239,413</u>	<u>(181,648)</u>	<u>-75.87%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>114,148</u>	<u>-</u>	<u>114,148</u>	
FTE's	<u>0.10</u>	<u>0.10</u>	<u>-</u>	<u>0.00%</u>

TRAINING, EDUCATION and OPERATOR CERTIFICATION

Workshop Fees

Under budget variance is a result of NPCC's Spring and Fall Compliance and Standards Workshops being converted to a virtual format to allow for remote participation due to in-person meeting and travel restrictions as a result of the COVID-19 pandemic. The virtual workshops have received positive feedback and high attendance. Fees are only charged for in-person workshops in order to offset the associated expenses. There are no fees collected for virtual workshop participation.

Personnel expenses

Over budget variance is due to this program area being fully staffed for the year and a change in the FTE being partially allocated to support this program area. The 2020 budget included a staff vacancy factor of 6% based on recent actual staffing levels.

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

SITUATION AWARENESS and INFRASTRUCTURE SECURITY	2020	2020	2020 Variance from Budget	
	Actual	Budget	Over(Under)	
Funding				
ERO Funding				
Assessments	2,484,879	2,484,879	-	0.00%
Penalty Sanctions	20,998	20,998	-	0.00%
Total ERO Funding	<u>2,505,877</u>	<u>2,505,877</u>	-	0.00%
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	-	-	-	
Miscellaneous	-	-	-	
Total Funding	<u>2,505,877</u>	<u>2,505,877</u>	-	0.00%
Expenses				
Personnel Expenses				
Salaries	868,830	924,110	(55,280)	-5.98%
Payroll Taxes	53,337	61,713	(8,376)	-13.57%
Employee Benefits	157,283	202,020	(44,737)	-22.14%
Savings & Retirement	84,085	99,986	(15,901)	-15.90%
Total Personnel Expenses	<u>1,163,535</u>	<u>1,287,829</u>	<u>(124,294)</u>	<u>-9.65%</u>
Meeting Expenses				
Meetings & Conference Calls	103	8,000	(7,897)	-98.71%
Travel	16,145	94,300	(78,155)	-82.88%
Total Meeting Expenses	<u>16,248</u>	<u>102,300</u>	<u>(86,052)</u>	<u>-84.12%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	30,000	60,000	(30,000)	-50.00%
Rent & Improvements	-	-	-	
Office Costs	9,459	-	9,459	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
Total Operating Expenses	<u>39,459</u>	<u>60,000</u>	<u>(20,541)</u>	<u>-34.24%</u>
Indirect Expense Allocation	<u>97,252</u>	<u>1,026,001</u>	<u>(28,749)</u>	<u>-2.80%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>2,216,494</u>	<u>2,476,130</u>	<u>(259,636)</u>	<u>-10.49%</u>
Change in Net Assets	<u>289,383</u>	<u>29,747</u>	<u>259,636</u>	<u>872.81%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>33,675</u>	<u>29,747</u>	<u>3,928</u>	<u>13.20%</u>
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>2,250,169</u>	<u>2,505,877</u>	<u>(255,709)</u>	<u>-10.20%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>255,709</u>	<u>-</u>	<u>255,709</u>	
FTE's	<u>4.57</u>	<u>5.40</u>	<u>(0.83)</u>	<u>-15.43%</u>

SITUATION AWARENESS and INFRASTRUCTURE SECURITY

Consultants and Contracts

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

Northeast Power Coordinating Council, Inc.
2020 Statement of Activities Summary

ADMINISTRATIVE SERVICES	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	
Funding				
ERO Funding				
Assessments	(625,856)	(625,856)	-	0.00%
Penalty Sanctions	-	-		
Total ERO Funding	<u>(625,856)</u>	<u>(625,856)</u>	<u>-</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest & Investment Income	17,543	55,800	(38,257)	-68.56%
Miscellaneous	-	-	-	
Total Funding	<u>(608,313)</u>	<u>(570,056)</u>	<u>(38,257)</u>	<u>6.71%</u>
Expenses				
Personnel Expenses				
Salaries	2,378,701	2,433,049	(54,348)	-2.23%
Payroll Taxes	153,424	126,595	26,829	21.19%
Employee Benefits	436,625	674,649	(238,024)	-35.28%
Savings & Retirement	287,276	313,571	(26,295)	-8.39%
Total Personnel Expenses	<u>3,256,026</u>	<u>3,547,864</u>	<u>(291,838)</u>	<u>-8.23%</u>
Meeting Expenses				
Meetings & Conference Calls	27,313	162,750	(135,437)	-83.22%
Travel	15,026	129,100	(114,074)	-88.36%
Total Meeting Expenses	<u>42,339</u>	<u>291,850</u>	<u>(249,511)</u>	<u>-85.49%</u>
Operating Expenses, excluding Depreciation				
Consultants & Contracts	268,678	361,000	(92,322)	-25.57%
Rent & Improvements	861,691	832,700	28,991	3.48%
Office Costs	685,110	685,981	(871)	-0.13%
Professional Services	1,076,433	947,000	129,433	13.67%
Miscellaneous	12,251	51,000	(38,749)	-75.98%
Depreciation	-	-	-	
Total Operating Expenses	<u>2,904,163</u>	<u>2,877,681</u>	<u>26,482</u>	<u>0.92%</u>
Indirect Expense Allocation	<u>(6,202,529)</u>	<u>(6,272,855)</u>	<u>70,326</u>	<u>-1.12%</u>
Other Non-Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	
Total Expenses	<u>-</u>	<u>444,540</u>	<u>(444,547)</u>	<u>-100.00%</u>
Change in Net Assets	<u>(608,313)</u>	<u>(1,014,596)</u>	<u>406,290</u>	<u>-40.04%</u>
Fixed Asset Additions, excluding Right of Use Assets	<u>-</u>	<u>-</u>	<u>-</u>	
TOTAL BUDGET (Expenses plus Fixed Asset Additions)	<u>-</u>	<u>444,540</u>	<u>(444,547)</u>	<u>-100.00%</u>
Change in Working Capital (Total Funding less Total Budget)	<u>(608,313)</u>	<u>(1,014,596)</u>	<u>406,290</u>	<u>-40.04%</u>
FTE's	<u>9.71</u>	<u>10.23</u>	<u>(0.52)</u>	<u>-5.10%</u>

ADMINISTRATIVE SERVICES

Personnel

Payroll taxes were over budget due to accrual of payroll taxes related to a deferred compensation payment. All other personnel related expenses were under budget as a result of staff vacancies for varying periods throughout the year. NPCC ended the year fully staffed, with the exception of the successor President and CEO budgeted to start in November 2020 and actually onboarded in March 2021.

Consultants and Contracts

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

NPCC
Penalty Sanctions

Date Invoiced	Date Received	Entity	Penalty Amount	Year to Recognize as Revenue for Business Plan & Budget														
				2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 and Future Years		
10/31/2013	11/1/2013		5,000.00					5,000.00										
1/2/2014	1/8/2014		25,000.00					25,000.00										
		Subtotal - 2013	<u>\$ 212,000.00</u>															
3/4/2014	3/6/2014		14,000.00					14,000.00										
4/3/2014	4/30/2014		90,000.00					90,000.00										
6/5/2014	6/18/2014		9,500.00					9,500.00										
11/6/2014	11/14/2014		5,000.00						5,000.00									
11/6/2014	11/24/2014		20,000.00						20,000.00									
11/6/2014	11/20/2014		12,000.00						12,000.00									
11/6/2014	12/1/2014		20,000.00						20,000.00									
		Subtotal - 2014	<u>\$ 170,500.00</u>															
2/20/2015	3/5/2015		\$ 10,000.00						\$ 10,000.00									
		Subtotal - 2015	<u>\$ 10,000.00</u>															
12/12/2016	12/16/2016		\$ 75,000.00									\$ 75,000.00						
		Subtotal - 2016	<u>\$ 75,000.00</u>															
			\$ -															
		Subtotal - 2017	<u>\$ -</u>															
7/2/2018	7/16/2018		\$ 120,000.00											\$ 120,000.00				
		Subtotal - 2018	<u>\$ 120,000.00</u>															
9/3/2019	9/16/2019		\$ 50,000.00												\$ 16,666.67	\$ 16,666.67	\$ 16,666.67	
9/3/2019	9/10/2019		\$ 20,000.00												\$ 6,666.67	\$ 6,666.67	\$ 6,666.67	
12/11/2019	12/24/2019		\$ 84,000.00												\$ 28,000.00	\$ 28,000.00	\$ 28,000.00	
		Subtotal - 2019	<u>\$ 154,000.00</u>															
	1/17/2020		\$ 450,000.00												\$ 150,000.00	\$ 150,000.00	\$ 150,000.00	
	8/17/2020		\$ 120,000.00												\$ 40,000.00	\$ 40,000.00	\$ 80,000.00	
	8/18/2020		\$ 45,068.71												\$ 15,022.90	\$ 15,022.90	\$ 30,045.81	
		Subtotal - 2020	<u>\$ 615,068.71</u>															
			<u>\$ 2,694,368.71</u>	<u>\$ 308,500.00</u>	<u>\$ 614,000.00</u>	<u>\$ 297,300.00</u>	<u>\$ 153,000.00</u>	<u>\$ 290,500.00</u>	<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 75,000.00</u>	<u>\$ -</u>	<u>\$ 120,000.00</u>	<u>\$ 201,333.33</u>	<u>\$ 256,356.24</u>	<u>\$ 311,379.14</u>		

Penalties Reconciliation	12/31/2020	12/31/2019	Change in 2020
Total Cumulative Penalties - GAAP/PWC Audit	\$ 2,694,368.71	\$ 2,079,300.00	\$ 615,068.71
Total Cumulative Penalties - True Up Report/BP&B	1,925,300.00	1,805,300.00	120,000.00
NERC Unrecognized Penalties¹	\$ 769,068.71	\$ 274,000.00	\$ 495,068.71

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

Working Capital, Operating Reserves and ASR Reconciliation	12/31/2020	12/31/2019	Change in 2020
Current Assets	\$ 11,319,694.00	\$ 10,561,815.00	\$ 757,879.00
Less: Current Liabilities	(3,618,823.00)	(4,040,264.00)	421,441.00
ASR (NERC Unrecognized Penalties)	(769,068.71)	(274,000.00)	(495,068.71)
NPCC WC and Operating Reserves - Reported to NERC	\$ 6,931,802.29	\$ 6,247,551.00	\$ 684,251.29
RE Assessment Stabilization Reserves (ASR) ²	\$ 769,068.71	\$ 769,068.71	\$ -
RE Division WC and Op Reserves Balance	\$ 6,046,835.29	\$ 5,503,649.00	\$ 543,186.29
CS Division WC and Op Reserves Balance	884,967.00	743,902.00	141,065.00
Total NPCC Reserves Balance - Reported to NERC	\$ 7,700,871.00	\$ 6,247,551.00	\$ 684,251.29

² ASR established through the 2021 BPB. Begin including unrecognized reserves in ASR balance as part of total reserves in 2021, therefore must be included in ending balance at 12/31/2020.

Northeast Power Coordinating Council, Inc.

Financial Statements

December 31, 2020 and 2019

Northeast Power Coordinating Council, Inc.
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Report of Independent Auditors

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

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc., which comprise the Statements of Financial Position as of December 31, 2020 and December 31, 2019, and the related Statements of Activities and Statements of Cash Flows and for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. as of December 31, 2020 and 2019, its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

New York, New York

March 30, 2021

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 3,371,323	\$ 4,623,803
Restricted cash	919,159	424,223
Investments	6,241,778	4,723,922
Prepaid expenses	479,177	457,033
Other assets	308,257	332,834
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$2,697,595 and \$2,502,121, respectively	<u>553,791</u>	<u>532,843</u>
Total assets	<u>\$ 11,873,485</u>	<u>\$ 11,094,658</u>
Liabilities and Net Assets		
Accrued expenses and other liabilities	\$ 2,965,155	\$ 2,875,131
Deferred revenue	314,881	724,702
Deferred rent	<u>338,787</u>	<u>440,431</u>
Total liabilities	<u>3,618,823</u>	<u>4,040,264</u>
Net assets		
Without donor restrictions:		
Available for operations	7,552,639	6,054,394
Board designated for future use	<u>702,023</u>	<u>1,000,000</u>
Total without donor restrictions	<u>8,254,662</u>	<u>7,054,394</u>
Total net assets	<u>8,254,662</u>	<u>7,054,394</u>
Total liabilities and net assets	<u>\$ 11,873,485</u>	<u>\$ 11,094,658</u>

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

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
<u>Operating</u>		
Revenue		
Criteria Services assessments	\$ 1,065,203	\$ 1,058,867
Regional Entity assessments	15,338,737	15,003,411
Penalty sanctions	615,069	154,000
Workshops	-	74,790
Total revenue	<u>17,019,009</u>	<u>16,291,068</u>
Expenses		
Salaries and employee benefits	10,850,903	9,973,202
Administrative and consultant fees	2,273,825	2,131,148
Professional fees	734,320	612,678
Meetings and travel	133,095	1,059,610
Telephone and telecommunications	176,279	174,946
Office supplies and expense	625,514	557,490
Equipment leases	141,764	141,701
Rent expense	652,204	631,269
Insurance expense	42,113	44,051
Miscellaneous	12,018	40,465
Depreciation and amortization	195,474	227,806
Total expenses	<u>15,837,509</u>	<u>15,594,366</u>
Change in net assets from operating activities without donor restrictions	1,181,500	696,702
<u>Non-operating</u>		
Interest and dividend income	<u>18,768</u>	<u>85,137</u>
Change in net assets without donor restrictions	1,200,268	781,839
Net assets		
Beginning of year	<u>7,054,394</u>	<u>6,272,555</u>
End of year	<u>\$ 8,254,662</u>	<u>\$ 7,054,394</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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,200,268	\$ 781,839
Depreciation and amortization	195,474	227,806
(Increase) in prepaid expenses	(22,144)	(212,796)
Decrease (increase) in other assets	24,577	(85,618)
Increase in accrued expenses and other liabilities	90,024	57,458
(Decrease) increase in deferred revenue	(409,821)	214,801
(Decrease) in deferred rent	(101,644)	(85,630)
Net cash provided by operating activities	<u>976,734</u>	<u>897,860</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(216,422)	(149,407)
Purchases of investments	<u>(1,517,856)</u>	<u>(2,883,628)</u>
Net cash (used for) investing activities	<u>(1,734,278)</u>	<u>(3,033,035)</u>
Net (decrease) in cash and restricted cash	(757,544)	(2,135,175)
Cash and restricted cash		
Beginning of year	<u>5,048,026</u>	<u>7,183,201</u>
End of year	<u>\$ 4,290,482</u>	<u>\$ 5,048,026</u>
Reconciliation of cash and restricted cash reported in the statement of financial position		
Cash	\$ 3,371,323	\$ 4,623,803
Restricted cash	<u>919,159</u>	<u>424,223</u>
Total cash and restricted cash	<u>\$ 4,290,482</u>	<u>\$ 5,048,026</u>

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

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

1. Background

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

The Company reports information regarding its financial position and change in net assets in accordance with Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user’s ability to assess an entity’s available financial resources, along with its management of liquidity and liquidity risk.

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

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

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity. NPCC did not have any net assets with donor restrictions at December 31, 2020 and December 31, 2019.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, (*Topic 842*): *Leases*, which establishes a right of use model (“ROU”) that requires a lessee to record a ROU asset and a lease liability on the

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risks and rewards or control, then the lease would be classified as an operating lease. The new standard requires a modified retrospective approach to adoption. The Company is currently evaluating the impact Topic 842 will have on its financial statements. The new standard is effective for annual periods beginning after December 15, 2021.

Cash

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

Restricted Cash

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

Equipment and Leasehold Improvements

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

Revenue Recognition

The Company recognizes revenue consistent with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which the Company adopted effective January 1, 2018.

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

For the Criteria Services division, membership in the Company is on a calendar year basis. There are no fees assessed to full members other than those members that are Independent System Operators or Balancing Authority Areas. Criteria Services assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. Criteria Services assessments collected prior to the membership year are recorded as deferred revenue. For the Regional Entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental and/or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Regional Entity assessments received are recorded as income in the year to which they were applied within the NPCC Business Plan and Budget irrespective of when billed or collected. The Company recognizes revenue as the performance obligations for Criteria Services and Regional Entity are satisfied throughout a membership year. The amount of revenue recognized reflects the consideration the Company expects to receive from members in connection with the Company's

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

activities. The Company uses the input method to recognize revenue on the basis of the Company's efforts to satisfy the performance obligations evenly throughout the membership year. Penalty sanctions are recorded as income when levied and the appeals process has been waived or is concluded.

Rent Expense

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2020 and 2019 was approximately \$120,000 and \$156,000, respectively.

Income Taxes and Taxes Other Than Income Taxes

The Company has been classified as exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code. The Company was subject to an unrelated business income tax on transportation benefits starting January 1, 2018. On December 20, 2019, the tax on transportation benefits provided by nonprofit employers to their employees was repealed retroactively. The Company will file for a refund of taxes paid for the year 2018 totaling approximately \$16,000 and has filed for a refund of taxes paid for the year 2019 totaling approximately \$16,000.

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

Use of Estimates

The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those 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. Regional Entity and Criteria Services revenues are invested from time-to-time in a JPMorgan 100% U.S. Treasury Securities Money Market Fund (the "Fund"). The Fund aims to provide current income while maintaining liquidity and safety of principal. The Fund invests primarily in debt securities of the U.S. Treasury, but is not insured or guaranteed.

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

At December 31, 2020 and 2019, the Company owned 6,241,778 and 4,723,922 units, respectively, of \$1 par value per unit. In 2020 and 2019, the funds earned average yields of less than 1% and 1.12%, respectively. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

4. Equipment and Leasehold Improvements

Equipment and leasehold improvements at December 31, 2020 and 2019 consist of the following:

	Depreciable Life	2020	2019
Furniture	10 years	\$ 204,968	\$ 204,968
Computer equipment	3 years	591,883	497,878
Website	3 years	232,000	232,000
Software	3 years	1,082,724	1,059,379
Leasehold improvements	15 years (see Note 2)	<u>974,691</u>	<u>974,691</u>
		3,086,266	2,968,916
Less: Accumulated depreciation and amortization		<u>(2,697,595)</u>	<u>(2,502,121)</u>
		388,671	466,795
Assets not yet in service		<u>165,120</u>	<u>66,048</u>
		<u>\$ 553,791</u>	<u>\$ 532,843</u>

Depreciation and amortization expense totaled \$195,474 and \$227,806 in 2020 and 2019, respectively.

5. Net Assets Without Donor Restrictions

Effective in 2018, NPCC's Board of Directors designated \$1,000,000 of Net Assets to serve as a Business Continuity Reserve ("BCR"). The BCR serves to fund varying financial impacts over several years beginning in 2020, in connection with succession initiatives for the office of President and CEO and additionally in the event of multiple coincident staff retirements. During 2020 the Company used \$297,977 of the BCR, leaving a balance of \$702,023 available for future use as of December 31, 2020.

6. Savings and Supplemental Plans

The Company maintains a 401(k) plan which provides for safe harbor matching contributions. All employees are immediately eligible for the plan upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Company contributions to the 401(k) plan were \$236,931 and \$221,394 for 2020 and 2019, respectively. Additionally, upon completion of a full calendar year of service, the Company's employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2020 and 2019 was 8% of base compensation and totaled \$463,960 and \$449,742, respectively. During 2010, the Company adopted a supplemental plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS annual compensation limits. The Company contributed \$39,000 and \$38,000 to this supplemental plan for 2020 and 2019, respectively. During 2013, the Company adopted a 457(f) plan for the President and CEO. The Company contributed \$35,000 to this plan for each of the years 2020 and 2019.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC's office lease, which commenced in 2009, provides for base rent along with additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$150,000. NPCC executed various computer and equipment leases with expiration dates through 2024. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$793,968 and \$772,970 for 2020 and 2019, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2020 are as follows:

	Office Space	Other Leases	Total
Year Ending December 31			
2021	\$ 720,392	\$ 109,645	\$ 830,037
2022	720,392	87,652	\$ 808,044
2023	720,392	43,514	\$ 763,906
2024	240,131	7,346	\$ 247,477
	<u>\$ 2,401,307</u>	<u>\$ 248,157</u>	<u>\$ 2,649,464</u>

8. Salaries and Employee Benefits

During 2020 and 2019, salaries and employee benefits consist of the following:

	2020	2019
President, COO and technical staff	\$ 7,631,346	\$ 6,886,319
Administrative support	195,885	178,590
Payroll taxes, insurance, educational assistance, savings and supplemental plans	<u>3,023,672</u>	<u>2,908,293</u>
Total salaries and employee benefits	<u>\$ 10,850,903</u>	<u>\$ 9,973,202</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$3,008,145 and \$2,743,826 in 2020 and 2019, respectively, and consist of the following:

	2020	2019
Consultants	\$ 1,589,049	\$ 1,597,743
Accounting, legal and other services	1,390,958	1,118,765
Savings and supplemental plan administration	<u>28,138</u>	<u>27,318</u>
Total administrative, consultant and professional fees	<u>\$ 3,008,145</u>	<u>\$ 2,743,826</u>

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

10. Functional Classification

The Company is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. NPCC incurs expenses that directly relate to, and can be assigned to, a specific operational or administrative activity. NPCC also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. general and administrative, legal and regulatory, information technology, human resources, and finance and accounting activities). The following tables summarize operational and administrative programs on a functional basis for the years ended December 31, 2020 and 2019:

	Programs		Supporting Services	Total
	Regional Entity	Criteria Services	Management and General	
Year ended December 31, 2020				
Salaries and employee benefits	\$ 7,159,431	\$ 463,491	\$ 3,227,981	\$ 10,850,903
Administrative and consultant fees	1,677,009	-	596,816	2,273,825
Professional fees	514,024	44,059	176,237	734,320
Meetings and travel	94,374	5,547	33,174	133,095
Telephone and telecommunications	123,395	10,577	42,307	176,279
Office supplies and expense	437,860	37,531	150,123	625,514
Equipment leases	99,235	8,506	34,023	141,764
Rent expense	456,543	39,132	156,529	652,204
Insurance expense	29,479	2,527	10,107	42,113
Miscellaneous	8,413	721	2,884	12,018
Depreciation and amortization	136,832	11,728	46,914	195,474
Total expenses	<u>\$ 10,736,595</u>	<u>\$ 623,819</u>	<u>\$ 4,477,095</u>	<u>\$ 15,837,509</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

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

11. Liquidity and Availability

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

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

	2020	2019
Financial assets:		
Cash	\$ 3,371,323	\$ 4,623,803
Restricted cash	201,132	120,000
Investments	<u>6,241,778</u>	<u>4,723,922</u>
Financial assets, at December 31,	<u>9,814,233</u>	<u>9,467,725</u>
Less: Assets unavailable for general expenditures within one year:		
Board-designated reserve - BCR	<u>702,023</u>	<u>1,000,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,112,210</u>	<u>\$ 8,467,725</u>

12. Revenues

The following table shows the Company's revenues disaggregated according to the timing of satisfaction of performance obligations for the years ended December 31, 2020 and 2019:

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
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Revenue recognized at a point in time:	2020	2019
Penalty sanctions	\$ 615,069	\$ 154,000
Workshops	-	74,790
Total revenue recognized at a point in time	<u>615,069</u>	<u>228,790</u>
Revenue recognized over time:		
Criteria Services assessments	1,065,203	1,058,867
Regional Entity assessments	<u>15,338,737</u>	<u>15,003,411</u>
Total revenue recognized over time	<u>16,403,940</u>	<u>16,062,278</u>
Total revenues	<u>\$ 17,019,009</u>	<u>\$ 16,291,068</u>

13. Related Party Transactions

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

NPCC’s Criteria Services division was fully funded by Regional independent system operator or balancing authority areas and operated on Criteria Services assessments to and funded from these six entities. Dues were based upon a “Net Energy for Load” funding formula. During 2020 and 2019, total Criteria Services assessments billed amounted to \$1,065,203 and \$1,058,867, respectively.

Description	2020		2019	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	27.88%	\$ 296,906	28.22%	\$ 298,715
Independent Electricity System Operator	22.16%	236,008	21.83%	231,148
ISO-New England, Inc.	19.90%	212,027	20.03%	212,124
New Brunswick System Operator	2.27%	24,173	2.28%	24,142
New York Independent System Operator	25.97%	276,666	25.84%	273,634
Nova Scotia Power Inc.	1.82%	19,423	1.80%	19,104
Total criteria services assessments	<u>100.00%</u>	<u>\$ 1,065,203</u>	<u>100.00%</u>	<u>\$ 1,058,867</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

14. Line of Credit

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

15. Risks and Uncertainties

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Company's business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, the Company is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. The Company's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States and Canada. The Company continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

16. Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through March 30, 2021, the date the financial statements were available to be issued.

ATTACHMENT 4

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

RELIABILITYFIRST CORPORATION



RELIABILITY FIRST

Carol Baskey
Treasurer and Manager – Finance and Accounting
3 Summit Park, Suite 600
Cleveland Drive, OH 44131
Office: 216.503.0600
Carol.Baskey@rfirst.org

May 3, 2021

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

ReliabilityFirst's 2020 Actual Cost-To-Budget Comparison

Dear Mr. Andy Sharp:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year 2020 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 216.503.0657 or carol.baskey@rfirst.org

Very truly yours,

RELIABILITYFIRST CORPORATION

Carol Baskey

Carol Baskey
Treasurer and Manager, Finance and Accounting

Introduction

This Actual Cost-To-Budget Comparison includes a summary of significant variances, followed by more detailed analyses by program area. In 2020, ReliabilityFirst performed only statutory activities, and therefore all funding and expenses shown are for those functions delegated to ReliabilityFirst by the Electric Reliability Organization (ERO). The financial information included in this comparison is based on the results of ReliabilityFirst's 2020 independent audit that was performed by RSM US LLP and completed on March 25, 2021. For the year ending December 31, 2020, ReliabilityFirst was \$793K (3.4%) under budget.

Cost Allocation

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

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

Funding

The variance in Investment Income was due to greater than anticipated growth in interest and the value of unrealized gains in the company's investment portfolio. This variance was allocated proportionately to each direct program based on FTE count.

The variance in Miscellaneous Income was primarily due to a Bureau of Workers Compensation dividend to help employers assist in keeping businesses open and people employed during the pandemic, in addition to the write off of unused employee flexible spending account funds and the cash redemption of the corporate credit card rewards, none of which were budgeted. This variance was allocated proportionately to each direct program based on FTE count.

Budget Expenses

Personnel Expenses

Employee Benefits were under budget mainly due to variances in training and medical benefits. The training budget was underutilized as a result of the cancellation of training activities due to the COVID 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that were different than what was budgeted.

Meeting Expenses

Meetings and Travel were under budget due to the cancellation of meetings and travel as a result of the COVID 19 pandemic.

Operating Expenses

Contracts and Consultants expense was under budget due to the cancellation and postponement of planned contract support for most of the corporate activities, as a result of the COVID 19 pandemic.

Professional Services were over budget primarily due to a change in the payment structure of the Independent Directors compensation.

Fixed Assets

Fixed assets were under budget due to the cancellation and postponement of planned projects due to the impacts of the COVID 19 pandemic.

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 \$1,528,149 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.

Operating Reserve

ReliabilityFirst's Operating Reserve of \$1,000,000, which is designated each year with the intention of providing for unbudgeted and unexpected expenditures, was not utilized in 2020.

ReliabilityFirst Corporation's 2020 Actual Cost-To-Budget Comparison

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2020 - December 31, 2020				
ReliabilityFirst Corporation				
	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 22,318,622	\$ 22,318,622	\$ -	0.0%
Penalty Sanctions	267,627	267,627	-	0.0%
Total ReliabilityFirst Funding	\$ 22,586,249	\$ 22,586,249	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Investment	152,893	50,000	102,893	205.8%
Miscellaneous	81,610	-	81,610	-
Total Funding (A)	\$ 22,820,752	\$ 22,636,249	\$ 184,503	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 15,075,805	\$ 14,189,599	\$ 886,206	6.2%
Payroll Taxes	900,633	846,790	53,843	6.4%
Employee Benefits	2,008,158	2,493,615	(485,457)	-19.5%
Retirement Costs	2,345,700	2,338,753	6,947	0.3%
Total Personnel Expenses	\$ 20,330,296	\$ 19,868,757	\$ 461,539	2.3%
Meeting Expenses				
Meetings & Conference Calls	\$ 91,283	\$ 377,140	\$ (285,857)	-75.8%
Travel	107,008	697,916	(590,908)	-84.7%
Total Meeting Expenses	\$ 198,291	\$ 1,075,056	\$ (876,765)	-81.6%
Operating Expenses				
Contracts & Consultants	\$ 258,810	\$ 481,115	\$ (222,305)	-46.2%
Office Rent	578,106	539,292	38,814	7.2%
Office Costs	808,992	810,400	(1,408)	-0.2%
Professional Services	527,730	442,483	85,247	19.3%
Miscellaneous	46,348	43,759	2,589	5.9%
Total Operating Expenses	\$ 2,219,986	\$ 2,317,049	\$ (97,063)	-4.2%
Total Direct Expenses	\$ 22,748,573	\$ 23,260,862	\$ (512,289)	-2.2%
Indirect Expenses	\$ -	\$ -	\$ -	-
Other Non-Operating Expenses	-	-	-	-
Total Expenses (B)	\$ 22,748,573	\$ 23,260,862	\$ (512,289)	-2.2%
Change in Net Assets (A-B)	\$ 72,179	\$ (624,613)	\$ 696,792	-111.6%
Fixed Asset Additions, excluding Right of Use Assets (C)	109,155	390,000	(280,845)	-72.0%
Allocation of Fixed Assets	-	-	\$ -	-
Inc/(Dec) in Fixed Assets	\$ 109,155	\$ 390,000	\$ (280,845)	-72.0%
Total Budget	\$ 22,857,728	\$ 23,650,862	\$ (793,134)	-3.4%
Total Change in Working Capital	\$ (36,976)	\$ (1,014,613)	\$ 977,637	-96.4%
WC - 12/31/2019	2,465,448	1,173,486	1,291,962	
Less: Adjustment for future liabilities	(802,422)	-	(802,422)	
Available Working Capital	1,663,026	1,173,486	489,540	
Change in reserves from current year operations	(36,976)	(1,014,613)	977,637	
Other Adjustments to Reserves	(158,073)	(158,074)	1	
Total Working Capital	1,467,976	799,000	1,467,177	
Working Capital Reserve	1,528,149	2,144,752	(616,603)	
Operating Reserve	1,000,000	1,000,000	-	
Total Working Capital and Operating Reserve	3,996,125	3,145,551	1,467,177	
FTEs	82.79	79.35	3.44	4.3%

Major Accomplishments

All statutory objectives were satisfied, including these major accomplishments:

- Instituted a business continuity plan in March that included a transition to telecommuting and use of video conference calls for entity engagements, rather than on-site visits.
- Participated in regular calls with key government partners, and worked with FERC to provide guidance on regulatory discretion related to certain Standards and Requirements in light of the pandemic.
- Hosted the third annual Innovation Awards and Retreat where staff presented new ideas and projects, were recognized for exceptional work in the areas of innovation, and had access to individuals who could help them refine their innovations and bring them to fruition.
- Continued to enhance the resilience of ReliabilityFirst's footprint and the overall power grid, including further work on the Cyber Resilience Assessment Tool, which is a voluntary self-assessment that allows entities to evaluate and benchmark their cyber resilience posture.
- Initiated an operational resilience Community of Practice with SERC that is working with internal and external Subject Matter Experts to derive factors contributing to the operational resilience from generation, transmission, and extreme weather conditions.
- Established company-wide Community of Practice projects focused on increasing knowledge and enhancing activities related to facilitation and evaluation, in addition to various Community of Practice projects within the program areas.
- Continued to implement an enhanced Community of Practice process that captures how ReliabilityFirst will monitor a Registered Entity's compliance with selected NERC Reliability Standards based on entity-specific risks.
- Conducted 23 Inherent Risk Assessments and enhanced Compliance Oversight Plans.
- Continued to use the Entity Profile Questionnaire Tool, which is a secure tool that consolidates a number of information requests previously issued to entities in connection with the Inherent Risk Assessments.
- Processed 7 open events from 2019, as well as 75 new events that occurred in 2020.
- Experienced no Category 2 or higher events in the footprint.
- Processed 11 Category 1h events connected to Energy Management System issues.
- Worked with NERC in developing Lessons Learned documents.
- Conducted summer and winter seasonal assessments, transmission reliability assessments, and long-term resource assessments.
- Facilitated technical forums comprised of industry Subject Matter Experts.
- Performed 41 Operations and Planning engagements, 21 CIP engagements, and 74 compliance assessment reviews

- Implemented a process that was shared throughout the ERO to perform remote audits of CIP-006 (Cyber Security-Physical Security of BES Cyber Systems), and also utilized video to remotely interview operators.
- Held a workshop focused on Internal Controls, which was a one-day event that consisted of presentations from the Compliance Monitoring staff, presentations from Subject Matter Experts from various entities discussing their respective organizational implementation of internal controls, a panel discussion, and an afternoon working session.
- Introduced field walk downs, to help address identified ERO-wide FAC-003 and FAC-008 risks, and to assess controls with the Subject Matter Experts in the field.
- Processed 461 noncompliances.
- Analyzed, voted and provided feedback on 33 Reliability Standards.
- Facilitated the registration of 25 new entities on the NERC Compliance Registry and deregistration of 12 entities.
- Performed 70 Assist Visits.
- Performed 3 Certification and Readiness reviews.
- Incorporated Maturity Model Appraisals, offered to enhance an entity's continuous improvement in the management practices, into the online self-assessment tools.
- Performed Technical Talks (formerly Reliability and Compliance Open Forum Calls) to provide continual outreach on key risk topics.
- Explored new ways of interacting virtually with our stakeholders during the pandemic.

For more information on these major accomplishments see [2020 Annual Report](#)

Explanation of Variances - Reliability Standards

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

Reliability Assurance and Compliance Monitoring

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2020 - December 31, 2020

Reliability Assurance and Compliance Monitoring

	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 14,589,668	\$ 14,589,668	\$ -	0.0%
Penalty Sanctions	162,457	162,457	-	0.0%
Total ReliabilityFirst Funding	\$ 14,752,125	\$ 14,752,125	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	97,726	30,351	67,375	222.0%
Miscellaneous	52,164	-	52,164	-
Total Funding (A)	\$ 14,902,015	\$ 14,782,476	\$ 119,539	0.8%
Expenses				
Personnel Expenses				
Salaries	\$ 7,097,190	\$ 6,935,638	\$ 161,552	2.3%
Payroll Taxes	458,367	427,124	31,243	7.3%
Employee Benefits	941,095	1,175,572	(234,477)	-19.9%
Retirement Costs	1,074,218	1,072,912	1,306	0.1%
Total Personnel Expenses	\$ 9,570,870	\$ 9,611,246	\$ (40,376)	-0.4%
Meeting Expenses				
Meetings & Conference Calls	\$ 5,024	\$ 23,100	\$ (18,076)	-78.3%
Travel	62,005	400,116	(338,111)	-84.5%
Total Meeting Expenses	\$ 67,029	\$ 423,216	\$ (356,187)	-84.2%
Operating Expenses				
Contracts & Consultants	\$ 15,180	\$ 90,000	\$ (74,820)	-83.1%
Office Rent	-	-	-	-
Office Costs	312,051	301,952	10,099	3.3%
Professional Services	-	-	-	-
Miscellaneous	-	2,700	(2,700)	-100.0%
Total Operating Expenses	\$ 327,231	\$ 394,652	\$ (67,421)	-17.1%
Total Direct Expenses	\$ 9,965,130	\$ 10,429,114	\$ (463,984)	-4.4%
Indirect Expenses	\$ 4,361,745	\$ 4,112,682	\$ 249,063	6.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 14,326,875	\$ 14,541,796	\$ (214,921)	-1.5%
Change in Net Assets (A-B)	\$ 575,140	\$ 240,680	\$ 334,460	139.0%
Fixed Asset Additions, excluding Right of Use Assets (C)	-	10,000	(10,000)	-100.0%
Allocation of Fixed Assets	\$ 69,770	\$ 230,671	\$ (160,901)	-69.8%
Inc/(Dec) in Fixed Assets	\$ 69,770	\$ 240,671	\$ (170,901)	-71.0%
Total Budget	\$ 14,396,645	\$ 14,782,467	\$ (385,822)	-2.6%
Total Change in Working Capital	\$ 505,370	\$ -	\$ 505,361	-
FTEs	40.18	38.00	2.18	5.7%

Explanation of Variances – Reliability Assurance and Compliance Monitoring

Personnel Expenses

Employee Benefits were primarily under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic.

Meeting Expenses

Meeting expenses and Travel were under budget due to the cancellation of meetings and travel as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Fixed Assets

Computer Hardware and Software were under budget due to the cancellation and postponement of planned projects due to the impacts of the COVID 19 pandemic.

Enforcement Management

Statement of Activities, Fixed Assets and Change in Working Capital
January 1, 2020 - December 31, 2020

Enforcement Management

	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,127,501	\$ 2,127,501	\$ -	0.0%
Penalty Sanctions	29,926	29,926	-	0.0%
Total ReliabilityFirst Funding	\$ 2,157,427	\$ 2,157,427	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	17,370	5,591	11,779	210.7%
Miscellaneous	9,271	-	9,271	-
Total Funding (A)	\$ 2,184,068	\$ 2,163,019	\$ 21,050	1.0%
Expenses				
Personnel Expenses				
Salaries	\$ 1,200,773	\$ 981,241	\$ 219,532	22.4%
Payroll Taxes	78,588	66,281	12,307	18.6%
Employee Benefits	136,883	129,606	7,277	5.6%
Retirement Costs	162,482	150,021	12,461	8.3%
Total Personnel Expenses	\$ 1,578,726	\$ 1,327,149	\$ 251,577	19.0%
Meeting Expenses				
Meetings & Conference Calls	\$ 247	\$ 1,600	\$ (1,353)	-84.6%
Travel	1,053	27,996	(26,943)	-96.2%
Total Meeting Expenses	\$ 1,300	\$ 29,596	\$ (28,296)	-95.6%
Operating Expenses				
Contracts & Consultants	\$ -	\$ -	\$ -	-
Office Rent	-	-	-	-
Office Costs	12,065	6,180	5,885	95.2%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Total Operating Expenses	\$ 12,065	\$ 6,180	\$ 5,885	95.2%
Total Direct Expenses	\$ 1,592,091	\$ 1,362,925	\$ 229,166	16.8%
Indirect Expenses	\$ 775,247	\$ 757,599	\$ 17,648	2.3%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 2,367,338	\$ 2,120,524	\$ 246,814	11.6%
Change in Net Assets (A-B)	\$ (183,270)	\$ 42,495	\$ (225,764)	-531.3%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	-
Allocation of Fixed Assets	\$ 12,401	\$ 42,492	\$ (30,091)	-70.8%
Inc/(Dec) in Fixed Assets	\$ 12,401	\$ 42,492	\$ (30,091)	-70.8%
Total Budget	\$ 2,379,739	\$ 2,163,016	\$ 216,723	10.0%
Total Change in Working Capital	\$ (195,671)	\$ -	\$ (195,673)	-
FTEs	8.55	7.00	1.55	22.2%

Explanation of Variances – Enforcement Management

Personnel Expenses

Salaries and Payroll Taxes were over budget due to the reorganization in May. Two additional employees were added from other areas of the organization.

Meeting Expenses

Travel was under budget due to the cancellation of travel as a result of the COVID 19 pandemic.

Reliability Assessment and Performance Analysis

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2020 - December 31, 2020				
Reliability Assessment and Performance Analysis				
	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirstFunding				
ERO Assessments	\$ 2,727,677	\$ 2,727,677	\$ -	0.0%
Penalty Sanctions	28,216	28,216	-	0.0%
Total ReliabilityFirst Funding	\$ 2,755,893	\$ 2,755,893	\$ -	0.0%
Membership Dues	-	-	-	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	16,492	5,272	11,220	212.8%
Miscellaneous	8,803	-	8,803	-
Total Funding (A)	\$ 2,781,188	\$ 2,761,165	\$ 20,023	0.7%
Expenses				
Personnel Expenses				
Salaries	\$ 1,557,295	\$ 1,293,432	\$ 263,863	20.4%
Payroll Taxes	86,996	76,569	10,427	13.6%
Employee Benefits	137,909	148,822	(10,913)	-7.3%
Retirement Costs	229,720	204,432	25,288	12.4%
Total Personnel Expenses	\$ 2,011,920	\$ 1,723,255	\$ 288,665	16.8%
Meeting Expenses				
Meetings & Conference Calls	\$ 476	\$ 8,500	\$ (8,024)	-94.4%
Travel	18,596	105,000	(86,404)	-82.3%
Total Meeting Expenses	\$ 19,072	\$ 113,500	\$ (94,428)	-83.2%
Operating Expenses				
Contracts & Consultants	\$ 85,628	\$ 126,340	\$ (40,712)	-32.2%
Office Rent	-	-	-	-
Office Costs	44,503	43,496	1,007	2.3%
Professional Services	-	-	-	-
Miscellaneous	425	200	225	112.5%
Total Operating Expenses	\$ 130,556	\$ 170,036	\$ (39,480)	-23.2%
Total Direct Expenses	\$ 2,161,548	\$ 2,006,791	\$ 154,757	7.7%
Indirect Expenses	\$ 736,093	\$ 714,308	\$ 21,785	3.0%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 2,897,641	\$ 2,721,099	\$ 176,542	6.5%
Change in Net Assets (A-B)	\$ (116,453)	\$ 40,066	\$ (156,519)	-390.7%
Fixed Asset Additions, excluding Right of Use Assets	-	-	-	-
Allocation of Fixed Assets	\$ 11,774	\$ 40,064	\$ (28,290)	-70.6%
Inc/(Dec) in Fixed Assets	\$ 11,774	\$ 40,064	\$ (28,290)	-70.6%
Total Budget	\$ 2,909,415	\$ 2,761,163	\$ 148,252	5.4%
Total Change in Working Capital	\$ (128,227)	\$ -	\$ (128,229)	-
FTEs	7.94	6.60	1.34	20.3%

Explanation of Variances - Reliability Assessment and Performance Analysis

Personnel Expenses

Salaries, Payroll Taxes, and Retirement Costs were over budget due to the reorganization in May, primarily related to one additional employee that was added from another area of the organization.

Meeting Expenses

Travel was under budget due to the cancellation of travel as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Training and Education

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2020 - December 31, 2020				
Training and Education				
	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 1,164,845	\$ 1,164,845	\$ -	0.0%
Penalty Sanctions	12,826	12,826	-	0.0%
Total ReliabilityFirst Funding	\$ 1,177,671	\$ 1,177,671	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	5,439	2,396	3,043	127.0%
Miscellaneous	2,903	-	2,903	-
Total Funding (A)	\$ 1,186,013	\$ 1,180,067	\$ 5,946	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 647,932	\$ 403,723	\$ 244,209	60.5%
Payroll Taxes	29,209	25,768	3,441	13.4%
Employee Benefits	76,394	90,752	(14,358)	-15.8%
Retirement Costs	80,721	62,211	18,510	29.8%
Total Personnel Expenses	\$ 834,258	\$ 582,454	\$ 251,802	43.2%
Meeting Expenses				
Meetings & Conference Calls	\$ 32,370	\$ 211,000	\$ (178,630)	-84.7%
Travel	1,942	9,996	(8,054)	-80.6%
Total Meeting Expenses	\$ 34,312	\$ 220,996	\$ (186,684)	-84.5%
Operating Expenses				
Contracts & Consultants	\$ 72,081	\$ 30,000	\$ 42,081	140.3%
Office Rent	-	-	-	-
Office Costs	14,586	3,720	10,866	292.1%
Professional Services	-	-	-	-
Miscellaneous	100	-	100	-
Total Operating Expenses	\$ 86,767	\$ 33,720	\$ 53,047	157.3%
Total Direct Expenses	\$ 955,337	\$ 837,170	\$ 118,165	14.1%
Indirect Expenses	\$ 242,754	\$ 324,685	\$ (81,931)	-25.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 1,198,091	\$ 1,161,855	\$ 36,234	3.1%
Change in Net Assets (A-B)	\$ (12,078)	\$ 18,212	\$ (30,288)	-166.3%
Fixed Asset Additions, excluding Right of Use Ass	-	-	-	-
Allocation of Fixed Assets	\$ 3,883	\$ 18,211	\$ (14,328)	-78.7%
Inc/(Dec) in Fixed Assets	\$ 3,883	\$ 18,211	\$ (14,328)	-78.7%
Total Budget	\$ 1,201,974	\$ 1,180,066	\$ 21,906	1.9%
Total Change in Working Capital	\$ (15,961)	\$ -	\$ (15,960)	-
FTEs	2.67	3.00	(0.33)	-11.1%

Explanation of Variances – Training and Education

Personnel Expenses

Salaries and Retirement Costs were over budget due to the reorganization in May. In some cases, different employees with higher salaries replaced other employees.

Employee Benefits were under budget due primarily to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic.

Meeting Expenses

Meeting expenses were under budget due to the cancellation of meetings as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were over budget primarily due to the Mitovia Camp upgrade and innovation projects that exceeded the budget.

Office costs were over budget primarily as the result of unbudgeted Community of Practice reading materials and a software renewal license that was previously budgeted and recorded in Situational Awareness prior to the reorganization in May.

Situation Awareness and Infrastructure Security

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2020 - December 31, 2020				
Situation Awareness and Infrastructure Security				
	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ 2,723,544	\$ 2,723,544		-
Penalty Sanctions	34,202	34,202	-	0.0%
Total ReliabilityFirst Funding	\$ 2,757,746	\$ 2,757,746	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	15,866	6,390	9,476	148.3%
Miscellaneous	8,469	-	8,469	-
Total Funding (A)	\$ 2,782,081	\$ 2,764,136	\$ 17,945	0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 877,815	\$ 1,197,457	\$ (319,642)	-26.7%
Payroll Taxes	58,785	75,674	(16,889)	-22.3%
Employee Benefits	150,183	259,583	(109,400)	-42.1%
Retirement Costs	143,774	185,074	(41,300)	-22.3%
Total Personnel Expenses	\$ 1,230,557	\$ 1,717,788	\$ (487,231)	-28.4%
Meeting Expenses				
Meetings & Conference Calls	\$ 1,099	\$ 3,400	\$ (2,301)	-67.7%
Travel	7,580	54,800	(47,220)	-86.2%
Total Meeting Expenses	\$ 8,679	\$ 58,200	\$ (49,521)	-85.1%
Operating Expenses				
Contracts & Consultants	-	32,500	\$ (32,500)	-100.0%
Office Rent	-	-	-	-
Office Costs	11,267	41,258	(29,991)	-72.7%
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Total Operating Expenses	\$ 11,267	\$ 73,758	\$ (62,491)	-84.7%
Total Direct Expenses	\$ 1,250,503	\$ 1,849,746	\$ (599,243)	-32.4%
Indirect Expenses	\$ 708,126	\$ 865,828	\$ (157,702)	-18.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 1,958,629	\$ 2,715,574	\$ (756,945)	-27.9%
Change in Net Assets (A-B)	\$ 823,452	\$ 48,562	\$ 774,890	1595.7%
Fixed Asset Additions, excluding Right of Use As:	-	-	-	-
Allocation of Fixed Assets	\$ 11,327	\$ 48,562	\$ (37,235)	-76.7%
Inc/(Dec) in Fixed Assets	\$ 11,327	\$ 48,562	\$ (37,235)	-76.7%
Total Budget	\$ 1,969,956	\$ 2,764,136	\$ (794,180)	-28.7%
Total Change in Working Capital	\$ 812,125	\$ -	\$ 812,125	-
FTEs	5.75	8.00	(2.25)	-28.1%

Explanation of Variances - Situation Awareness and Infrastructure Security

Personnel Expenses

Salaries, Payroll Taxes, and Retirement Costs were under budget primarily as the result of the reorganization. Three employees in this area moved out and one employee transferred in from different areas of the organization.

Employee Benefits were primarily under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic.

Meeting Expenses

Travel was under budget due to the cancellation of travel as a result of the COVID 19 pandemic.

Operating Expenses

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Office Costs were under budget due to budgeted computer service and maintenance costs that were not utilized, and software license costs that were transferred to Training and Education after the reorganization in May.

Administrative Services

Statement of Activities, Fixed Assets and Change in Working Capital				
January 1, 2020 - December 31, 2020				
Administrative Services				
	2020 Actual	2020 Budget	2020 Variance Over/(Under)	% Variance
Funding				
ReliabilityFirst Funding				
ERO Assessments	\$ (1,014,613)	\$ (1,014,613)	\$ -	0.0%
Penalty Sanctions	-	-	-	-
Total ReliabilityFirst Funding	\$ (1,014,613)	\$ (1,014,613)	\$ -	0.0%
Membership Dues	\$ -	\$ -	\$ -	-
Federal Grants	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Investment	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	\$ (1,014,613)	\$ (1,014,613)	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 3,694,800	\$ 3,378,108	\$ 316,692	9.4%
Payroll Taxes	188,688	175,374	13,314	7.6%
Employee Benefits	565,694	689,280	(123,586)	-17.9%
Retirement Costs	654,785	664,103	(9,318)	-1.4%
Total Personnel Expenses	\$ 5,103,967	\$ 4,906,865	\$ 197,102	4.0%
Meeting Expenses				
Meetings & Conference Calls	\$ 52,067	\$ 129,540	\$ (77,473)	-59.8%
Travel	15,832	100,008	(84,176)	-84.2%
Total Meeting Expenses	\$ 67,899	\$ 229,548	\$ (161,649)	-70.4%
Operating Expenses				
Contracts & Consultants	\$ 85,921	\$ 202,275	\$ (116,354)	-57.5%
Office Rent	578,106	539,292	38,814	7.2%
Office Costs	414,520	413,794	726	0.2%
Professional Services	527,730	442,483	85,247	19.3%
Miscellaneous	45,823	40,859	4,964	12.1%
Total Operating Expenses	\$ 1,652,100	\$ 1,638,703	\$ 13,397	0.8%
Total Direct Expenses	\$ 6,823,966	\$ 6,775,116	\$ 48,850	0.7%
Indirect Expenses	\$ (6,823,966)	\$ (6,775,116)	\$ (48,850)	0.7%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ -	\$ -	\$ -	-
Change in Net Assets (A-B)	\$ (1,014,613)	\$ (1,014,613)	\$ -	0.0%
Fixed Asset Additions, excluding Right o	109,155	380,000	(270,845)	-71.3%
Allocation of Fixed Assets	\$ (109,155)	\$ (380,000)	\$ 270,845	-71.3%
Inc/(Dec) in Fixed Assets	\$ 0	\$ -	\$ 0	-
Total Budget	\$ 0	\$ -	\$ 0	-
Total Change in Working Capital	\$ (1,014,613)	\$ (1,014,613)	\$ (0)	0.0%
FTEs	17.71	16.75	0.96	5.7%

Explanation of Variances – Administrative Services

Personnel Expenses

Employee Benefits were primarily under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the COVID 19 pandemic.

Meeting Expenses

Meeting Expenses and Travel were under budget due to the cancellation of meetings and travel as a result of the COVID 19 pandemic.

Operating Expense

Contracts & Consultants were under budget due to the cancellation and postponement of planned contract support for most activities due to the COVID 19 pandemic.

Professional Services were over budget primarily due to a change in the payment structure of the Independent Directors compensation.

Fixed Assets

Fixed Assets were under budget primarily as the result of the cancellation and postponement of planned projects due to the impacts of the COVID 19 pandemic.

ReliabilityFirst Corporation

Financial Report
December 31, 2020

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Independent Auditor's Report

RSM US LLP

Board of Directors
ReliabilityFirst Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of ReliabilityFirst Corporation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ReliabilityFirst Corporation as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Chicago, Illinois
March 25, 2021

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ReliabilityFirst Corporation

**Statements of Financial Position
December 31, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash	\$ 2,459,881	\$ 2,836,707
Cash - regulatory designated	4,540,000	267,627
Investments	6,583,286	6,430,393
Accounts receivable	147,380	79,512
Prepaid expenses	395,480	208,076
Total current assets	14,126,027	9,822,315
Noncurrent assets:		
Cash - regulatory designated (net of current portion)	1,914,931	4,150,000
Deferred compensation plan assets	451,899	349,547
Total noncurrent assets	2,366,830	4,499,547
Fixed assets:		
Furniture and equipment	410,579	371,514
Leasehold improvements	2,086,939	2,034,076
Computer software and hardware	3,411,752	3,403,513
	5,909,270	5,809,103
Less accumulated depreciation and amortization	4,288,597	3,863,996
	1,620,673	1,945,107
Total noncurrent assets	3,987,503	6,444,654
Total assets	\$ 18,113,530	\$ 16,266,969
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 50,559	\$ 188,640
Accrued expenses (current portion)	6,032,719	4,372,451
Deferred rent (current portion)	211,438	200,245
Total current liabilities	6,294,716	4,761,336
Long-term liabilities:		
Deferred revenue	350,000	350,000
Accrued expenses (net of current portion)	-	253,624
Deferred rent (net of current portion)	1,269,977	1,481,414
Deferred compensation	451,899	349,547
	2,071,876	2,434,585
Total liabilities	7,366,592	7,195,921
Net assets:		
Without donor restrictions:		
Undesignated	1,763,858	1,508,669
Operating reserve fund	1,000,000	1,000,000
Working capital reserve fund	1,528,149	2,144,752
Regulatory designated funds	6,454,931	4,417,627
Total net assets	10,746,938	9,071,048
Total liabilities and net assets	\$ 18,113,530	\$ 16,266,969

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Activities

Years Ended December 31, 2020 and 2019

	2020	2019
Net assets without donor restrictions or regulatory designations:		
Revenues:		
Quarterly assessments	\$ 22,318,623	\$ 21,255,831
Investment income	152,893	210,398
Penalty sanctions released from regulatory designations	267,627	327,215
Miscellaneous	81,610	2,613
Total revenues	<u>22,820,753</u>	<u>21,796,057</u>
Expenses:		
Program:		
Reliability assurance and compliance monitoring	9,965,130	9,811,523
Enforcement	1,592,091	1,274,525
Assessment	2,164,821	1,945,046
Training and education	955,335	714,491
Situational awareness	1,256,650	1,634,822
Total program expenses	<u>15,934,027</u>	<u>15,380,407</u>
General and administrative	<u>7,248,140</u>	<u>7,256,185</u>
Total expenses	<u>23,182,167</u>	<u>22,636,592</u>
Decrease in net assets without regulatory designations	<u>(361,414)</u>	<u>(840,535)</u>
Net assets with regulatory designations:		
Penalty sanctions subject to regulatory designations, received in the current year	2,304,931	4,299,000
Penalty sanctions released from regulatory designations	<u>(267,627)</u>	<u>(327,215)</u>
Increase in net assets with regulatory designations	<u>2,037,304</u>	<u>3,971,785</u>
Increase in net assets	<u>1,675,890</u>	<u>3,131,250</u>
Net assets at beginning of year	<u>9,071,048</u>	<u>5,939,798</u>
Net assets at end of year	<u><u>\$ 10,746,938</u></u>	<u><u>\$ 9,071,048</u></u>

See notes to financial statements.

ReliabilityFirst Corporation

Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services							
	Reliability Assurance and Compliance Monitoring	Enforcement	Assessment	Training and Education	Situational Awareness	Total Programs	General and Administrative	Total
Personnel expenses:								
Salaries	\$ 7,097,190	\$ 1,200,773	\$ 1,557,295	\$ 647,932	\$ 877,815	\$ 11,381,005	\$ 3,694,800	\$ 15,075,805
Payroll taxes	458,367	78,588	86,996	29,209	58,785	711,945	188,688	900,633
Employee benefits	941,095	136,883	137,909	76,394	150,183	1,442,464	565,694	2,008,158
Savings and retirement	1,074,218	162,482	229,720	80,721	143,774	1,690,915	654,785	2,345,700
Total personnel expenses	9,570,870	1,578,726	2,011,920	834,256	1,230,557	15,226,329	5,103,967	20,330,296
Meeting expenses:								
Meetings	5,024	247	476	32,370	1,099	39,216	37,427	76,643
Travel	62,005	1,053	18,596	1,942	7,580	91,176	15,832	107,008
Conference calls	-	-	-	-	-	-	14,640	14,640
Total meeting expenses	67,029	1,300	19,072	34,312	8,679	130,392	67,899	198,291
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	578,106	578,106
Contracts	15,180	-	85,628	72,081	-	172,889	85,921	258,810
Office costs	58,270	12,065	9,082	10,031	6,760	96,208	110,494	206,702
Professional services	-	-	-	-	-	-	527,730	527,730
Computer purchase and maintenance	253,781	-	35,421	4,555	4,507	298,264	301,765	600,029
Furniture	-	-	-	-	-	-	2,261	2,261
Miscellaneous	-	-	425	100	-	525	45,826	46,351
Depreciation and amortization	-	-	3,273	-	6,147	9,420	424,171	433,591
Total operating expenses	327,231	12,065	133,829	86,767	17,414	577,306	2,076,274	2,653,580
Total	\$ 9,965,130	\$ 1,592,091	\$ 2,164,821	\$ 955,335	\$ 1,258,650	\$ 15,934,027	\$ 7,248,140	\$ 23,182,167

See notes to financial statements.

ReliabilityFirst Corporation

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services							
	Reliability Assurance and Compliance			Training and	Situational	Total	General and	
	Monitoring	Enforcement	Assessment	Education	Awareness	Programs	Administrative	Total
Personnel expenses:								
Salaries	\$ 6,645,358	\$ 940,935	\$ 1,275,813	\$ 326,082	\$ 1,031,170	\$ 10,219,358	\$ 3,498,163	\$ 13,717,521
Payroll taxes	428,829	67,906	81,139	19,629	66,740	664,243	183,915	848,158
Employee benefits	908,856	103,927	138,783	66,708	195,198	1,413,472	638,255	2,051,727
Savings and retirement	1,014,399	129,310	197,788	49,428	144,890	1,535,815	612,256	2,148,071
Total personnel expenses	8,997,442	1,242,078	1,693,523	461,847	1,437,998	13,832,888	4,932,589	18,765,477
Meeting expenses:								
Meetings	14,296	975	8,210	216,386	14,654	254,521	133,370	387,891
Travel	362,380	23,007	106,358	8,137	52,660	552,522	94,209	646,731
Conference calls	-	-	-	-	-	-	29,063	29,063
Total meeting expenses	376,656	23,982	114,568	224,523	67,314	807,043	256,642	1,063,685
Operating expenses:								
Rent and improvements	-	-	-	-	-	-	557,658	557,658
Contracts	134,758	-	88,130	22,680	88,108	333,676	143,920	477,596
Office costs	55,161	8,465	10,007	5,441	7,536	86,610	143,131	229,741
Professional services	-	-	-	-	-	-	422,690	422,690
Computer purchase and maintenance	244,450	-	35,366	-	26,794	306,610	318,352	624,962
Furniture	-	-	-	-	-	-	11,466	11,466
Miscellaneous	1,922	-	-	-	-	1,922	42,197	44,119
Depreciation and amortization	1,134	-	3,452	-	7,072	11,658	427,540	439,198
Total operating expenses	437,425	8,465	136,955	28,121	129,510	740,476	2,065,954	2,807,430
Total	\$ 9,811,523	\$ 1,274,525	\$ 1,945,046	\$ 714,491	\$ 1,634,822	\$ 15,380,407	\$ 7,256,185	\$ 22,636,592

See notes to financial statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 1,675,890	\$ 3,131,250
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	433,591	439,198
Unrealized gain on investments	(33,525)	(60,923)
Realized loss (gain) on investments	1,511	(4,585)
Changes in assets and liabilities:		
Accounts receivable	(67,868)	73,789
Prepaid expenses	(187,404)	28,889
Accounts payable	(88,905)	2,416
Accrued expenses	379,362	347,595
Deferred rent	(200,244)	(189,051)
Net cash provided by operating activities	1,912,408	3,768,578
Cash flows from investing activities:		
Purchase of investments	(4,785,321)	(5,141,930)
Sale of investments	4,664,442	4,997,040
Purchases of fixed assets	(131,051)	(156,978)
Net cash used in investing activities	(251,930)	(301,868)
Net increase in cash	1,660,478	3,466,710
Cash at beginning of year	7,254,334	3,787,624
Cash at end of year	\$ 8,914,812	\$ 7,254,334
Supplemental disclosure of noncash investing activities:		
Accrued acquisition of fixed assets	\$ 42,739	\$ 64,633
Reconciliation of cash:		
Cash	\$ 2,459,881	\$ 2,836,707
Cash - regulatory designated	4,540,000	267,627
Cash - regulatory designated (net of current portion)	1,914,931	4,150,000
Total	\$ 8,914,812	\$ 7,254,334

See notes to financial statements.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: ReliabilityFirst Corporation (the Corporation) is a not-for-profit corporation whose mission is to preserve and enhance bulk power system reliability and security for the interconnected electric systems within its territory. The Corporation was approved by the North American Electric Reliability Corporation (NERC) to become one of six Regional Entities of NERC to perform aspects of the Electric Reliability Organization (ERO) functions described through delegation agreements. NERC is a not-for-profit entity organized under the New Jersey Nonprofit Corporation Act. The Federal Energy Regulatory Commission (FERC) certifies and has oversight of NERC as the ERO within the United States to establish and enforce NERC Reliability Standards for the U.S. portion of the BPS, pursuant to Section 215 of the Federal Power Act (FPA).

The Corporation receives its quarterly assessments from NERC. NERC's annual funding is provided primarily through assessments to load-serving entities. FPA Section 215 and FERC's regulations specify procedures for NERC's funding in the United States. On an annual basis, the Corporation submits a Business Plan and Budget (BP&B) to NERC. Once approved, the Corporation's BP&B is submitted, along with NERC's annual BP&B, to FERC for approval. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Corporation's operations.

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

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

Revenue recognition: The Corporation currently derives its revenues primarily from quarterly assessments. Revenues from such assessments are recognized as unconditional contributions without donor restriction at the time they are received.

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

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

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

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

Note 1. Organization and Significant Accounting Policies (Continued)

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, 2020 and 2019.

Investments: Investments are carried at fair value. The fair values of marketable debt securities are based on quoted market prices. Realized investment gains and losses represent the difference between the proceeds on sales of investments and their carrying value. Investment income includes interest, dividends, and both realized and unrealized gains and losses. All realized and unrealized gains and losses on investments are reported as increases or decreases, respectively, to net assets without donor restrictions.

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

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

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

Deferred revenue: Conditional contributions received by the Corporation prior to when the conditions are met, are recorded as deferred revenue.

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

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

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

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Net assets: An amount of \$1,000,000 of the Corporation's net assets without donor restrictions at December 31, 2020 and 2019 is designated by the Board of Directors for the Corporation's operating reserve fund. The operating reserve fund is designated each year with the intention of providing for unbudgeted and unexpected expenditures. An additional \$1,528,149 and \$2,144,752 has been designated by the Board of Directors for the Corporation's working capital reserve fund at December 31, 2020 and 2019, respectively. The working capital reserve fund was established in 2016 in an effort to enhance day-to-day cash flow management of expenditures and provide capabilities to stabilize future assessments.

Net assets with regulatory designations result from the receipt of penalty sanctions, which are governed by stipulations from NERC as to when the funds can be used. Amounts of \$267,627 and \$327,215 were released from regulatory designations during 2020 and 2019, respectively. Net assets with regulatory designations at December 31, 2020 and 2019, were \$6,454,931 and \$4,417,627, respectively.

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

Recent accounting pronouncement: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Clarifications to this ASU were issued by the FASB in July 2018 under ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842) Targeted Improvements*. The new standard will be effective for the Corporation in 2022.

The Corporation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Significant events: In March 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. Action taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economy and financial markets. It is unknown how long the current conditions associated with the coronavirus will last and what the complete financial effect will be to the Corporation.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 25, 2021, the date these financial statements were available to be issued.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Availability and Liquidity

The table below represents financial assets available for general expenditures within one year of December 31, 2020 and 2019:

	2020	2019
Financial assets at year-end		
Cash	\$ 2,459,881	\$ 2,836,707
Cash - regulatory designated	6,454,931	4,417,627
Investments	6,583,286	6,430,393
Accounts receivable	147,380	79,512
Total financial assets	<u>15,645,478</u>	<u>13,764,239</u>
Less amounts unavailable for general expenditures within one year, due to:		
Operating reserve fund	(1,000,000)	(1,000,000)
Working capital reserve fund	(1,528,149)	(2,144,752)
Regulatory imposed time restriction	<u>(1,914,931)</u>	<u>(4,150,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,202,398</u>	<u>\$ 6,469,487</u>

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

Note 3. Investments and Fair Value Measurements

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

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

- **Level 1:** Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- **Level 2:** Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

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

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

The Corporation assesses the levels at each measurement date, and transfers between levels are recognized on the date of the actual event or change in the circumstances that caused the transfer in accordance with the Corporation's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. For the years ended December 31, 2020 and 2019, there were no such transfers.

The following tables present the Corporation's fair value hierarchy for its investments as of December 31, 2020 and 2019:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ 1,267,295	\$ -	\$ -	\$ 1,267,295
U.S. Treasury obligations	785,233	-	-	785,233
Corporate bonds	-	3,427,869	-	3,427,869
	<u>\$ 2,052,528</u>	<u>\$ 3,427,869</u>	<u>\$ -</u>	<u>5,480,397</u>
Cash and cash equivalents				1,102,889
				<u>\$ 6,583,286</u>

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

The composition of investment income for 2020 and 2019 is as follows:

	2020	2019
Interest, net of investment fees	\$ 120,879	\$ 144,890
Realized (loss) gain	(1,511)	4,585
Unrealized gain	33,525	60,923
	<u>\$ 152,893</u>	<u>\$ 210,398</u>

ReliabilityFirst Corporation

Notes to Financial Statements

Note 4. Line of Credit

The Corporation has a \$500,000 line of credit with an expiration date of August 17, 2022. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 7.84%. The Corporation did not make any drawdowns on the line during 2020 and 2019 and had no outstanding balance as of December 31, 2020 and 2019. As there were no drawdowns made, no corresponding interest was paid in 2020 or 2019.

Note 5. Operating Leases

The Corporation leases its office and data center from unrelated third parties. The leases expire in February 2027 and February 2022, respectively. Rental expense for operating leases amounted to \$508,090 and \$507,051 in the years ended December 31, 2020 and 2019, respectively. Rent expense in 2020 and 2019 includes \$200,245 and \$189,051, in accelerated straight-line amortization of a previous deferred rent liability due to the early termination of a previous lease and a tenant improvement allowance, respectively. The deferred rent liability was \$1,481,415 and \$1,681,659 as of December 31, 2020 and 2019, respectively.

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

2021	\$ 719,528
2022	677,802
2023	671,356
2024	682,549
2025	693,743
Thereafter	822,737
	<u>\$ 4,267,715</u>

Note 6. Employee Retirement Plan

The Corporation has a salary deferral plan under Section 401(k) of the Internal Revenue Code (Code). All employees are eligible for a 100% match of their first 6% of voluntary salary deferral savings and the 3% Safe Harbor provision of the plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the plan (7% in 2020 and 2019). Therefore, under this plan, the Corporation provided for a potential maximum contribution of up to 16% of employees' eligible compensation in 2020 and 2019. The Corporation's contribution to the plan for 2020 and 2019 was approximately \$2,122,440 and \$1,968,099, respectively.

The Corporation also offers a deferred compensation plan under Section 457(b) of the Code. Select employees of the Corporation are eligible for the plan which provides an employer credit to an investment account, controlled by the Corporation in an amount equal to the difference between the contributions made to the employees' 401(k) and the contribution that would have been made if not for the annual contribution limit imposed by Section 415(c)(1)(A) of the Code or the compensation limit imposed by Section 401(a)(17) of the Code. The plan had 8 participants as of December 31, 2020 and 2019. Employer credits to the investment accounts in 2020 and 2019 were approximately \$67,466 and \$39,268, respectively. The balance of the investment accounts held by the Corporation for this plan are identified on the statements of financial position as "deferred compensation plan assets" with a matching liability to reflect the amount which is owed to the Corporation's employees.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 7. Conditional Grant from City of Independence, Ohio

In connection with the Corporation's office move in a previous year, the City of Independence, Ohio (City) awarded a \$350,000 grant to the Corporation. The grant agreement provides for the Corporation to meet minimum annual payroll tax requirements as well as a requirement that the Corporation will maintain its principal place of business within the City for a period of not less than 12 years. The Corporation moved its principal place of business into the City in 2014. If the 12 year requirement is not met by the Corporation, the full \$350,000 will be required to be returned to the City upon default. The Corporation has received the \$350,000 and has recorded it in deferred revenue due to the conditions of the grant not being met as of December 31, 2020 and 2019.

ATTACHMENT 5

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

SERC RELIABILITY CORPORATION



May 13, 2021

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

SERC 2020 Actual Cost vs. Budget Variance Analysis

Dear Mr. Andy Sharp:

Enclosed is SERC's response to your request for the end of year 2020 Actual Cost to Budget Comparison and audited year-end financials.

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

If you have any questions, please reach out to me at gkrogstie@serc1.org.

Sincerely,

George Krogstie

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake, President/CEO

Overview

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

The financial information included in this comparison is based on the results of SERC's 2020 independent audit that was performed by GreerWalker LLP and completed on March 31, 2021. For the year ending December 31, 2020, SERC budgeted funding was short by \$135,810, and incurred expenditures of \$1,352,568 under its 2020 total budget. The net impact was a \$1,216,758 favorable variance on SERC's Change in Working Capital vs. budget for the year.

During the unprecedented COVID-19 pandemic, The Reliability Assurance program and audit team members modified their approaches to continue to perform their oversight role with a combination of onsite and offsite audits. In 2020, SERC conducted 44 audits and one Critical Infrastructure Protection (CIP) spot check. Twenty three were Operations and Planning (O&P) audits while twenty one were (CIP) audits. SERC's Registration Department processed 123 Registration Requests. Of those, 108 resulted in changes to the SERC Compliance Registry, and of those, 88 resulted in changes to the NERC Compliance Registry.

SERC's Enforcement and Risk Assessment and Mitigation Teams received 262 new potential violations and processed 324 issues to closure. In addition, SERC completed all planned reliability assessments for the year.

In 2020 the Outreach and Training department hosted 10 events covering a variety of topics including but not limited to NERC Reliability Standards, Bulk Power System reliability, Compliance Monitoring and Enforcement Program basics, Critical Infrastructure Protection, Operation and Planning Best Practices, Supply Chain Security, and cold weather best practices. The team also saw entity members complete over 400 e-learning module courses focused on security and reliability best practices.

Funding

Overall, funding was short due to pandemic related cancellations of planned workshops, partially offset by higher than expected investment income.

Budget Expenses

Personnel

Improved hiring and retention of talent resulting in fewer than budgeted vacancies, partially offset by insurance renewal lower than budget. Budgeted personnel cost include an 8% vacancy factor which results in 90 funded FTEs vs. 98 approved FTEs. Employee Benefits were under budget due to health insurance renewals being lower than budget and fewer than expected employee relocations.

Meeting and Travel

Meeting and travel was less than the budget due to decreased meeting and travel associated with COVID-19 related restrictions and cancelations.

Operating Expenses

Contracts and Consultants expense was under budget primarily due to the cancellation of workshops reduced the need for third-party contractors supporting these events. In addition, expenses associated with the Compliance User Group and the independent director search were less than budgeted. Further, certain software costs budgeted in Contracts were more appropriately classified as software expense and were recorded in Office Costs.

Office Costs exceeded budget as a result of expenses budgeted under contracts and consultants being more appropriately classified as software expense and therefore the expense was recorded in Office Costs.

SERC incurred fewer legal fees associated with employment matters and review of SERC bylaws, driving the under-budget variance in Professional Services.

Fixed Assets

Fixed Asset variance is due to acceleration of timeline for Member Portal Consolidation projects.

Non-Statutory Program

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

Cost Allocation

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

Direct Programs include:

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

Corporate Services Programs include:

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

Audited Financial Statements

Revenue Recognition

The adoption of ASC 606 resulted in SERC recognizing revenue from penalty sanctions in the period the penalties are assessed versus deferral of penalty sanctions that would offset future member assessments.

Depreciation

SERC incurred \$552k of depreciation in 2020. SERC's Statement of Activities excludes the adjustment for best consistency of presentation with the 2020 Business Plan and Budget and the NERC format.

Loss on Disposal of Assets

SERC wrote off certain assets in 2020, primarily associated with outdated computers and software, resulting in a \$1k loss on asset disposal. The audit report includes this loss in Miscellaneous Expense. SERC's Statement of Activities excludes the adjustment for best consistency of presentation with the NERC format.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2020 through 12/31/2020
TOTAL STATUTORY

	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)
Funding			
ERO Funding			
Assessments	22,459,123	22,459,123	-
Penalty Sanctions	1,900,000	1,900,000	-
Total ERO Funding	\$24,359,123	\$ 24,359,123	\$ -
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	7,475	165,000	(157,525)
Interest	80,575	60,000	20,575
Miscellaneous	1,140	-	1,140
Total Funding (A)	\$24,448,313	\$ 24,584,123	\$ (135,810)
Expenses			
Personnel Expenses			
Salaries	14,796,076	14,135,381	660,695
Payroll Taxes	959,260	1,028,204	(68,944)
Employee Benefits	1,590,688	1,843,729	(253,041)
Savings & Retirement	1,851,030	1,824,182	26,848
Total Personnel Expenses	19,197,054	18,831,496	365,558
Meeting Expenses			
Meetings	21,001	499,624	(478,623)
Travel	111,242	805,148	(693,906)
Conference Calls	16,104	22,200	(6,096)
Total Meeting Expenses	148,347	1,326,972	(1,178,625)
Operating Expenses			
Consultants & Contracts	1,680,454	2,369,580	(689,126)
Rent & Improvements	821,812	789,276	32,536
Office Costs	823,134	711,549	111,585
Professional Services	91,908	166,140	(74,232)
Miscellaneous	146	-	146
Total Operating Expenses	3,417,454	4,036,545	(619,091)
Indirect Expenses	-	-	-
Other Non-Operating Expenses	-	-	-
Total Expenses (B)	22,762,855	24,195,013	(1,432,158)
Change in Assets (A - B)	1,685,458	389,110	1,296,348
Fixed Asset Additions (C)	409,590	330,000	79,590
TOTAL BUDGET (B + C)	23,172,445	24,525,013	(1,352,568)
Change in Working Capital (A-B-C)	1,275,868	59,110	1,216,758
FTE's	96	98	(2)

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020 RELIABILITY STANDARDS				
	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	338,061	338,061	-	0.00%
Penalty Sanctions	29,457	29,457	-	0.00%
Total ERO Funding	\$ 367,518	\$ 367,518	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	372	(372)	-100.00%
Interest	1,249	930	319	34.29%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 368,767	\$ 368,820	\$ (53)	-0.01%
Expenses				
Personnel Expenses				
Salaries	68,703	140,742	(72,039)	-51.19%
Payroll Taxes	3,622	10,274	(6,652)	-64.75%
Employee Benefits	4,660	17,341	(12,681)	-73.13%
Savings & Retirement	7,998	18,121	(10,123)	-55.86%
Total Personnel Expenses	84,983	186,478	(101,495)	-54.43%
Meeting Expenses				
Meetings	-	1,110	(1,110)	-100.00%
Travel	-	9,540	(9,540)	-100.00%
Conference Calls	-	-	-	
Total Meeting Expenses	-	10,650	(10,650)	-100.00%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	150	200	(50)	-25.00%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	150	200	(50)	-25.00%
Indirect Expenses	59,449	165,489	(106,040)	-64.08%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	144,582	362,817	(218,235)	-60.15%
Change in Assets (A - B)	224,185	6,003	218,182	3634.55%
Total Inc(Dec) in Fixed Assets (C)	2,586	5,116	(2,530)	-49.45%
TOTAL BUDGET (B + C)	147,168	367,933	(220,765)	-60.00%
Change in Working Capital (A-B-C)	221,599	887	220,712	24882.97%
FTE's	0.4	1.0	(0.6)	-59.00%

Reliability Standards
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%

Personnel Expenses (Actual \$101k under budget)

- Due to the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses for this program.
- SERC budgeted 1.00 FTE in the Standards program during 2020 and finished with 0.41 FTEs.

Meeting & Travel Expense (Actual \$11k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$106k under budget)

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

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020 COMPLIANCE MONITORING & ENFORCEMENT; ORGANIZATION REGISTRATION AND CERTIFICATION				
	2020	2020	2020 Variance	%
	Actual	Budget	from Budget Over(Under)	Variance
Funding				
ERO Funding				
Assessments	17,096,873	17,096,873	-	0.00%
Penalty Sanctions	1,458,140	1,458,140	-	0.00%
Total ERO Funding	\$ 18,555,013	\$18,555,013	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	2,000	29,418	(27,418)	-93.20%
Interest	61,839	46,048	15,791	34.29%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 18,618,852	\$18,630,479	\$ (11,627)	-0.06%
Expenses				
Personnel Expenses				
Salaries	7,196,550	7,213,371	(16,821)	-0.23%
Payroll Taxes	501,819	526,576	(24,757)	-4.70%
Employee Benefits	726,124	836,603	(110,479)	-13.21%
Savings & Retirement	915,611	928,548	(12,937)	-1.39%
Total Personnel Expenses	9,340,104	9,505,098	(164,994)	-1.74%
Meeting Expenses				
Meetings	7,211	35,825	(28,614)	-79.87%
Travel	49,155	438,270	(389,115)	-88.78%
Conference Calls	-	-	-	
Total Meeting Expenses	56,366	474,095	(417,729)	-88.11%
Operating Expenses				
Consultants & Contracts	2,043	126,000	(123,957)	-98.38%
Rent & Improvements	-	-	-	
Office Costs	42,962	35,525	7,437	20.93%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	45,005	161,525	(116,520)	-72.14%
Indirect Expenses	6,649,606	8,191,711	(1,542,105)	-18.83%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	16,091,081	18,332,429	(2,241,348)	-12.23%
Change in Assets (A - B)	2,527,771	298,050	2,229,721	748.10%
Total Inc(Dec) in Fixed Assets (C)	289,293	253,255	36,038	14.23%
TOTAL BUDGET (B + C)	16,380,374	18,585,684	(2,205,310)	-11.87%
Change in Working Capital (A-B-C)	2,238,478	44,795	2,193,683	4897.16%
FTE's	45.9	49.5	(3.6)	-7.35%

**Compliance Monitoring & Enforcement; Organization Registration and Certification
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$165k under budget)

- Employee Benefits were under budget due to health insurance renewals being lower than budget and unused relocation expenses.

Meeting & Travel Expense (Actual \$418k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$124k under budget)

- Contracts and Consultants expense was under budget due to the cancellation of workshops which reduced the need for third-party contractors supporting these events.

Indirect Expenses (Actual \$1,542k under budget)

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

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020 RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS				
	2020	2020	2020 Variance	%
	Actual	Budget	from Budget	Variance
			Over(Under)	
Funding				
ERO Funding				
Assessments	2,240,194	2,240,194	-	0.00%
Penalty Sanctions	176,744	176,744	-	0.00%
Total ERO Funding	\$2,416,938	\$ 2,416,938	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	2,233	(2,233)	-100.00%
Interest	7,495	5,581	1,914	34.29%
Miscellaneous	-	-	-	
Total Funding (A)	\$2,424,433	\$ 2,424,752	\$ (319)	-0.01%
Expenses				
Personnel Expenses				
Salaries	1,135,821	869,968	265,853	30.56%
Payroll Taxes	83,142	63,508	19,634	30.92%
Employee Benefits	160,169	102,048	58,121	56.95%
Savings & Retirement	140,135	111,960	28,175	25.17%
Total Personnel Expenses	1,519,267	1,147,484	371,783	32.40%
Meeting Expenses				
Meetings	4,242	56,125	(51,883)	-92.44%
Travel	8,759	63,880	(55,121)	-86.29%
Conference Calls	-	-	-	
Total Meeting Expenses	13,001	120,005	(107,004)	-89.17%
Operating Expenses				
Consultants & Contracts	138,000	110,000	28,000	25.45%
Rent & Improvements	-	-	-	
Office Costs	16,340	17,800	(1,460)	-8.20%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	154,340	127,800	26,540	20.77%
Indirect Expenses	1,074,435	992,935	81,500	8.21%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,761,043	2,388,224	372,819	15.61%
Change in Assets (A - B)	(336,610)	36,528	(373,138)	-1021.51%
Total Inc(Dec) in Fixed Assets (C)	46,744	30,698	16,046	52.27%
TOTAL BUDGET (B + C)	2,807,787	2,418,922	388,865	16.08%
Change in Working Capital (A-B-C)	(383,354)	5,830	(389,184)	-6675.54%
FTE's	7.4	6.0	1.4	23.50%

**Reliability Assessments and Performance Analysis
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$372k over budget)

- Due to the reallocation of FTEs among program areas, SERC is over budget in personnel expenses.
- SERC budgeted 6.00 FTEs in the RAPA program during 2020 and finished with 7.41 FTEs.

Meeting & Travel Expense (Actual \$107k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$28k over budget)

- A Dynamic Special Study that did not occur in 2019 was performed in 2020 and drove the budget variance.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020 TRAINING, EDUCATION and STAKEHOLDER OUTREACH				
	2020	2020	2020 Variance	%
	Actual	Budget	from Budget	Variance
			Over(Under)	
Funding				
ERO Funding				
Assessments	2,131,119	2,131,119	-	0.00%
Penalty Sanctions	176,744	176,744	-	0.00%
Total ERO Funding	\$ 2,307,863	\$ 2,307,863	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	5,475	132,233	(126,758)	-95.86%
Interest	7,495	5,581	1,914	34.29%
Miscellaneous	1,140	-	1,140	
Total Funding (A)	\$ 2,321,973	\$ 2,445,677	\$ (123,704)	-5.06%
Expenses				
Personnel Expenses				
Salaries	1,125,480	805,778	319,702	39.68%
Payroll Taxes	72,922	58,822	14,100	23.97%
Employee Benefits	84,671	103,247	(18,576)	-17.99%
Savings & Retirement	150,865	103,756	47,109	45.40%
Total Personnel Expenses	1,433,938	1,071,603	362,335	33.81%
Meeting Expenses				
Meetings	2,721	137,094	(134,373)	-98.02%
Travel	10,119	68,675	(58,556)	-85.27%
Conference Calls	-	-	-	
Total Meeting Expenses	12,840	205,769	(192,929)	-93.76%
Operating Expenses				
Consultants & Contracts	52,418	137,000	(84,582)	-61.74%
Rent & Improvements	-	-	-	
Office Costs	13,592	1,792	11,800	658.48%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	66,010	138,792	(72,782)	-52.44%
Indirect Expenses	1,145,484	992,935	152,549	15.36%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	2,658,272	2,409,099	249,173	10.34%
Change in Assets (A - B)	(336,299)	36,578	(372,877)	-1019.40%
Total Inc(Dec) in Fixed Assets (C)	49,835	30,698	19,137	62.34%
TOTAL BUDGET (B + C)	2,708,107	2,439,797	268,310	11.00%
Change in Working Capital (A-B-C)	(386,134)	5,880	(392,014)	-6666.91%
FTE's	7.9	6.0	1.9	31.67%

**Training, Education and Stakeholder Outreach
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Workshop Fees (Actual \$127k under budget)

- Attributable to workshop revenue lower than budget due to cancellation of planned workshops in accordance with COVID protocols.

Personnel Expenses (Actual \$362k over budget)

- Due to the reallocation of FTEs among program areas, SERC is over budget in personnel expenses.
- Employee Benefits were under budget due to health insurance renewals being lower than budget and unused relocation expenses.
- SERC budgeted 6.0 FTEs in the Training program and finished with 7.9 FTEs.

Meeting & Travel Expense (Actual \$193k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$85k under budget)

- Contracts and Consultants expense was under budget due to the cancellation of workshops which reduced the need for third-party contractors supporting these events.

Office Cost Expense (Actual \$12k over budget)

- Office costs were over budget due to software purchases budgeted in Information Technology that were more appropriately expensed directly to the Training, Education and Stakeholder Outreach program area.

Indirect Expenses (Actual \$153k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs. Indirect expenses for this program were higher than budget due to ratio of FTEs being higher than budgeted.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020 SITUATION AWARENESS and INFRASTRUCTURE SECURITY				
	2020	2020	2020	%
	Actual	Budget	from Budget Over(Under)	Variance
Funding				
ERO Funding				
Assessments	652,876	652,876	-	0.00%
Penalty Sanctions	58,915	58,915	-	0.00%
Total ERO Funding	\$ 711,791	\$ 711,791	\$ -	0.00%
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	744	(744)	-100.00%
Interest	2,498	1,860	638	34.29%
Miscellaneous	-	-	-	
Total Funding (A)	\$ 714,289	\$ 714,395	\$ (106)	-0.01%
Expenses				
Personnel Expenses				
Salaries	453,016	258,353	194,663	75.35%
Payroll Taxes	31,040	18,860	12,180	64.58%
Employee Benefits	68,460	36,683	31,777	86.63%
Savings & Retirement	57,940	33,240	24,700	74.31%
Total Personnel Expenses	610,456	347,136	263,320	75.85%
Meeting Expenses				
Meetings	-	320	(320)	-100.00%
Travel	9,358	22,810	(13,452)	-58.97%
Conference Calls	-	-	-	
Total Meeting Expenses	9,358	23,130	(13,772)	-59.54%
Operating Expenses				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	2,320	1,200	1,120	93.33%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	2,320	1,200	1,120	93.33%
Indirect Expenses	485,743	330,978	154,765	46.76%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	1,107,877	702,444	405,433	57.72%
Change in Assets (A - B)	(393,588)	11,951	(405,539)	-3393.35%
Total Inc(Dec) in Fixed Assets (C)	21,132	10,233	10,899	106.51%
TOTAL BUDGET (B + C)	1,129,009	712,677	416,332	58.42%
Change in Working Capital (A-B-C)	(414,720)	1,718	(416,438)	-24239.71%
FTE's	3.4	2.0	1.4	67.50%

**Situation Awareness and Infrastructure Security
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$263k over budget)

- Personnel costs were higher than budget, primarily due to onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC and reallocation of FTEs among program areas.
- SERC budgeted 2.0 FTEs in the Situation Awareness program and finished with 3.35 FTEs.

Meeting & Travel Expense (Actual \$14k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$155k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2020 based on the number of FTEs in those programs. Indirect expenses for Situational Awareness and Infrastructure Security were over budget because the department's ratio of FTEs was higher than budgeted.

SERC Reliability Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
From 1/1/2020 through 12/31/2020

TECHNICAL COMMITTEES AND MEMBER FORUMS

	2020 Actual	2020 Budget	2020 Variance from Budget Over(Under)	%Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	210,113	555,526	(345,413)	-62.18%
Payroll Taxes	11,987	40,553	(28,566)	-70.44%
Employee Benefits	57,736	69,365	(11,629)	-16.76%
Savings & Retirement	24,053	71,471	(47,418)	-66.35%
Total Personnel Expenses	303,889	736,915	(433,026)	-58.76%
Meeting Expenses				
Meetings	-	45,400	(45,400)	-100.00%
Travel	10,830	46,260	(35,430)	-76.59%
Conference Calls	-	-	-	
Total Meeting Expenses	10,830	91,660	(80,830)	-88.18%
Operating Expenses				
Consultants & Contracts	169,718	169,000	718	0.42%
Rent & Improvements	-	-	-	
Office Costs	1,546	800	746	93.25%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	171,264	169,800	1,464	0.86%
Indirect Expenses	(485,983)	(998,375)	512,392	-51.32%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
● FTE's	1.2	4.0	(2.8)	-70.00%

**Technical Committees and Member Forums
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%**

Personnel Expenses (Actual \$433k under budget)

- Due to the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses.
- SERC budgeted 4.00 FTEs in the Technical Committees program and finished the year with 1.20 FTEs.

Meeting & Travel Expense (Actual \$81k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Indirect Expenses (Actual \$512k over budget)

- Expenses related to indirect programs have been allocated proportionately to the direct programs based on the number of FTEs in those programs.

SERC Reliability Corporation Statement of Activities, Fixed Assets and Change in Working Capital From 1/1/2020 through 12/31/2020				
CORPORATE SERVICES				
	2020	2020	2020	
	Actual	Budget	Variance from Budget Over(Under)	%
				Variance
Funding				
ERO Funding				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
Total ERO Funding	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
Total Funding (A)	\$ -	\$ -	\$ -	
Expenses				
Personnel Expenses				
Salaries	4,816,506	4,847,169	(30,663)	-0.63%
Payroll Taxes	266,715	350,164	(83,449)	-23.83%
Employee Benefits	546,604	747,807	(201,203)	-26.91%
Savings & Retirement	578,481	628,557	(50,076)	-7.97%
Total Personnel Expenses	6,208,306	6,573,697	(365,391)	-5.56%
Meeting Expenses				
Meetings	6,827	269,150	(262,323)	-97.46%
Travel	33,851	201,973	(168,122)	-83.24%
Conference Calls	16,104	22,200	(6,096)	-27.46%
Total Meeting Expenses	56,782	493,323	(436,541)	-88.49%
Operating Expenses				
Consultants & Contracts	1,487,993	1,996,580	(508,587)	-25.47%
Rent & Improvements	821,812	789,276	32,536	4.12%
Office Costs	747,770	655,032	92,738	14.16%
Professional Services	91,908	166,140	(74,232)	-44.68%
Miscellaneous	146	-	146	
Total Operating Expenses	3,149,629	3,607,028	(457,399)	-12.68%
Indirect Expenses	(9,414,717)	(10,674,048)	1,259,331	-11.80%
Other Non-Operating Expenses	-	-	-	
Total Expenses (B)	-	-	-	
Change in Assets (A - B)	-	-	-	
Total Inc(Dec) in Fixed Assets (C)	-	-	-	
TOTAL BUDGET (B + C)	-	-	-	
Change in Working Capital (A-B-C)	-	-	-	
FTE's	31.1	33.5	(2.4)	-7.25%

Corporate Services
Variance Explanations as of December 31, 2020
Variances > +/- \$10,000 and 10%

Personnel Expenses (Actual \$365k under budget)

- Due to the length of time to fill vacant positions, and reallocation of FTEs among program areas, SERC is under budget in personnel expenses for Corporate Services.
- Lower than anticipated health insurance renewals and COVID pandemic regulations drove reduced expenses in employee training and relocation resulting in benefits being under budget.
- SERC budgeted 33.5 FTEs in Corporate Services and finished with 31.1 FTEs.

Meeting & Travel Expense (Actual \$437k under budget)

- Meeting and travel was less than the budget due to COVID-19 related cancelations.

Consultants and Contracts Expense (Actual \$509k under budget)

- Expenses associated with Independent Board of Director search less than anticipated.
- Consultant expenses associated with Corporate Strategic Initiatives (CSIs) were budgeted in Corporate Services, but the actual expenses were recorded to departments responsible for implementing the CSIs.
- IT software was budgeted in Contracting/Consulting but expensed to Office Cost.

Office Costs (Actual \$93k over budget)

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

Professional Services (Actual \$74k under budget)

- Fewer legal fees associated with employment matters and review of SERC bylaws, driving the budget variance for Professional Services.



Financial Statements for the
Years Ended December 31, 2020 and 2019
and Independent Auditors' Report



GreerWalker



GreerWalker

INDEPENDENT AUDITORS' REPORT

To the Finance and Audit Committee of SERC Reliability Corporation:

We have audited the accompanying financial statements of SERC Reliability Corporation (the "Corporation") which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SERC Reliability Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

GreerWalker LLP

Certified Public Accountants
March 31, 2021
Charlotte, NC

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SERC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,799,061	\$ 4,654,100
Accounts receivable	35,000	-
Prepaid expenses and other assets	<u>317,479</u>	<u>247,867</u>
Total current assets	5,151,540	4,901,967
PROPERTY AND EQUIPMENT, NET	1,947,224	2,091,183
INVESTMENTS	7,142,778	7,063,776
INVESTMENTS - DEFERRED COMPENSATION	<u>529,212</u>	<u>410,352</u>
TOTAL	<u>\$ 14,770,754</u>	<u>\$ 14,467,278</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 308	\$ 2,669
Accrued expenses	408,028	976,934
Accrued salaries and related benefits	3,741,875	3,039,646
Deferred revenue	<u>96,010</u>	<u>27,830</u>
Total current liabilities	<u>4,246,221</u>	<u>4,047,079</u>
NON-CURRENT LIABILITIES:		
Deferred compensation	529,212	410,352
Deferred rent	<u>371,701</u>	<u>418,136</u>
Total non-current liabilities	<u>900,913</u>	<u>828,488</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Undesignated	1,947,224	2,091,183
Designated for assessment stabilization reserve	4,545,000	5,645,000
Designated for operating reserves	<u>3,131,396</u>	<u>1,855,528</u>
Total net assets	<u>9,623,620</u>	<u>9,591,711</u>
TOTAL	<u>\$ 14,770,754</u>	<u>\$ 14,467,278</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
FUNDING:		
Member assessments	\$ 22,459,123	\$ 17,372,216
Penalty sanctions	800,000	5,659,718
Workshops	7,475	173,335
Investment income	80,576	72,178
Miscellaneous	1,140	2,933,352
Total	<u>23,348,314</u>	<u>26,210,799</u>
EXPENSES:		
Personnel expenses:		
Salaries	14,796,076	12,460,249
Payroll taxes	959,260	832,342
Employee benefits	1,590,688	1,426,427
Savings and retirement	1,851,030	1,438,105
Total personnel expenses	<u>19,197,054</u>	<u>16,157,123</u>
Meeting expenses:		
Meetings	21,001	489,744
Travel	111,242	880,256
Conference calls	16,104	25,150
Total meeting expenses	<u>148,347</u>	<u>1,395,150</u>
Operating expenses:		
Consultants and contracts	1,680,454	1,623,982
Rent and improvements	821,813	740,385
Office costs	823,134	892,906
Professional services	91,908	150,038
Depreciation	552,302	284,605
Miscellaneous	1,393	98,836
Total operating expenses	<u>3,971,004</u>	<u>3,790,752</u>
Total expenses	<u>23,316,405</u>	<u>21,343,025</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	31,909	4,867,774
CUMALATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	960,201
NET ASSETS, BEGINNING OF YEAR	<u>9,591,711</u>	<u>3,763,736</u>
NET ASSETS, END OF YEAR	<u>\$ 9,623,620</u>	<u>\$ 9,591,711</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 31,909	\$ 4,867,774
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	552,302	284,605
Unrealized (gains) losses on investments, net	1,571	(3,125)
Loss on disposal of property and equipment	1,247	118,951
Changes in operating assets and liabilities:		
Accounts receivable	(35,000)	-
Prepaid expenses and other assets	(69,612)	(120,222)
Accounts payable	(2,361)	(35,955)
Accrued expenses	(568,906)	313,166
Accrued salaries and related benefits	702,229	620,514
Deferred revenue	68,180	(8,985)
Deferred rent	(46,435)	(37,935)
Net cash provided by operating activities	<u>635,124</u>	<u>5,998,788</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and reinvestment of earnings	(80,573)	(7,060,651)
Purchase of property and equipment	(409,590)	(1,676,998)
Net cash applied to investing activities	<u>(490,163)</u>	<u>(8,737,649)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	144,961	(2,738,861)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,654,100</u>	<u>7,392,961</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,799,061</u>	<u>\$ 4,654,100</u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - SERC Reliability Corporation (the “Corporation”) is a nonprofit corporation authorized by the Federal Energy Regulatory Commission (FERC) to operate as a Regional Entity and is funded through Load-Serving Entity (LSE) assessments authorized by (FERC) under Section 215 of the Federal Power Act. The Corporation’s mission is to assure effective and efficient reduction of risks to the reliability and security of the bulk power system (BPS) in all or portions of 16 central and southeastern states.

SERC is governed by a balanced, hybrid Board consisting of 18 Directors comprised of a combination of stakeholder representatives from SERC member companies (i.e., Sector Directors) and independent representatives (i.e., Independent Directors) that add independent balance, perspective, and expertise. This combination of stakeholder and Independent Directors allows the Board to focus on the most important and significant risks to reliability in the SERC footprint.

The Corporation’s members are companies from various ownership segments of the electricity supply industry, including Investor Owned Utilities (IOU’s), rural electric cooperatives, municipal utilities, independent power producers, power marketers, Regional Transmission Organizations (RTO’s), Reliability Coordinators, and Independent System Operators (ISO’s).

Basis of Accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The Corporation is required to report information regarding its financial position and activities according to two classes of net assets - net assets with donor restrictions and net assets without donor restrictions. The Corporation had only net assets without donor restrictions as of December 31, 2020 and 2019, including net assets that have been designated by the Board of Directors as assessment stabilization reserve and operating reserves.

Use of Accounting Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Cash and Cash Equivalents - The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Corporation maintains cash deposits with financial institutions that, at times, may exceed federally insured limits.

Accounts Receivable - The Corporation extends credit to its customers. By the nature, accounts receivable involve risk, including the credit risk of nonpayment by the customer. Accounts receivable are considered past due based on contractual and invoice terms. Accounts deemed uncollectible are charged directly to bad debt expense. As of December 31, 2020, the Corporation considered all remaining accounts collectible and, therefore, no allowance has been provided.

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

Property and Equipment - Property and equipment with a cost of \$5,000 or more and an estimated useful life greater than one year, are capitalized at cost. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets ranging from 5-7 years for leasehold improvements and 3 years for computer equipment and software. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Fair Value Measurement - GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

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

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Deferred Revenue - Deferred revenue represented amounts collected from members for workshops and meetings in advance of the periods in which the events occur.

Deferred Rent - The Corporation recognizes operating lease expense on a straight-line basis over the term of the respective lease. When the terms of the operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Corporation establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. The deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

Revenue Recognition - The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation ("NERC") based on the budget submitted by the Corporation and approved by NERC and the Federal Energy Regulatory Commission ("FERC"). Although the funding is received from NERC, the members of the Corporation are its customers as the members of the Corporation are entities to which the Corporation provides services. NERC assesses each member a share of its annual operating budget and funds SERC based on the approved budget noted above. The assessments are received from the members, via NERC, in four equal quarterly installments received at the beginning of each quarter. The Corporation also receives penalty sanctions directly from its members for penalties assessed by the Corporation as well as fees and miscellaneous revenue for workshops and other services performed.

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

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

For penalty sanctions, the Corporation recognizes the revenue in the period the penalty is assessed. Workshops and miscellaneous revenue are each treated as individual performance obligations and the related revenue is recognized as the service is provided or at a point in time, based on the nature of the service. Payments for these revenue sources are due 30 days after they are invoiced. The timing of revenue recognition, billings and cash collections results in billed accounts receivable. The Company had accounts receivable of \$35,000 as of December 31, 2020 and no accounts receivable as of December 31, 2019 and 2018.

Income Taxes - The Corporation is a tax-exempt organization under Section 501(c)(6) of the Internal Revenue Code and, therefore, no provision for income taxes has been made in the accompanying financial statements.

The Corporation records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of December 31, 2020 and 2019.

Subsequent Events - In preparing its financial statements, the Corporation has evaluated subsequent events through March 31, 2021, which is the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

The table below represents financial assets available for general expenditures within one year at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,799,061	\$ 4,654,100
Accounts receivable	35,000	-
Prepaid expenses and other assets	317,479	247,867
Investments	<u>7,142,778</u>	<u>7,063,776</u>
Total financial assets	<u>12,294,318</u>	<u>11,965,743</u>
Financial assets available to meet general expenditures within one year	<u>\$ 12,294,318</u>	<u>\$ 11,965,743</u>

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

3. INVESTMENTS

Investment balances held by the Corporation are all Level 1 investments as of December 31, 2020 and 2019. Investments included the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
At fair value and fixed income securities:		
Money market	\$ 3,400,039	\$ 356,808
Fixed income securities	<u>3,742,739</u>	<u>6,706,968</u>
Total	<u>\$ 7,142,778</u>	<u>\$ 7,063,776</u>

Investment income included the following for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest	\$ 136,058	\$ 56,358
Realized and unrealized gain (loss)	(1,571)	3,125
Other	<u>(55,486)</u>	<u>4,294</u>
Total	<u>\$ 79,001</u>	<u>\$ 63,777</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Software	\$ 1,492,593	\$ 1,362,988
Leasehold improvements	1,292,158	435,392
Computer equipment	305,898	262,749
Equipment	525,773	344,931
Furniture and fixtures	385,291	29,182
Construction in progress	<u>134,778</u>	<u>1,494,740</u>
Subtotal	4,136,491	3,929,982
Less accumulated depreciation	<u>2,189,267</u>	<u>1,838,799</u>
Total, net	<u>\$ 1,947,224</u>	<u>\$ 2,091,183</u>

5. LEASE COMMITMENTS

During the year ended December 31, 2014, the Corporation entered into an operating lease for office space which commenced on April 1, 2014 and continues through January 31, 2025. The lease provides free rent for the first 10 months of the lease period and annual rent payments ranging from approximately \$460,000 to approximately \$612,000.

On January 15, 2016, the Corporation entered into an amendment to the current operating lease for expansion of office space. The amended lease continues through the original expiration date January 31, 2025. The amended lease provides for additional annual rent payments ranging from approximately \$75,000 to approximately \$88,000.

On October 12, 2017, the Corporation entered into an operating sublease for expansion of office space which commenced November 3, 2017 and was scheduled to continue through March 31, 2020. This sublease was terminated in 2018 and replaced with a lease between the owner of the building and the Corporation which continues through January 31, 2025 and has annual rent payments ranging from approximately \$169,000 to approximately \$178,000.

The Corporation also has leases for various office equipment. Total rent expense for the years ended December 31, 2020 and 2019 was approximately \$811,000 and \$807,000, respectively.

The following is a schedule of the approximate future minimum lease payments under all long-term leases as of December 31, 2020:

During the year ending December 31:	
2021	\$ 821,000
2022	840,000
2023	859,000
2024	878,000
2025	<u>73,000</u>
Total	<u>\$ 3,471,000</u>

6. LINE OF CREDIT

The Corporation has a line of credit with a bank that allows for borrowings up to a maximum of \$1,500,000. Interest accrues at 5% with all accrued interest and principal due in a single payment upon expiration of the note in May 2021. There were no outstanding borrowings under the line of credit as of December 31, 2020 and 2019.

7. RETIREMENT PLANS

401(k) plan - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation makes matching contributions to the plan limited to 6% of each eligible employee's compensation, as defined. In addition, the plan provides that the Corporation may make additional discretionary non-elective contributions in an amount to be determined by the Board of Directors each year. The Corporation also makes safe harbor non-elective contributions to the plan equal to 3% of each eligible employee's compensation, as defined. During the years ended December 31, 2020 and 2019, contribution expense related to the plan totaled approximately \$1,788,000 and \$1,384,000, respectively.

Deferred compensation plan - The Corporation has established a deferred compensation plan in accordance with Internal Revenue Code Section 457(b) for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. All contributions are immediately vested in the plan. During the years ended December 31, 2020 and 2019, contribution expense related to the plan totaled \$47,840 and \$45,109, respectively. As part of the plan, the Corporation reports assets and liabilities of equal amounts attributable to the amount deferred and contributed and the related investment earnings. The Corporation's investments related to the deferred compensation consist of equity mutual funds and money market funds, which are classified as level 1 securities in accordance with the fair value measurement framework under GAAP (see Note 1). The balance in the deferred compensation plan is \$529,212 and \$410,352 at December 31, 2020 and 2019, respectively.

8. FUNCTIONAL EXPENSES

The following is an allocation of expenses by functional category for the years ended December 31, 2020 and 2019:

	December 31, 2020		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$ 12,694,963	\$ 6,502,091	\$ 19,197,054
Meeting and travel	91,240	57,107	148,347
Consultants and contracts	192,461	1,487,993	1,680,454
Rent and improvements	-	821,813	821,813
Office costs	71,185	751,951	823,134
Professional services	-	91,908	91,908
Depreciation	-	552,302	552,302
Miscellaneous	-	1,393	1,393
	<u>\$ 13,049,849</u>	<u>\$ 10,266,558</u>	<u>\$ 23,316,405</u>
	December 31, 2019		
	<u>Program</u>	<u>General and Administrative</u>	<u>Total</u>
Personnel	\$ 9,699,904	\$ 6,457,219	\$ 16,157,123
Meeting and travel	768,701	626,449	1,395,150
Consultants and contracts	331,212	1,292,770	1,623,982
Rent and improvements	-	740,385	740,385
Office costs	51,212	841,694	892,906
Professional services	-	150,038	150,038
Depreciation	-	284,605	284,605
Miscellaneous	-	98,836	98,836
	<u>\$ 10,851,029</u>	<u>\$ 10,491,996</u>	<u>\$ 21,343,025</u>

9. DISAGGREGATION OF REVENUE

The following table disaggregates the Corporation's revenue for the years ended December 31, 2020 and 2019 based on the type of revenue:

	<u>2020</u>	<u>2019</u>
<u>Revenue recognized over time:</u>		
Member assessments	\$ 22,459,123	\$ 17,372,216
Investment income	80,576	72,178
Miscellaneous	<u>1,140</u>	<u>2,913,962</u>
Subtotal	<u>22,540,839</u>	<u>20,358,356</u>
 <u>Revenue recognized at a point in time:</u>		
Penalty sanctions	800,000	5,659,718
Workshops and miscellaneous	<u>7,475</u>	<u>192,725</u>
Subtotal	<u>807,475</u>	<u>5,852,443</u>
 Total	 <u>\$ 23,348,314</u>	 <u>\$ 26,210,799</u>

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

10. CONTINGENCY

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

ATTACHMENT 6

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

TEXAS RELIABILITY ENTITY, INC.

March 31, 2021

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

Subject: Texas Reliability Entity (Texas RE) 2020 Actual Cost-to-Budget Comparison

Dear Mr. Sharp,

Texas Reliability Entity (Texas RE) has completed the 2020 True-Up Analysis. The budget comparisons are for the 2020 Texas RE budget, formally approved by FERC.

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

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

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are in the following pages.

INCOME

Total Statutory Income is equal to the budgeted amount in 2020 for assessments and penalty sanctions. Interest income is less than budget by \$25,546 due to lower interest rates than projected. Texas RE's banking account is a Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. The Interest Income variance is reflected in the variances for each statutory program.

EXPENSES

The 2020 total statutory expenses and fixed asset activity are 1.9% less than total budget.

Personnel Expenses are \$33,806 or 0.3% below budget due primarily to medical insurance (included in Employee Benefits) not increasing as projected. The CMEP department did not have vacancies throughout the year as in prior years and the 2020 budget did include a 3% vacancy rate. Unused education reimbursement and training money (also included in Employee Benefits) added to the variance.

Travel and Meeting Expenses are \$288,919 or 73.3% less than budget. All program and administrative travel was suspended in March 2020 due to the COVID-19 pandemic.

Other Operating Expenses are \$84,917 or 3.2% greater than budget. Consultants and Contracts are greater than budget 22.3% due to search fees for the CEO position and two Board of Director positions. Office costs are 4.2% over budget. Cost for special office cleaning and for supplies to allow employees

to work remotely due to the pandemic are the drivers for this unfavorable variance. Unused penetration testing and an outside IT audit being placed on hold cause Professional Services to be 7.7% less than budget.

FIXED ASSETS

Texas RE did not purchase any Fixed Assets in 2020 resulting in the under-budget variance.

Texas RE ended the year \$267,808 or 1.9% under budget. Texas RE completed its intended activities for 2020.

In 2020 Texas RE completed 19 audits of which 18 were both O&P and CIP combined (4 were MRRE audits including 1 CIP only audit) and 1 audit was CIP only. Texas RE also participated in and supported 3 NERC led CIP spot checks. In addition, Texas RE completed 6 Self Certifications. All 6 were combination O&P and CIP. All CIP Self Certification engagements were low impact.

In 2020, Texas RE processed 11 technical feasibility exceptions (TFEs); 0 were terminated, 0 were disapproved, 0 required resubmission, 6 were processed as a material change and 5 were approved.

In 2020, Texas RE discovered 194 non-compliance matters and disposed of 252 issues either by submitting to NERC via a disposition, dismissing the issue, or failing an issue's preliminary screening. The Texas RE caseload decreased from 344 to 298.

In 2020, Texas RE verified the completion of mitigation plans or mitigation activities for 96 possible violations (89 related to mitigation activities and 7 related to mitigation plans).

In 2020, a total of 92 events were examined, as follows: 84 – non-qualified events (below threshold for Categories 1-5), and 8-Category 1 events. There were no Category 2, 3, 4, or 5 level events.

In 2020, the data collected for use in performance analysis and reporting included:

- 4880 monthly reports by 407 conventional generators, 1946 immediate forced outages;
- 2189 monthly reports by 136 wind plants (245 groups and sub-groups with 15,847 turbines);
- 462 momentary and sustained forced outages reported on 18,310 circuit miles of 345kV, and 435 sustained forced outages reported on 27,110 circuit miles of 138kV; and
- 79 misoperations reported for 1477 protection system operations.

In 2020, Texas RE processed registration/function activation requests for 22 entities, deregistration/function deactivation requests for 9 entities, and registered entity name change requests for 3 entities.

In 2020, Texas RE conducted 0 TOP certifications and completed 1 certification review.

If you have any questions on the report or the attached spreadsheet, please call me at the number below.

Thank you.

Judy

Judy A. Foppiano, CPA

CFO & Director of Corporate Services

Texas Reliability Entity, Inc.

805 Los Cimas Parkway, Suite 200

Austin, Texas 78746

Judy.foppiano@texasre.org

512.583.4959 (Direct)

Texas Reliability Entity, Inc.
2020 Statutory & Non-Statutory Statement of Activities and Fixed Assets
Audited

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 13,344,128	\$ 13,344,128	\$ -	0.0%
Penalty Sanctions	710,000	710,000	-	0.0%
State (Non-Statutory) Funding	812,628	1,205,867	(393,239)	-32.6%
Interest & Membership Dues	14,590	40,000	(25,410)	-63.5%
Total Revenue	\$ 14,881,346	\$ 15,299,995	\$ (418,649)	-2.7%
Expenses				
Personnel Expenses				
Salaries	\$ 8,580,054	\$ 8,334,818	\$ 245,236	2.9%
Payroll Taxes	576,972	574,851	2,121	0.4%
Employee Benefits	1,187,413	1,643,119	(455,706)	-27.7%
Savings & Retirement	1,140,974	1,172,883	(31,909)	-2.7%
Total Personnel Expenses	\$ 11,485,413	\$ 11,725,671	\$ (240,258)	-2.0%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 32,312	\$ 76,140	\$ (43,828)	-57.6%
Travel	73,896	322,704	(248,808)	-77.1%
Total Meeting & Travel Expenses	\$ 106,208	\$ 398,844	\$ (292,636)	-73.4%
Operating Expenses				
Consultants & Contracts	\$ 616,056	\$ 534,704	\$ 81,352	15.2%
Rent & Improvements	926,990	992,010	(65,020)	-6.6%
Office Costs	758,505	707,968	50,537	7.1%
Professional Services	575,592	621,600	(46,008)	-7.4%
Total Direct Expenses	2,877,143	2,856,282	20,861	0.7%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 14,468,764	\$ 14,980,797	\$ (512,033)	-3.4%
Change in Assets	\$ 412,582	\$ 319,198	\$ 93,384	29.3%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 50,000	\$ (50,000)	-100.0%
TOTAL BUDGET	\$ 14,468,764	\$ 15,030,797	\$ (562,033)	-3.7%
Change in Working Capital (Total Revenue less Total Budget)	\$ 412,582	\$ 269,198	\$ 143,384	53.3%
FTE's	63.80	64.00		

Texas Reliability Entity, Inc.
2020 Statutory Statement of Activities & Fixed Assets
Audited

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 13,344,128	\$ 13,344,128	\$ -	0.0%
Penalty Sanctions	710,000	710,000	-	0.0%
Interest & Membership Dues	14,454	40,000	(25,546)	-63.9%
Total Revenue	\$ 14,068,582	\$ 14,094,128	\$ (25,546)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 8,003,222	\$ 7,641,282	\$ 361,940	4.7%
Payroll Taxes	533,210	527,533	5,677	1.1%
Employee Benefits	1,119,440	1,501,005	(381,565)	-25.4%
Savings & Retirement	1,053,944	1,073,802	(19,858)	-1.8%
Total Personnel Expenses	\$ 10,709,816	\$ 10,743,622	\$ (33,806)	-0.3%
Meeting & Travel Expenses				
Meetings & Cpnference Calls	\$ 32,225	\$ 76,140	\$ (43,915)	-57.7%
Travel	73,200	318,204	(245,004)	-77.0%
Total Meeting & Travel Expenses	\$ 105,425	\$ 394,344	\$ (288,919)	-73.3%
Operating Expenses				
Consultants & Contracts	\$ 598,666	\$ 489,704	\$ 108,962	22.3%
Rent & Improvements	881,236	888,786	(7,550)	-0.8%
Office Costs	704,623	676,070	28,553	4.2%
Professional Services	543,551	588,600	(45,049)	-7.7%
Total Operating Expenses	2,728,077	2,643,160	84,917	3.2%
Total Direct Expenses	\$ 13,543,318	\$ 13,781,126	\$ (237,808)	-1.7%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 13,543,318	\$ 13,781,126	\$ (237,808)	-1.7%
Change in Assets	\$ 525,264	\$ 313,002	\$ 212,262	67.8%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 30,000	\$ (30,000)	-100.0%
TOTAL BUDGET	\$ 13,543,318	\$ 13,811,126	\$ (267,808)	-1.9%
Change in Working Capitial (Total Revenue less Total Budget)	\$ 525,264	\$ 283,002	\$ 242,262	85.6%
FTE's	60.00	60.00		

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

Reliability Standards

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 368,622	\$ 368,622	\$ -	0.0%
Penalty Sanctions	19,613	19,613	-	0.0%
Interest & Membership Dues	398	1,105	(707)	-64.0%
Total Revenue	\$ 388,633	\$ 389,341	\$ (707)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 171,292	\$ 163,534	\$ 7,758	4.7%
Payroll Taxes	11,839	11,883	(44)	-0.4%
Employee Benefits	31,444	40,608	(9,164)	-22.6%
Savings & Retirement	23,240	21,480	1,760	8.2%
Total Personnel Expenses	\$ 237,814	\$ 237,505	\$ 309	0.1%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 2,193	\$ 3,500	\$ (1,307)	-37.3%
Travel	-	9,575	(9,575)	-100.0%
Total Meeting & Travel Expenses	\$ 2,193	\$ 13,075	\$ (10,882)	-83.2%
Operating Expenses				
Consultants & Contracts	\$ -	\$ -	\$ -	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	140	-	140	100.0%
Professional Services	-	-	-	0.0%
Total Operating Expenses	140	-	140	100.0%
Total Direct Expenses	\$ 240,147	\$ 250,580	\$ (10,433)	-4.2%
Indirect Expenses	\$ 159,798	\$ 155,040	\$ 4,758	3.1%
Total Expenses	\$ 399,945	\$ 405,621	\$ 4,968	1.2%
Change in Assets	\$ (11,312)	\$ (16,280)	\$ 4,968	-30.5%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 1,381	\$ (1,381)	-100.0%
TOTAL BUDGET	\$ 399,945	\$ 407,002	\$ (7,057)	-1.7%
Change in Working Capital (Total Revenue less Total Budget)	\$ (11,312)	\$ (17,661)	\$ 6,349	-35.9%
FTE's	1.25	1.25		

Reliability Standards

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

Reliability Standards is 1.7% (\$7,057) less than total budget.

Meeting and Travel expense is 83.2% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

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

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

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

CMEP

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 10,542,599	\$ 10,542,599	\$ -	0.0%
Penalty Sanctions	560,939	560,939	-	0.0%
Interest & Membership Dues	11,433	31,602	(20,169)	-63.8%
Total Revenue	\$ 11,114,971	\$ 11,135,140	\$ (20,169)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 4,144,039	\$ 4,084,786	\$ 59,253	1.5%
Payroll Taxes	309,251	313,103	(3,852)	-1.2%
Employee Benefits	662,494	896,703	(234,209)	-26.1%
Savings & Retirement	563,165	578,151	(14,986)	-2.6%
Total Personnel Expenses	\$ 5,678,949	\$ 5,872,743	\$ (193,794)	-3.3%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 3,003	\$ 7,000	\$ (3,997)	-57.1%
Travel	19,782	114,625	(94,843)	-82.7%
Total Meeting & Travel Expenses	\$ 22,786	\$ 121,625	\$ (98,839)	-81.3%
Operating Expenses				
Consultants & Contracts	\$ 143,397	\$ 151,204	\$ (7,807)	-5.2%
Rent & Improvements	-	-	-	0.0%
Office Costs	28,598	18,410	10,188	55.3%
Professional Services	-	-	-	0.0%
Total Operating Expenses	171,996	169,614	2,382	1.4%
Total Direct Expenses	\$ 5,873,731	\$ 6,163,982	\$ (290,251)	-4.7%
Indirect Expenses	\$ 4,595,792	\$ 4,434,153	\$ 161,639	3.6%
Total Expenses	\$ 10,469,523	\$ 10,598,135	\$ (128,612)	-1.2%
Change in Assets	\$ 645,448	\$ 537,005	\$ 108,443	20.2%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 39,503	\$ -	0.0%
TOTAL BUDGET	\$ 10,469,523	\$ 10,637,639	\$ (168,116)	-1.6%
Change in Working Capital (Total Revenue less Total Budget)	\$ 645,448	\$ 497,502	\$ 147,946	29.7%
FTE's	35.95	36.00		

CMEP

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

CMEP is 1.6% (\$168,116) under budget for the year.

Personnel expenses for CMEP are 3.3% or \$193,794 less than budget. Employee Benefits is 26.1% less than budget. Health Insurance, which is included in Employee Benefits, did not increase 14% as projected. Unspent money for employee training included in this category contributes to the 26.1% budget under-run.

Meeting and Travel expense is 81.3% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Total Operating Expenses are 1.4% greater than budget. Office costs exceeded budget 55.3% due to large screen monitors and other supplies being purchased to make working remotely as efficient and effective for employees as possible during the pandemic.

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

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

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

RAPA

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				0.0%
Assessments	\$ 1,769,387	\$ 1,769,387	\$ -	0.0%
Penalty Sanctions	94,144	94,144	-	0.0%
Interest & Membership Dues	1,908	5,304	(3,396)	-64.0%
Total Revenue	\$ 1,865,439	\$ 1,868,835	\$ (3,396)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 912,812	\$ 903,185	\$ 9,627	1.1%
Payroll Taxes	64,279	63,114	1,165	1.8%
Employee Benefits	132,010	154,128	(22,118)	-14.4%
Savings & Retirement	127,190	130,959	(3,769)	-2.9%
Total Personnel Expenses	\$ 1,236,292	\$ 1,251,386	\$ (15,094)	-1.2%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 25	-	\$ 25	0.0%
Travel	17,010	73,200	(56,190)	-76.8%
Total Meeting & Travel Expenses	\$ 17,035	\$ 73,200	\$ (56,165)	-76.7%
Operating Expenses				
Consultants & Contracts	\$ -	-	-	0.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	36,360	69,640	(33,280)	-47.8%
Professional Services	-	-	-	0.0%
Total Operating Expenses	36,360	69,640	(33,280)	-47.8%
Total Direct Expenses	\$ 1,289,686	\$ 1,394,226	\$ (104,540)	-7.5%
Indirect Expenses	\$ 767,031	\$ 744,193	\$ 22,838	3.1%
Total Expenses	\$ 2,056,717	\$ 2,138,420	\$ -	0.0%
Change in Assets	\$ (191,278)	\$ (269,585)	\$ 78,307	-29.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 6,630	\$ -	0.0%
TOTAL BUDGET	\$ 2,056,717	\$ 2,145,050	\$ (88,333)	-4.1%
Change in Working Capital (Total Revenue less Total Budget)	\$ (191,278)	\$ (276,215)	\$ 84,937	-30.8%

FTE's

6

6

RAPA

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

This department ended the year 4.1% (\$88,333) less than budget.

Personnel expenses are 1.2% or \$15,094 less than budget. Health Insurance, which is included in Employee Benefits, did not increase 14% as projected causing this category to be 14.4% under-budget.

Meeting and Travel expenses are 76.7% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating Expenses are 47.8% less than budget due to maintenance cost for the PI Software (budgeted in Office Costs) not increasing as expected.

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

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

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

Training and Education

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ 663,520	\$ 663,520	\$ -	0.0%
Penalty Sanctions	\$ 35,304	35,304	-	0.0%
Interest & Membership Dues	716	1,989	(1,273)	-64.0%
Total Revenue	\$ 699,540	\$ 700,813	\$ (1,273)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 227,657	\$ 210,025	\$ 17,632	8.4%
Payroll Taxes	16,348	15,109	1,239	8.2%
Employee Benefits	27,946	51,955	(24,009)	-46.2%
Savings & Retirement	28,198	30,459	(2,261)	-7.4%
Total Personnel Expenses	\$ 300,149	\$ 307,548	\$ (7,399)	-2.4%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 14,002	\$ 37,800	\$ (23,798)	-63.0%
Travel	578	3,030	(2,452)	-80.9%
Total Meeting & Travel Expenses	\$ 14,580	\$ 40,830	\$ (26,250)	-64.3%
Operating Expenses				
Consultants & Contracts	\$ 1,156	\$ 1,500	\$ (345)	-23.0%
Rent & Improvements	-	-	-	0.0%
Office Costs	10,796	7,000	3,796	54.2%
Professional Services	2,817	3,000	(184)	-6.1%
Total Operating Expenses	14,768	11,500	3,268	28.4%
Total Direct Expenses	\$ 329,497	\$ 359,878	\$ (30,381)	-8.4%
Indirect Allocaton	\$ 287,636	\$ 279,073	\$ 20,545	7.4%
Total Expenses	617,133	638,950	-	0.0%
Change in Assets	\$ 82,407	\$ 61,862	\$ 20,545	33.2%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 2,486	\$ -	0.0%
TOTAL BUDGET	\$ 617,133	\$ 641,437	\$ (24,304)	-3.8%
Change in Working Capitial (Total Revenue less Total Budget)	\$ 82,407	\$ 59,376	\$ 23,031	38.8%
FTE's	2.25	2.25		

Training and Education

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

The Training and Education department ended the year 3.8% (\$24,304) less than total budget.

Personnel expenses are 2.4% under budget. Health Insurance, which is included in Employee Benefits, did not increase 14% as projected. Unspent money for employee training included in this category contributes to the 46.2% budget under-run in Employee Benefits.

Total Meeting and Travel Expenses are 64.3% less than budget. One workshop and the annual meeting with the Board of Directors, Stakeholders and Registered Entities was not held in 2020 due to the COVID-19 pandemic. Also due to the pandemic, all travel was suspended in March causing the budget under-run.

Operating Expenses are 28.4% or \$3,248 greater than budget.

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

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

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

Administrative Services

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
ERO Funding				
Assessments	\$ -	\$ -	\$ -	0.0%
Penalty Sanctions	-	-	-	0.0%
Interest & Membership Dues	-	-	-	0.0%
Total Revenue	\$ -	\$ -	\$ -	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 2,547,422	\$ 2,279,750	\$ 267,672	11.7%
Payroll Taxes	131,493	124,325	7,168	5.8%
Employee Benefits	265,546	357,610	(92,064)	-25.7%
Savings & Retirement	312,151	312,753	(602)	-0.2%
Total Personnel Expenses	\$ 3,256,612	\$ 3,074,438	\$ 182,174	5.9%
Meeting & Travel Expenses				
Meetings & Conferences	\$ 13,001	\$ 27,840	\$ (14,839)	-53.3%
Travel	35,830	117,775	(81,945)	-69.6%
Total Meeting & Travel Expenses	\$ 48,831	\$ 145,615	\$ (96,784)	-66.5%
Operating Expenses				
Consultants & Contracts	\$ 454,113	\$ 337,000	\$ 117,113	34.8%
Rent & Improvements	881,236	903,786	(22,550)	-2.5%
Office Costs	628,729	566,020	62,709	11.1%
Professional Services	540,735	585,600	(44,865)	-7.7%
Total Operating Expenses	2,504,814	2,392,406	112,408	4.7%
Total Direct Expenses	\$ 5,810,257	\$ 5,612,460	\$ 197,797	3.5%
Indirect Allocaton	\$ (5,810,257)	\$ (5,612,460)	\$ -	0.0%
Total Expenses	-	-	-	0.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0.0%
TOTAL BUDGET	\$ -	\$ -	\$ -	0.0%
Change in Working Captial (Total Revenue less Total Budget)	\$ -	\$ -	\$ -	0.0%
FTE's	14.75	14.75		

Administrative Services

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

Overall Administrative Services expenses are 3.5% (\$197,797) greater than budget.

Total Personnel expenses are over budget 11.7%. Salaries are greater than budget due to market compensation adjustments for several employees not included in the budget as well as one employee being promoted to manager level and one being promoted to director level. Health Insurance, which is included in Employee Benefits, did not increase 14% as projected. Employee Benefits budget includes education reimbursement and training money that was not utilized causing the 25.7% under-run.

Total Meeting and Travel expense is 66.5% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating expenses are 4.7% greater than budget.

- Consultants and Contracts is greater than budget due to search fees for an executive and two Board of Director positions.
- Office costs exceeded budget due to large screen monitors and other supplies being purchased to make working remotely as efficient and effective as possible during the pandemic. The pandemic required special cleaning and sanitation for the office space.
- All Administrative Services costs are allocated as indirect cost to statutory programs based on actual FTE count.
- Fixed Assets charged to Administrative Services are allocated among the statutory programs based on FTE count.

General and Administrative

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

Personnel Expenses are 9.9% (137,797) greater than budget. Market compensation adjustments were not included in the budget causing salary expense to be higher than budget. Employee Benefits include 14% increase for health insurance but rates did not increase as projected. Forfeitures were used as available to fund the employer portion of the retirement plans resulting in savings.

Meeting and Travel Expenses are 64.4% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating Expenses are 6.6% greater than budget. Consultanting & Contracts is greater than budget due to search fees for an executive and two Board of Director positions. Office costs were less than budget since there were no employees in the office beginning March 2020.

Legal and Regulatory

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

Personnel Expenses are 3.6% (\$18,347) greater than budget. Salary expense is greater than budget due to market adjustments for two employees that was not included in the 2020 budget. Health Insurance, which is included in Employee Benefits, did not increase 14% as projected.

Meeting and Travel Expenses are 92.6% less than budget. All travel was suspended beginning in March 2020 due to the COVID-19 pandemic.

Operating Expenses are 28.3% greater than budget due to Legal fees for outside counsel.

Information Technology

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

Personnel expenses are greater than budget by 2.9% or \$20,772. Salary expense is over budget because two employees were promoted. One to Director level and one to Manager. Health insurance premiums did not increase 14% as expected and some scheduled training did not occur causing the Employee Benefits under-run.

Meeting and Travel expense is 47.1% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating Expenses are 3.3% less than budget. Consultants and Contracts are less than budget because IT managed services saw price reductions. Office Costs are higher due to IT equipment and computer supplies purchased to allow employees to work remotely effectively and efficiently. An IT external audit was postponed and penetration testing was done remotely resulting in less cost for Professional Services.

Human Resources

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

All Personnel expenses are included in G & A.

Total Meeting and Travel Expense is 60.6% less than budget. Travel is under budget because all travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating Expenses are 40.8% less than budget driven by Consultants and Contracts. This category is less than budget because one firm was contracted to conduct all benefits and compensation surveys allowing for a better price.

Accounting and Finance

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

Personnel expenses are 1.1% greater than budget. Employee Benefits include health insurance and rates which did not increase 14% as projected.

Travel is 92.7% less than budget. All travel was suspended beginning March 2020 due to the COVID-19 pandemic.

Operating Costs are 61.2% over budget due to purchase, license, maintenance, training and implementation of Sage Intacct Accounting Software.

Texas Reliability Entity, Inc.
2020 Statement of Activities and Fixed Assets
Audited

Texas Reliability Monitor (Non-Statutory)

Revenue	2020 Actual	2020 Budget	Variance from Budget	%
State (Non-Statutory) Funding	812,628	1,205,867	(393,239)	-33%
Interest & Membership Dues	136	-	136	0%
Total Revenue	\$ 812,764	\$ 1,205,867	\$ (393,103)	-33%
Expenses				
Personnel Expenses				
Salaries	\$ 576,833	\$ 693,536	\$ (116,703)	-17%
Payroll Taxes	43,761	47,318	(3,557)	-8%
Employee Benefits	67,973	142,114	(74,141)	-52%
Savings & Retirement	87,030	99,081	(12,051)	-12%
Total Personnel Expenses	\$ 775,597	\$ 982,049	\$ (206,452)	-21%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 87	\$ -	\$ 87	0%
Travel	696	4,500	(3,804)	-85%
Conference Expenses	-	-	-	0%
Total Meeting & Travel Expenses	\$ 783	\$ 4,500	\$ (3,717)	-83%
Operating Expenses				
Consultants & Contracts	\$ 17,390	\$ 45,000	\$ (27,610)	-61%
Rent & Improvements	46,006	103,224	(57,218)	-55%
Office Costs	53,630	31,898	21,732	68%
Professional Services	32,041	33,000	(959)	-3%
Depreciation	3,113	6,195	(3,082)	-50%
Total Operating Expenses	152,180	219,317	(67,137)	-31%
Total Direct Expenses	\$ 928,560	\$ 1,205,867	\$ (277,307)	-23%
Indirect Allocation				
Total Expenses	928,560	1,205,867	(67,137)	-6%
Change in Assets	\$ (115,796)	\$ -	\$ (115,796)	0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0%
TOTAL BUDGET	\$ 928,560	\$ 1,205,867	\$ (277,307)	-23%
Change in Working Capital	\$ (115,796)	\$ -	\$ (115,796)	0%
FTE's	3.6	4.0		

Texas Reliability Entity, Inc.
Penalty Sanctions
For year ended December 31, 2020

Date Invoiced	Date Rec'd	Amount	Year to Recognize for BP&B				
			2019	2020	2021	2022	2023
	Subtotal 2011	<u>\$ 1,225,830</u>					
	Subtotal 2012	<u>\$ 447,833</u>					
	Subtotal 2013	<u>\$ 635,000</u>					
	Subtotal 2014	<u>\$ 315,250</u>					
	Subtotal 2015	<u>\$ 102,000</u>					
	NO Fines & Penalty Monies received in 2016	\$ -					
	Subtotal 2017	<u>\$ 389,449</u>					
6/1/2018	7/1/2018	\$ 140,000		\$ 140,000			
6/1/2018	7/3/2018	\$ 45,000		\$ 45,000			
7/5/2018	7/11/2018	\$ 300,000		\$ 300,000			
10/2/2018	11/1/2018	\$ 225,000		\$ 225,000			
	Subtotal 2018	<u>\$ 710,000</u>					
11/20/2019	12/15/2019	\$ 169,195			\$ 169,195		
	Subtotal 2019	<u>\$ 169,195</u>					
9/1/2020	9/30/2020	\$ 36,750				\$ 36,750	
	Subtotal 2020	<u>\$ 36,750</u>					
		<u>\$ 4,031,307</u>	<u>\$ 114,449</u>	<u>\$ 710,000</u>	<u>\$ 169,195</u>	<u>\$ 36,750</u>	<u>\$ -</u>

Texas RE 2020 Penalties Reconciliation	12/31/2020	12/31/2019	Change in 2020
Total Cumulative Penalties - GAAP/BKD Audit	\$ 4,031,307	\$ 3,994,557	\$ 36,750
Total Cumulative Penalties - True Up Report	\$ 4,535,362	\$ 3,825,362	\$ 710,000
	<u>\$ (504,055)</u>	<u>\$ 169,195</u>	<u>\$ (673,250)</u>

Texas Reliability Entity, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

Texas Reliability Entity, Inc.
December 31, 2020 and 2019

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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, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Reliability Entity, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 2* to the financial statements, in 2020, Texas RE adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

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 20, 2021

Texas Reliability Entity, Inc.
Statements of Financial Position
December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 4,764,585	\$ 4,439,254
Assets limited to use – cash	206,098	879,996
	4,970,683	5,319,250
Accounts receivable	7,350	14,722
Other current assets	510,595	405,099
Total current assets	5,488,628	5,739,071
Property and Equipment, Net		
	20,981	72,835
Total assets	\$ 5,509,609	\$ 5,811,906

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 4,357	\$ 17,274
Accrued liabilities	1,019,878	888,941
Deferred rent	-	109,713
Total current liabilities	1,024,235	1,015,928
Noncurrent Liabilities		
Deferred rent	1,919	-
Total noncurrent liabilities	1,919	-
Total liabilities	1,026,154	1,015,928
Net Assets Without Donor Restrictions		
Undesignated	4,277,357	3,915,982
Regulator designated	206,098	879,996
Total net assets without donor restrictions	4,483,455	4,795,978
Total liabilities and net assets	\$ 5,509,609	\$ 5,811,906

Texas Reliability Entity, Inc.
Statements of Activities
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, Gains and Other Support		
Statutory revenue		
Assessments	\$ 13,344,128	\$ 13,248,000
Penalty sanctions	36,750	169,195
Protocol revenue	812,628	1,124,495
Interest income	14,590	87,818
	<u>14,208,096</u>	<u>14,629,508</u>
Expenses		
Salaries and related benefits	11,485,412	10,695,121
Facility and equipment costs	1,132,204	1,056,201
Outside services	1,191,649	843,042
Travel and meetings	106,208	394,638
Administrative and other	553,292	485,568
Depreciation and amortization	51,854	137,983
	<u>14,520,619</u>	<u>13,612,553</u>
Change in Net Assets Without Donor Restrictions	(312,523)	1,016,955
Net Assets Without Donor Restrictions, Beginning of Year	<u>4,795,978</u>	<u>3,779,023</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 4,483,455</u>	<u>\$ 4,795,978</u>

Texas Reliability Entity, Inc.
Statement of Functional Expenses
Year Ended December 31, 2020

	Statutory Program				Nonstatutory Program	Supporting Services							
	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	State	Total Program	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Total Supporting Services	Total Expenses
Expenses													
Salaries and related benefits													
Salaries	\$ 171,292	\$ 4,144,039	\$ 912,812	\$ 227,657	\$ 576,833	\$ 6,032,633	\$ 1,178,808	\$ 400,586	\$ 514,680	\$ 113,904	\$ 339,445	\$ 2,547,423	\$ 8,580,056
Payroll taxes	11,839	309,251	64,279	16,348	43,761	445,478	34,581	25,941	38,583	8,753	23,634	131,492	576,970
Employee benefits	31,444	662,494	132,010	27,946	67,973	921,867	38,365	43,647	109,862	24,477	49,195	265,546	1,187,413
Savings and retirement	23,240	563,165	127,190	28,198	87,030	828,823	79,854	60,164	73,144	47,778	51,210	312,150	1,140,973
Total personnel expenses	237,815	5,678,949	1,236,291	300,149	775,597	8,228,801	1,331,608	530,338	736,269	194,912	463,484	3,256,611	11,485,412
Meeting and travel expenses													
Meetings and conference calls	2,193	3,003	25	14,002	87	19,310	3,602	-	1,836	7,563	-	13,001	32,311
Travel	-	19,782	17,010	578	696	38,066	30,122	1,008	4,231	-	470	35,831	73,897
Total meeting and travel expenses	2,193	22,785	17,035	14,580	783	57,376	33,724	1,008	6,067	7,563	470	48,832	106,208
Operating expenses													
Consultants and contracts	-	143,397	-	1,156	17,390	161,943	345,963	2,061	55,222	18,867	32,000	454,113	616,056
Rent and improvements	-	-	-	-	46,006	46,006	881,238	-	-	-	-	881,238	927,244
Office costs	140	28,598	36,360	10,796	53,630	129,524	75,603	4,314	529,151	4,671	14,990	628,729	758,253
Professional services	-	-	-	2,817	32,041	34,858	409,165	40,034	36,625	-	54,910	540,734	575,592
Depreciation	-	-	-	-	3,113	3,113	48,741	-	-	-	-	48,741	51,854
Total operating expenses	140	171,995	36,360	14,769	152,180	375,444	1,760,710	46,409	620,998	23,538	101,900	2,553,555	2,928,999
Total expenses	\$ 240,148	\$ 5,873,729	\$ 1,289,686	\$ 329,498	\$ 928,560	\$ 8,661,621	\$ 3,126,042	\$ 577,755	\$ 1,363,334	\$ 226,013	\$ 565,854	\$ 5,858,998	\$ 14,520,619

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

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

Texas Reliability Entity, Inc.
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ (312,523)	\$ 1,016,955
Item not requiring cash		
Depreciation	51,854	137,983
Changes in		
Accounts receivable	7,372	(14,722)
Other current assets	(105,496)	1,129
Accounts payable	(12,917)	(17,518)
Accrued liabilities	130,937	31,689
Deferred rent	(107,794)	(140,527)
	(348,567)	1,014,989
Net cash provided by (used in) operating activities		
	(348,567)	1,014,989
Net Increase (Decrease) in Cash and Cash Equivalents	(348,567)	1,014,989
Cash and Cash Equivalents, Beginning of Year	5,319,250	4,304,261
Cash and Cash Equivalents, End of Year	\$ 4,970,683	\$ 5,319,250

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

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 (IRC). 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. The agreement was extended for another five-year term effective January 1, 2021.

As the Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory” activities.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 75% of the Texas land area and 90% of Texas load.

In addition to Texas RE’s statutory activities as the Regional Entity, Texas RE has a contract with the PUCT and ERCOT to be the Reliability Monitor for the ERCOT region. As the Reliability Monitor, Texas RE monitors, investigates and reports to the PUCT regarding compliance with state reliability rules (the reliability-based ERCOT Protocols and Operating Guides), and coordinates and assists PUCT staff with related reliability-related matters. The PUCT is responsible for the enforcement of violations of the state reliability rules. Texas RE’s activities under this contract are permitted by NERC and FERC, by *Exhibit E* to the *Delegation Agreement*, and these activities are referred to herein as “nonstatutory” activities. Effective November 16, 2020, the agreement was terminated.

Membership and Governance

Texas RE has the following six membership sectors under its Bylaws:

- System Coordination and Planning: An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA) or Resource Planner (RP).
- Transmission and Distribution: An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP) and/or Transmission Operator (TOP) and is not a Cooperative or Municipal Utility.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the state of Texas or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that secures wholesale transmission service or is engaged in the activity of buying and selling of wholesale electric power in the ERCOT region on a physical or financial basis, or qualifies under any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is a user, owner or operator of the ERCOT region BPS that qualifies to join one of the six membership sectors listed in the Texas bylaws. Eligible entities must complete and submit a membership application and comply with the bylaws. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards development process, even if not a Texas RE member.

Texas RE is governed by a hybrid board of directors (Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors
- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the *Bylaws and Delegation Agreement*, and to elect a Chief Executive Officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit, Governance, and Finance Committee, which is comprised of the Independent Directors.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Texas RE has one stakeholder committee, the Member Representatives Committee (MRC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters through its elected Chair and Vice-Chair, who serve as directors.

Note 2: Revenue Recognition

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Texas RE adopted this standard on January 1, 2020, using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in net assets at the beginning of the year of adoption. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 — *Revenue Recognition*. Texas RE has applied the new standard to all contracts not complete at the date of adoption.

Texas RE's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

Performance Obligations

Revenue is measured as the amount of consideration Texas RE expects to receive in exchange for providing services pursuant to the *Delegation Agreement* for statutory operations and pursuant to the Reliability Monitor Agreement for nonstatutory operations. Texas RE recognizes revenue when performance obligations under the terms of the agreements are satisfied.

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*. The performance obligations under the *Delegation Agreement* consists of providing compliance monitoring and enforcement and is recognized monthly as the obligation is satisfied. 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.

Statutory operations are also funded through fines and penalties, which are earned pursuant to the *Delegation Agreement*. Texas RE recognizes revenue related to fines and penalties in the period in which they are earned, after all appeals have been exhausted.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. The performance obligation consists of providing reliability monitoring for the ERCOT region and is recognized monthly as the obligation is satisfied. 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 has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Different payment methodologies under the respective agreements
- Texas RE's line of business that provides the service

Note 3: Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

Texas RE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020, cash equivalents consisted of a sweep account with a financial institution.

At December 31, 2020, Texas RE's cash accounts, excluding its sweep account that had a balance of \$5,011,912, did not exceed federally insured limits. 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 \$206,098 and \$879,996 at December 31, 2020 and 2019, respectively.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Revenue Recognition

Revenue is recognized when control of the promised services is transferred under Texas RE's *Delegation Agreement* for statutory operations and the Reliability Monitoring Agreement for nonstatutory operations, in an amount that reflects the consideration that it expects to be entitled to in exchange for those services. The amount and timing of revenue recognition varies based on the nature of the services provided and the terms and conditions of the *Delegation Agreement* and *Reliability Monitoring Agreement*. See *Note 2* for additional information about Texas RE's revenue.

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 \$351,000 during 2020 and \$324,000 during 2019) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their reasonable out-of-pocket expenses incurred related to their duties as a Texas RE independent board member.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Repairs and maintenance costs are expensed when incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Equipment	5 years
Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	7 years
Leasehold improvements	7.5 years

Long-lived Asset Impairment

Texas RE evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

Deferred Rent

In 2010, Texas RE entered into an operating lease agreement that was modified in 2019 with the lease of additional space, which contains provisions for future increases in rent payments. In accordance with accounting principles generally accepted in the United States of America, Texas RE records monthly rent expense equal to the total of payments due over the lease term divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

Functional Allocation of Expenses

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

Income Taxes

Texas RE is exempt from income taxes under Section 501 of the IRC 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 2017.

Note 4: Property and Equipment

Property and equipment at December 31 consist of:

	2020	2019
Equipment	\$ 761,631	\$ 761,631
Computer hardware	754,361	754,361
Computer software	1,493,734	1,493,734
Furniture	402,859	402,859
Leasehold improvement	546,346	546,346
	<hr/>	<hr/>
Total property and equipment	3,958,931	3,958,931
Less accumulated depreciation and amortization	3,937,950	3,886,096
	<hr/>	<hr/>
Total property and equipment, net	\$ 20,981	\$ 72,835
	<hr/> <hr/>	<hr/> <hr/>

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

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 included tenant improvement allowances of \$200,000, which have been recorded in property and equipment and deferred rent in the accompanying statements of financial position December 31, 2020. The tenant improvement allowance was amortized as a reduction of rent expense on a straight-line basis over the life of the lease, with an unamortized value of \$28,572 at December 31, 2019. The tenant improvement allowance was fully amortized at December 31, 2020.

On March 27, 2019, Texas RE executed an extension of the lease agreement for the period October 1, 2020 through March 31, 2022. Additionally, on September 17, 2020, Texas RE entered into an 11-year lease agreement beginning April 1, 2022.

Future minimum lease payments under these lease agreements at December 31, 2020, were:

2021	\$ 1,110,631
2022	641,161
2023	935,205
2024	881,067
2025	903,094
Thereafter	<u>6,986,439</u>
	<u>\$ 11,457,598</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 \$1,107,932 and \$1,032,013, respectively, in 2020 and 2019.

Texas Reliability Entity, Inc.
Notes to Financial Statements
December 31, 2020 and 2019

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,764,585	\$ 4,439,254
Accounts receivable	7,350	14,722
Other current assets	<u>510,595</u>	<u>405,099</u>
 Total financial assets	 5,282,530	 4,859,075
 Less regulator designated net assets	 <u>206,098</u>	 <u>879,996</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 5,076,432</u>	 <u>\$ 3,979,079</u>

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

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

During the years ended December 31, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

Texas Reliability Entity, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 8: Future Change in Accounting Principle

Accounting for Leases

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

On June 3, 2020, the FASB issued an ASU that grants a delay in the effective date. As a result, the new lease standard is effective for Texas RE for fiscal year 2022.

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

Note 9: Subsequent Events

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

Subsequent events have been evaluated through the date of May 20, 2021, 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, 2020

	<u>Statutory</u>	<u>Nonstatutory</u>	<u>Total</u>
Revenues, Gains and Other Support			
Statutory revenue	\$ 13,344,128	\$ -	\$ 13,344,128
Protocol revenue	36,750	812,628	849,378
Interest income	14,454	136	14,590
	<u>13,395,332</u>	<u>812,764</u>	<u>14,208,096</u>
Expenses			
Salaries and related benefits	10,709,815	775,597	11,485,412
Facility and equipment costs	1,032,568	99,636	1,132,204
Outside services	1,142,218	49,431	1,191,649
Travel and meetings	105,425	783	106,208
Administrative and other	553,292	-	553,292
Depreciation and amortization	48,741	3,113	51,854
	<u>13,592,059</u>	<u>928,560</u>	<u>14,520,619</u>
Change in Unrestricted Net Assets	(196,727)	(115,796)	(312,523)
Unrestricted Net Assets, Beginning of Year	<u>4,203,156</u>	<u>592,822</u>	<u>4,795,978</u>
Unrestricted Net Assets, End of Year	<u>\$ 4,006,429</u>	<u>\$ 477,026</u>	<u>\$ 4,483,455</u>

Texas Reliability Entity, Inc.
Statutory and Nonstatutory Statement of Activity by Program
Year Ended December 31, 2020

	Reliability Standards	CMEP	Reliability Assessment and Performance Analysis/SAIS	Training and Education & Member Services	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance	Statutory Total	State (Nonstatutory) Total	Total
Funding												
Assessments	\$ 368,622	\$ 10,542,599	\$ 1,769,387	\$ 663,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,344,128	\$ -	\$ 13,344,128
Penalty sanctions	1,015	29,035	4,873	1,827	-	-	-	-	-	36,750	-	36,750
State (non-statutory) funding	-	-	-	-	-	-	-	-	-	-	812,628	812,628
Interest income	398	11,432	1,908	716	-	-	-	-	-	14,454	136	14,590
Total funding	370,035	10,583,066	1,776,168	666,063	-	-	-	-	-	13,395,332	812,764	14,208,096
Expenses												
Salaries and related benefits												
Salaries	171,292	4,144,039	912,812	227,657	1,178,808	400,586	514,680	113,904	339,445	8,003,223	576,833	8,580,056
Payroll taxes	11,839	309,251	64,279	16,348	34,581	25,941	38,583	8,753	23,634	533,209	43,761	576,970
Employee benefits	31,444	662,494	132,010	27,946	38,365	43,647	109,862	24,477	49,195	1,119,440	67,973	1,187,413
Savings and retirement	23,240	563,165	127,190	28,198	79,854	60,164	73,144	47,778	51,210	1,053,943	87,030	1,140,973
Total salaries and related benefits	237,815	5,678,949	1,236,291	300,149	1,331,608	530,338	736,269	194,912	463,484	10,709,815	775,597	11,485,412
Meeting and travel expenses												
Meetings and conference calls	2,193	3,003	25	14,002	3,602	-	1,836	7,563	-	32,224	87	32,311
Travel	-	19,782	17,010	578	30,122	1,008	4,231	-	470	73,201	696	73,897
Total meeting and travel expenses	2,193	22,785	17,035	14,580	33,724	1,008	6,067	7,563	470	105,425	783	106,208
Operating expenses												
Consultants and contracts	-	143,397	-	1,156	345,964	2,061	55,222	18,867	32,000	598,667	17,390	616,057
Rent and improvements	-	-	-	-	881,237	-	-	-	-	881,237	46,006	927,243
Office costs	140	28,598	36,360	10,796	75,603	4,314	529,151	4,671	14,990	704,623	53,630	758,253
Professional services	-	-	-	2,817	409,165	40,034	36,625	-	54,910	543,551	32,041	575,592
Depreciation and amortization	-	-	-	-	48,741	-	-	-	-	48,741	3,113	51,854
Total operating expenses	140	171,995	36,360	14,769	1,760,710	46,409	620,998	23,538	101,900	2,776,819	152,180	2,928,999
Total expenses	240,148	5,873,729	1,289,686	329,498	3,126,042	577,755	1,363,334	226,013	565,854	13,592,059	928,560	14,520,619
Change in Unrestricted Net Assets	\$ 129,887	\$ 4,709,337	\$ 486,482	\$ 336,565	\$ (3,126,042)	\$ (577,755)	\$ (1,363,334)	\$ (226,013)	\$ (565,854)	\$ (196,727)	\$ (115,796)	\$ (312,523)

ATTACHMENT 7

2020 ACTUAL COST-TO-BUDGET COMPARISON

AND

2020 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL



WECC

**2020 Audited Statement of Activities (SOA)
and Variance Explanations**

May 3, 2021

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Overview

The audited change in statutory working capital for the year ended December 31, 2020, is over budget by \$3,987,000. The major drivers of the 2020 statutory underrun are:

- Workshops & Miscellaneous Revenue is over budget by \$3,384,000 primarily due to a December 2020 donation from Peak Reliability. Transferred as part of Peak Reliability's wind-down, the funds will be used for projects that are focused on the reliability of the Western Interconnection. These funds were classified as statutory for accounting purposes and use of the funds will be included and identified in future Business Plans and Budgets (BP&B). A request for FERC approval to treat the Peak Reliability donation of \$3,827,000 as funding for statutory activities will be included as part of the request for acceptance of the 2022 business plans and budgets of NERC and the Regional Entities that will be filed with FERC by August 24, 2021.
- Meeting Expenses are under budget by a net of \$1,724,000 primarily due to the cancelation of all in-person meetings and travel from April to December due to the COVID-19 pandemic.
- Operating Expenses are over budget by a net of \$878,000 primarily due to unbudgeted information technology consulting and legal fees associated with unanticipated regulatory activities.

This document provides a summary of significant overall variances (greater than \$10,000 and 10%) and any other noteworthy variances. For significant program area line-item variances, see the detailed statements of activities for each program area.

WECC completed all stated goals and key deliverables as described in the 2020 BP&B, with the following exceptions:

- Complete 23 on-site audits and 10 off-site audits of registered entities for 2020.
 - Due to the COVID-19 pandemic, three on-site and 28 off-site audits were completed.
- Deliver one Human Performance conference.
 - This conference was postponed due to the COVID-19 pandemic. WECC will co-host the conference with NERC in 2022.
- Hold the 2020 Annual Meeting in Lake Las Vegas, Henderson, Nevada.
 - The Annual Meeting was held virtually due to the COVID-19 pandemic.

Allocation of Indirect Costs

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



Non-Statutory Program

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2020, indirect costs were allocated to the non-statutory activity based on FTEs. Indirect costs include General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.



2020 Audited SOA—Statutory and Non-Statutory Activities

Western Electricity Coordinating Council			
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital			
Statutory and Non-Statutory			
	2020 Actual	2020 Budget	2020 Variance Over(Under)
Revenue			
Statutory Funding			
WECC Assessments	\$ 25,282,000	\$ 25,282,000	\$ -
Penalty Sanctions ¹	2,745,000	2,745,000	-
Total Statutory Funding	\$ 28,027,000	\$ 28,027,000	\$ -
Membership Fees	\$ 2,103,103	\$ 2,117,181	\$ (14,078)
Services & Software	-	-	-
Workshops & Miscellaneous	3,840,880	457,250	3,383,630
Interest	314,382	267,300	47,081
Total Revenue (A)	\$ 34,285,365	\$ 30,868,731	\$ 3,416,633
Expenses			
Personnel Expenses			
Salaries	\$ 17,284,382	\$ 16,968,924	\$ 315,458
Payroll Taxes	1,171,628	1,108,309	63,319
Employee Benefits	2,167,230	2,449,776	(282,546)
Savings & Retirement	1,462,900	1,474,375	(11,476)
Total Personnel Expenses	\$ 22,086,140	\$ 22,001,384	\$ 84,755
Meeting Expenses			
Meetings & Conference Calls	\$ 103,209	\$ 717,965	\$ (614,756)
Travel	290,690	1,419,218	(1,128,528)
Total Meeting Expenses	\$ 393,898	\$ 2,137,183	\$ (1,743,284)
Operating Expenses, excluding Depreciation			
Consultants & Contracts	\$ 1,369,978	\$ 1,038,160	\$ 331,818
Office Rent	1,217,224	1,248,251	(31,027)
Office Costs	2,251,676	2,153,856	97,820
Professional Services	1,331,820	953,790	378,030
Miscellaneous	-	-	-
Total Operating Expenses	\$ 6,170,699	\$ 5,394,057	\$ 776,642
Total Direct Expenses	\$ 28,650,737	\$ 29,532,624	\$ (881,887)
Indirect Expenses	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ 10,000	\$ -	\$ 10,000
Total Expenses (B)	\$ 28,660,737	\$ 29,532,623	\$ (871,887)
Change in Assets (=A-B)	\$ 5,624,628	\$ 1,336,108	\$ 4,288,520
Fixed Assets, excluding Right of Use Assets (C)	\$ 300,571	\$ 55,000	\$ 245,571
Total Budget (B+C)	\$ 28,961,308	\$ 29,587,623	\$ (626,316)
Total Change in Working Capital (A-B-C)	\$ 5,324,057	\$ 1,281,108	\$ 4,042,949
FTEs	142.5	149.0	(6.5)
Headcount	151.0	149.0	2.0

¹ Budgeted penalty sanctions represents the amount released from working capital reserves to offset U.S. assessments as approved by the NERC Board of Trustees and FERC. Actual penalties invoiced in the current reporting year is reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).



2020 Audited SOA—Statutory Activities

Western Electricity Coordinating Council				
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Statutory Summary				
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 25,282,000	\$ 25,282,000	\$ -	
Penalty Sanctions	2,745,000	2,745,000	-	
Total Statutory Funding	\$ 28,027,000	\$ 28,027,000	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	3,840,880	457,250	3,383,630	740.0%
Interest	237,881	200,000	37,881	18.9%
Total Revenue (A)	\$ 32,105,761	\$ 28,684,250	\$ 3,421,511	11.9%
Expenses				
Personnel Expenses				
Salaries	\$ 16,759,830	\$ 16,475,075	\$ 284,755	1.7%
Payroll Taxes	1,134,877	1,074,352	60,525	5.6%
Employee Benefits	2,098,178	2,377,007	(278,829)	(11.7%)
Savings & Retirement	1,418,826	1,431,482	(12,656)	(0.9%)
Total Personnel Expenses	\$ 21,411,710	\$ 21,357,916	\$ 53,794	0.3%
Meeting Expenses				
Meetings & Conference Calls	\$ 103,209	\$ 714,095	\$ (610,886)	(85.5%)
Travel	288,355	1,401,818	(1,113,463)	(79.4%)
Total Meeting Expenses	\$ 391,564	\$ 2,115,913	\$ (1,724,349)	(81.5%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 1,367,728	\$ 1,038,160	\$ 329,568	31.7%
Office Rent	1,217,224	1,248,251	(31,027)	(2.5%)
Office Costs	1,758,642	1,557,312	201,330	12.9%
Professional Services	1,331,820	953,790	378,030	39.6%
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 5,675,415	\$ 4,797,513	\$ 877,902	18.3%
Total Direct Expenses	\$ 27,478,689	\$ 28,271,342	\$ (792,653)	(2.8%)
Indirect Expenses	\$ (571,992)	\$ (567,267)	\$ (4,725)	0.8%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 26,906,697	\$ 27,704,075	\$ (797,378)	(2.9%)
Change in Assets (=A-B)	\$ 5,199,064	\$ 980,175	\$ 4,218,889	430.4%
Fixed Assets, excluding Right of Use Assets (C)	\$ 283,411	\$ 52,014	\$ 231,397	444.9%
Total Budget (B+C)	\$ 27,190,108	\$ 27,756,089	\$ (565,981)	(2.0%)
Total Change in Working Capital (A-B-C)	\$ 4,915,653	\$ 928,161	\$ 3,987,492	429.6%
FTEs	136.6	143.0	(6.4)	
Headcount	145.0	143.0	2.0	



Significant Variance Explanations—Statutory Activities

Revenue

- Workshops & Miscellaneous: \$3,384,000 over budget due to the net of:
 - The Peak Reliability donation;
 - The cancellation of the in-person March and October Reliability and Security Workshops due to the COVID-19 pandemic;
- Interest: \$38,000 over budget due to the net of:
 - Unbudgeted finance charge revenues; and
 - Lower-than-anticipated returns on investments.

Personnel Expenses

- Employee Benefits: \$279,000 under budget primarily due to:
 - Less-than-anticipated use of WECC's health reimbursement account (HRA);
 - Less-than-anticipated training due to the COVID-19 pandemic; and
 - Tax law changes for relocation benefits that were budgeted in Employee Benefits but offered as sign-on bonuses and expensed in Salaries.

Meeting Expenses

- Meetings & Conference Calls: \$611,000 under budget primarily due to:
 - The cancellation of the in-person March and October Reliability and Security Workshops due to the COVID-19 pandemic; and
 - The cancellation of all other in-person meetings from April through December due to the COVID-19 pandemic.
- Travel: \$1,113,000 under budget primarily due:
 - The cancellation of all travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$330,000 over budget primarily due to the net of:
 - Unbudgeted information technology consulting;
 - The elimination of RAPA consulting for a study of the changing resource mix; and
 - Unbudgeted human resources and knowledge transfer consulting.
- Office Costs: \$201,000 over budget primarily due to the net of:
 - Higher-than-anticipated purchases of equipment for refreshes due to supply chain uncertainty;
 - Unbudgeted webCDMS licensing fees due to delay of the Align tool;
 - Meeting space tables and chairs that were replaced in 2019 but were budgeted to be replaced in January 2020;



- Underutilization of budgeted Board training and education;
- Higher-than-anticipated cost of computer licenses and maintenance due to increases in subscription-based services and enterprise security tools; and
- Unbudgeted implementation of new accounting software.
- Professional Services: \$378,000 over budget primarily due to the net of:
 - Unbudgeted legal fees related to unanticipated regulatory activities; and
 - Less-than-anticipated Board of Director retainers due to a vacancy.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$234,000 over budget due to:
 - Unbudgeted audio-visual system upgrades and leasehold improvements to the Salt Lake City office and meeting space, which were reimbursed by the landlord based on a negotiated tenant improvement allowance included in the most recent lease renewal. The variance is caused by accounting standards which require the landlord reimbursement be recorded as a liability and amortized over the life of the lease, rather than an offset to the fixed asset expenditures.





Section A

Statutory Programs

2020 Audited SOAs and Variance Explanations

Reliability Standards

Western Electricity Coordinating Council				
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Standards				
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 781,127	\$ 781,127	\$ -	
Penalty Sanctions	78,804	78,804	-	
Total Statutory Funding	\$ 859,931	\$ 859,931	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	7,253	5,742	1,511	26.3%
Total Revenue (A)	\$ 867,184	\$ 865,673	\$ 1,511	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 449,696	\$ 427,045	\$ 22,651	5.3%
Payroll Taxes	28,986	26,752	2,234	8.3%
Employee Benefits	52,540	39,901	12,639	31.7%
Savings & Retirement	38,872	37,153	1,719	4.6%
Total Personnel Expenses	\$ 570,093	\$ 530,851	\$ 39,242	7.4%
Meeting Expenses				
Meetings & Conference Calls	\$ -	\$ -	\$ -	
Travel	1,683	18,250	(16,567)	(90.8%)
Total Meeting Expenses	\$ 1,683	\$ 18,250	\$ (16,567)	(90.8%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ -	\$ -	\$ -	
Office Rent	-	-	-	
Office Costs	3,369	3,435	(66)	(1.9%)
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 3,369	\$ 3,435	\$ (66)	(1.9%)
Total Direct Expenses	\$ 575,145	\$ 552,536	\$ 22,609	4.1%
Indirect Expenses	\$ 295,469	\$ 283,633	\$ 11,836	4.2%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 870,615	\$ 836,169	\$ 34,446	4.1%
Change in Assets (=A-B)	\$ (3,431)	\$ 29,504	\$ (32,935)	(111.6%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 8,681	\$ 1,493	\$ 7,188	481.4%
Total Budget (B+C)	\$ 879,296	\$ 837,662	\$ 41,634	5.0%
Total Change in Working Capital (A-B-C)	\$ (12,112)	\$ 28,011	\$ (40,123)	(143.2%)
FTEs	3.0	3.0	-	
Headcount	3.0	3.0	-	



Significant Variance Explanations—Reliability Standards

Revenue

- No significant variances.

Personnel Expenses

- Employee Benefits: \$13,000 over budget primarily due to changes in benefits enrollment levels.

Meeting Expenses

- Travel: \$17,000 under budget due to the cancellation of all travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- No significant variances.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Compliance Monitoring and Enforcement and Organization Registration and Certification

Western Electricity Coordinating Council				
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Compliance Monitoring and Enforcement and Organization Registration and Certification				
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 14,359,865	\$ 14,359,865	\$ -	
Penalty Sanctions	1,602,344	1,602,344	-	
Total Statutory Funding	\$ 15,962,209	\$ 15,962,209	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	148,193	116,746	31,447	26.9%
Total Revenue (A)	\$ 16,110,402	\$ 16,078,955	\$ 31,447	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 7,580,378	\$ 6,889,592	\$ 690,786	10.0%
Payroll Taxes	526,648	471,719	54,929	11.6%
Employee Benefits	754,807	783,899	(29,092)	(3.7%)
Savings & Retirement	641,658	598,756	42,902	7.2%
Total Personnel Expenses	\$ 9,503,491	\$ 8,743,966	\$ 759,525	8.7%
Meeting Expenses				
Meetings & Conference Calls	\$ 69	\$ 1,505	\$ (1,436)	(95.4%)
Travel	157,258	812,183	(654,925)	(80.6%)
Total Meeting Expenses	\$ 157,327	\$ 813,688	\$ (656,361)	(80.7%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 22,853	\$ -	\$ 22,853	100.0%
Office Rent	-	-	-	
Office Costs	294,493	203,448	91,045	44.8%
Professional Services	353,346	-	353,346	100.0%
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 670,692	\$ 203,448	\$ 467,244	229.7%
Total Direct Expenses	\$ 10,331,510	\$ 9,761,102	\$ 570,408	5.8%
Indirect Expenses	\$ 6,037,403	\$ 5,767,210	\$ 270,193	4.7%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 16,368,914	\$ 15,528,312	\$ 840,602	5.4%
Change in Assets (=A-B)	\$ (258,511)	\$ 550,643	\$ (809,154)	(146.9%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 177,386	\$ 30,362	\$ 147,024	484.2%
Total Budget (B+C)	\$ 16,546,300	\$ 15,558,674	\$ 987,626	6.3%
Total Change in Working Capital (A-B-C)	\$ (435,897)	\$ 520,281	\$ (956,178)	(183.8%)
FTEs	61.3	61.0	0.3	
Headcount	64.0	61.0	3.0	



Significant Variance Explanations—Compliance Monitoring and Enforcement

Revenue

- Interest: \$31,000 over budget primarily due to the net of:
 - Unbudgeted finance charge revenues; and
 - Lower-than-anticipated returns on investments.

Personnel Expenses

- Salaries: \$691,000 over budget primarily due to:
 - The hiring of two unbudgeted FTEs, one with a focus on Operations and Planning standards and one with a focus on Critical Infrastructure standards, to ensure timely processing of an increasing workload and broaden bench strength. (These FTEs are being budgeted in the 2022 Business Plan and Budget);
 - Changes in position levels; and
 - Budgeted labor float rate assumptions compared to actual vacancy rates.
- Payroll Taxes: \$55,000 over budget primarily due to the overrun in Salaries.

Meeting Expenses

- Travel: \$655,000 under budget primarily due to the cancellation of on-site audits and all other travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$23,000 over budget due to unbudgeted audit contractor labor in the first quarter to support the audit team. The CMEP eliminated the use of contractors after February 2020.
- Office Costs: \$91,000 over budget due to the delay in the implementation of the Align tool and the resulting extension of webCDMS licensing fees.
- Professional Services: \$353,000 over budget primarily due to legal fees for unanticipated regulatory activities.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.



Fixed Assets

- Fixed Assets: \$147,000 over budget due to unbudgeted fixed asset additions in Corporate Services. The fixed asset allocation is based on actual FTEs in each program.



Reliability Assessment and Performance Analysis

Western Electricity Coordinating Council				
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Reliability Assessment and Performance Analysis				
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 9,603,551	\$ 9,603,551	\$ -	
Penalty Sanctions	998,182	998,182	-	
Total Statutory Funding	\$ 10,601,733	\$ 10,601,733	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	-	-	-	
Interest	75,426	72,727	2,699	3.7%
Total Revenue (A)	\$ 10,677,159	\$ 10,674,460	\$ 2,699	0.0%
Expenses				
Personnel Expenses				
Salaries	\$ 4,036,829	\$ 4,371,606	\$ (334,777)	(7.7%)
Payroll Taxes	275,704	299,047	(23,343)	(7.8%)
Employee Benefits	474,534	519,073	(44,539)	(8.6%)
Savings & Retirement	358,386	380,135	(21,749)	(5.7%)
Total Personnel Expenses	\$ 5,145,453	\$ 5,569,861	\$ (424,408)	(7.6%)
Meeting Expenses				
Meetings & Conference Calls	\$ 7,169	\$ 77,685	\$ (70,517)	(90.8%)
Travel	53,085	245,010	(191,925)	(78.3%)
Total Meeting Expenses	\$ 60,253	\$ 322,695	\$ (262,442)	(81.3%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 404,413	\$ 600,000	\$ (195,587)	(32.6%)
Office Rent	-	-	-	
Office Costs	239,216	224,898	14,318	6.4%
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 643,630	\$ 824,898	\$ (181,268)	(22.0%)
Total Direct Expenses	\$ 5,849,336	\$ 6,717,454	\$ (868,118)	(12.9%)
Indirect Expenses	\$ 3,072,870	\$ 3,592,689	\$ (519,819)	(14.5%)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 8,922,206	\$ 10,310,143	\$ (1,387,937)	(13.5%)
Change in Assets (=A-B)	\$ 1,754,953	\$ 364,317	\$ 1,390,636	381.7%
Fixed Assets, excluding Right of Use Assets (C)	\$ 88,952	\$ 18,914	\$ 70,038	370.3%
Total Budget (B+C)	\$ 9,011,158	\$ 10,329,057	\$ (1,317,899)	(12.8%)
Total Change in Working Capital (A-B-C)	\$ 1,666,001	\$ 345,403	\$ 1,320,598	382.3%
FTEs	31.2	38.0	(6.8)	
Headcount	34.0	39.0	(5.0)	



Significant Variance Explanations—Reliability Assessment and Performance Analysis

Revenue

- No significant variances.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Meetings & Conference Calls: \$71,000 under budget primarily due to the cancellation of all in-person meetings from April through December due to the COVID-19 pandemic.
- Travel: \$192,000 under budget primarily due to the cancellation of all travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$196,000 under budget primarily due to the elimination of consulting for a study of the changing resource mix.

Indirect Expenses

- Indirect Expenses: \$520,000 under budget due to lower-than-anticipated FTEs in this program. The indirect expense allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$71,000 over budget due to unbudgeted fixed asset additions in Corporate Services. The fixed asset allocation is based on actual FTEs in each program.



Training and Outreach

Western Electricity Coordinating Council				
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital				
Training and Outreach				
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%
Revenue				
Statutory Funding				
WECC Assessments	\$ 321,087	\$ 321,087	\$ -	
Penalty Sanctions	39,402	39,402	-	
Total Statutory Funding	\$ 360,489	\$ 360,489	\$ -	
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	13,486	457,250	(443,764)	(97.1%)
Interest	3,867	2,871	996	34.7%
Total Revenue (A)	\$ 377,842	\$ 820,610	\$ (442,768)	(54.0%)
Expenses				
Personnel Expenses				
Salaries	\$ 190,733	\$ 143,854	\$ 46,879	32.6%
Payroll Taxes	14,002	10,433	3,569	34.2%
Employee Benefits	19,393	23,842	(4,449)	(18.7%)
Savings & Retirement	16,398	12,515	3,883	31.0%
Total Personnel Expenses	\$ 240,526	\$ 190,644	\$ 49,882	26.2%
Meeting Expenses				
Meetings & Conference Calls	\$ 2,494	\$ 405,905	\$ (403,411)	(99.4%)
Travel	1,940	11,475	(9,535)	(83.1%)
Total Meeting Expenses	\$ 4,434	\$ 417,380	\$ (412,946)	(98.9%)
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ -	\$ 6,160	\$ (6,160)	100.0%
Office Rent	-	-	-	
Office Costs	6,163	37,309	(31,146)	(83.5%)
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 6,163	\$ 43,469	\$ (37,306)	(85.8%)
Total Direct Expenses	\$ 251,123	\$ 651,493	\$ (400,370)	(61.5%)
Indirect Expenses	\$ 157,583	\$ 141,817	\$ 15,766	11.1%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 408,706	\$ 793,310	\$ (384,604)	(48.5%)
Change in Assets (=A-B)	\$ (30,864)	\$ 27,300	\$ (58,164)	(213.1%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 4,630	\$ 747	\$ 3,883	519.8%
Total Budget (B+C)	\$ 413,336	\$ 794,057	\$ (380,721)	(47.9%)
Total Change in Working Capital (A-B-C)	\$ (35,494)	\$ 26,553	\$ (62,047)	(233.7%)
FTEs	1.6	1.5	0.1	
Headcount	1.0	1.0	-	



Significant Variance Explanations—Training and Outreach

Revenue

- Workshops & Miscellaneous: \$444,000 under budget due to the cancellation of the in-person March and October Reliability and Security Workshops due to the COVID-19 pandemic.

Personnel Expenses

- Salaries: \$47,000 over budget primarily due to the unbudgeted partial allocation of one FTE from another program area due to organizational changes.

Meeting Expenses

- Meetings & Conference Calls: \$403,000 under budget due to the cancellation of the in-person March and October Reliability and Security Workshops due to the COVID-19 pandemic.

Operating Expenses

- Office Costs: \$31,000 under budget primarily due to lower-than-anticipated merchant processing fees resulting from the cancellation of the in-person March and October Reliability and Security Workshops.

Indirect Expenses

- Indirect Expenses: \$16,000 over budget due to higher-than-anticipated FTEs in this program. The indirect expense allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Situation Awareness and Infrastructure Security

Western Electricity Coordinating Council 2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital Situation Awareness and Infrastructure Security					
	2020 Actual	2020 Budget	2020 Variance		
			Over(Under)		%
Revenue					
Statutory Funding					
WECC Assessments	\$ 216,370	\$ 216,370	\$ -		
Penalty Sanctions	26,268	26,268	-		
Total Statutory Funding	\$ 242,638	\$ 242,638	\$ -		
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops & Miscellaneous	-	-	-		
Interest	3,142	1,914	1,228		64.1%
Total Revenue (A)	\$ 245,780	\$ 244,552	\$ 1,228		0.5%
Expenses					
Personnel Expenses					
Salaries	\$ 156,763	\$ 111,297	\$ 45,466		40.9%
Payroll Taxes	12,948	8,344	4,604		55.2%
Employee Benefits	25,068	12,273	12,795		104.3%
Savings & Retirement	12,524	9,683	2,841		29.3%
Total Personnel Expenses	\$ 207,302	\$ 141,597	\$ 65,705		46.4%
Meeting Expenses					
Meetings & Conference Calls	\$ -	\$ -	\$ -		
Travel	-	-	-		
Total Meeting Expenses	\$ -	\$ -	\$ -		
Operating Expenses, excluding Depreciation					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	919	-	919		100.0%
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Total Operating Expenses	\$ 919	\$ -	\$ 919		
Total Direct Expenses	\$ 208,221	\$ 141,597	\$ 66,624		47.1%
Indirect Expenses	\$ 128,036	\$ 94,544	\$ 33,492		35.4%
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ 336,257	\$ 236,141	\$ 100,116		42.4%
Change in Assets (=A-B)	\$ (90,477)	\$ 8,411	\$ (98,888)		(1,175.7%)
Fixed Assets, excluding Right of Use Assets (C)	\$ 3,762	\$ 498	\$ 3,264		655.4%
Total Budget (B+C)	\$ 340,019	\$ 236,639	\$ 103,380		43.7%
Total Change in Working Capital (A-B-C)	\$ (94,239)	\$ 7,913	\$ (102,152)		(1,290.9%)
FTEs	1.3	1.0	0.3		
Headcount	1.0	-	1.0		



Significant Variance Explanations—Situation Awareness and Infrastructure Security

Revenue

- No significant variances.

Personnel Expenses

- Salaries: \$45,000 over budget primarily due to an FTE hired in 2020 to help support NERC's Security Initiative which was announced in 2020. The FTE was budgeted for in the 2021 Business Plan and Budget.
- Employee Benefits: \$13,000 over budget primarily due to the unbudgeted FTE previously mentioned.

Meeting Expenses

- No significant variances.

Operating Expenses

- No significant variances.

Indirect Expenses

- Indirect Expenses: \$33,000 over budget due to higher-than-anticipated FTEs in this program. The indirect expense allocation is based on actual FTEs in each program.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.



Corporate Services

Western Electricity Coordinating Council					
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Corporate Services					
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%	
Revenue					
Statutory Funding					
WECC Assessments	\$ -	\$ -	\$ -	-	
Penalty Sanctions	-	-	-	-	
Total Statutory Funding	\$ -	\$ -	\$ -	-	
Membership Fees	\$ -	\$ -	\$ -	-	
Services & Software	-	-	-	-	
Workshops & Miscellaneous	3,827,394	-	3,827,394	100.0%	
Interest	-	-	-	-	
Total Revenue (A)	\$ 3,827,394	\$ -	\$ 3,827,394		
Expenses					
Personnel Expenses					
Salaries	\$ 4,345,431	\$ 4,531,681	\$ (186,250)	(4.1%)	
Payroll Taxes	276,590	258,057	18,533	7.2%	
Employee Benefits	771,837	998,019	(226,182)	(22.7%)	
Savings & Retirement	350,987	393,240	(42,253)	(10.7%)	
Total Personnel Expenses	\$ 5,744,846	\$ 6,180,997	\$ (436,151)	(7.1%)	
Meeting Expenses					
Meetings & Conference Calls	\$ 93,477	\$ 229,000	\$ (135,523)	(59.2%)	
Travel	74,389	314,900	(240,511)	(76.4%)	
Total Meeting Expenses	\$ 167,866	\$ 543,900	\$ (376,034)	(69.1%)	
Operating Expenses, excluding Depreciation					
Consultants & Contracts	\$ 940,462	\$ 432,000	\$ 508,462	117.7%	
Office Rent	1,217,224	1,248,251	(31,027)	(2.5%)	
Office Costs	1,214,482	1,088,222	126,260	11.6%	
Professional Services	978,474	953,790	24,684	2.6%	
Miscellaneous	-	-	-	-	
Total Operating Expenses	\$ 4,350,643	\$ 3,722,263	\$ 628,380	16.9%	
Total Direct Expenses	\$ 10,263,355	\$ 10,447,160	\$ (183,805)	(1.8%)	
Indirect Expenses	\$ (10,263,355)	\$ (10,447,160)	\$ 183,805	(1.8%)	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ -	\$ -	\$ -		
Change in Assets (=A-B)	\$ 3,827,394	\$ -	\$ 3,827,394	100.0%	
Fixed Assets, excluding Right of Use Assets (C)	\$ -	\$ -	\$ -		
Total Budget (B+C)	\$ -	\$ -	\$ -		
Total Change in Working Capital (A-B-C)	\$ 3,827,394	\$ -	\$ 3,827,394	100.0%	
FTEs	38.1	38.5	(0.4)		
Headcount	42.0	39.0	3.0		



Significant Variance Explanations—Corporate Services

Revenue

- Workshops & Miscellaneous: \$3,827,000 over budget due to the Peak Reliability donation.

Personnel Expenses

- Employee Benefits: \$226,000 under budget primarily due to:
 - Less-than-anticipated use of WECC's HRA;
 - Tax law changes for relocation benefits that were budgeted in Employee Benefits but offered as sign-on bonuses and expensed in Salaries; and
 - Less-than-anticipated training due to the COVID-19 pandemic.
- Savings & Retirement: \$42,000 under budget primarily due to budgeted labor float rate assumptions compared to actual vacancy rates.

Meeting Expenses

- Meetings & Conference Calls: \$136,000 under budget primarily due to the cancellation of all in-person meetings from April through December due to the COVID-19 pandemic.
- Travel: \$241,000 under budget primarily due to the cancellation of all travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- Consultants & Contracts: \$508,000 over budget primarily due to unbudgeted information technology consulting to assist with restructuring IT's delivery of services to the organization to improve effectiveness, achievement of business goals, and WECC's overall security posture and human resource and knowledge transfer consulting.
- Office Costs: \$126,000 over budget primarily due to the net of:
 - Higher-than-anticipated purchases of equipment for refreshes due to supply chain uncertainty caused by the COVID-19 pandemic;
 - Meeting space tables and chairs that were replaced in 2019 but were budgeted to be replaced in January 2020;
 - The underutilization of budgeted Board training and education;
 - Higher-than-anticipated cost of computer licenses and maintenance due to increases in subscription-based services and enterprise security tools; and
 - Unbudgeted implementation of new accounting software.

Indirect Expenses

- No significant variances.



Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- No significant variances.





Section B

Non-Statutory Program

2020 Audited SOA and Variance Explanations

WREGIS

Western Electricity Coordinating Council					
2020 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital					
Corporate Services					
	2020 Actual	2020 Budget	2020 Variance Over(Under)	%	
Revenue					
Statutory Funding					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total Statutory Funding	\$ -	\$ -	\$ -		
Membership Fees	\$ -	\$ -	\$ -		
Services & Software	-	-	-		
Workshops & Miscellaneous	3,827,394	-	3,827,394	100.0%	
Interest	-	-	-		
Total Revenue (A)	\$ 3,827,394	\$ -	\$ 3,827,394		
Expenses					
Personnel Expenses					
Salaries	\$ 4,345,431	\$ 4,531,681	\$ (186,250)	(4.1%)	
Payroll Taxes	276,590	258,057	18,533	7.2%	
Employee Benefits	771,837	998,019	(226,182)	(22.7%)	
Savings & Retirement	350,987	393,240	(42,253)	(10.7%)	
Total Personnel Expenses	\$ 5,744,846	\$ 6,180,997	\$ (436,151)	(7.1%)	
Meeting Expenses					
Meetings & Conference Calls	\$ 93,477	\$ 229,000	\$ (135,523)	(59.2%)	
Travel	74,389	314,900	(240,511)	(76.4%)	
Total Meeting Expenses	\$ 167,866	\$ 543,900	\$ (376,034)	(69.1%)	
Operating Expenses, excluding Depreciation					
Consultants & Contracts	\$ 940,462	\$ 432,000	\$ 508,462	117.7%	
Office Rent	1,217,224	1,248,251	(31,027)	(2.5%)	
Office Costs	1,214,482	1,088,222	126,260	11.6%	
Professional Services	978,474	953,790	24,684	2.6%	
Miscellaneous	-	-	-		
Total Operating Expenses	\$ 4,350,643	\$ 3,722,263	\$ 628,380	16.9%	
Total Direct Expenses	\$ 10,263,355	\$ 10,447,160	\$ (183,805)	(1.8%)	
Indirect Expenses	\$ (10,263,355)	\$ (10,447,160)	\$ 183,805	(1.8%)	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
Total Expenses (B)	\$ -	\$ -	\$ -		
Change in Assets (=A-B)	\$ 3,827,394	\$ -	\$ 3,827,394	100.0%	
Fixed Assets, excluding Right of Use Assets (C)	\$ -	\$ -	\$ -		
Total Budget (B+C)	\$ -	\$ -	\$ -		
Total Change in Working Capital (A-B-C)	\$ 3,827,394	\$ -	\$ 3,827,394	100.0%	
FTEs	38.1	38.5	(0.4)		
Headcount	42.0	39.0	3.0		



Significant Variance Explanations—WREGIS

Revenue

- No significant variances.

Personnel Expenses

- No significant variances.

Meeting Expenses

- Travel: \$15,000 under budget primarily due to the cancellation of all travel from April through December due to the COVID-19 pandemic.

Operating Expenses

- Office Costs: \$104,000 under budget primarily due to vendor discounts and less-than-anticipated cost of maintenance and volume of software upgrades performed by the vendor.

Indirect Expenses

- No significant variances.

Other Non-Operating Expenses

- No significant variances.

Fixed Assets

- Fixed Assets: \$14,000 over budget due to unbudgeted fixed asset additions in Corporate Services. The fixed asset allocation is based on actual FTEs in each program.



Appendix A—Penalty Sanctions Reconciliation

Penalty Information				Business Plan & Budget** (Year to Offset Assessments)			Financial Statements*** (Year Recognized)			2020 Penalty Revenue Variance
Date Invoiced	Amount Invoiced	Date Payment Received	Amount Received	2020	2021	2022	2018	2019	2020	
6/4/2018	2,700,000	7/11/2018	2,700,000	2,700,000			2,700,000			Business Plan & Budget (A) 2,745,000
10/1/2018	45,000	10/16/2018	45,000	45,000			45,000			Financial Statements (B) 1,182,000
5/30/2019	32,000	7/9/2019	32,000		32,000			32,000		(Over)/Under 1,563,000
7/26/2019	87,000	9/4/2019	87,000		87,000			87,000		
8/30/2019	74,000	10/14/2019	74,000		74,000			74,000		-
9/27/2019	50,000	11/13/2019	50,000		50,000			50,000		
9/27/2019	59,000	11/13/2019	59,000		59,000			59,000		
11/29/2019	2,678,000	12/23/2019	2,678,000		2,678,000			2,678,000		
10/1/2019	80,000	8/27/2020	80,000			80,000		80,000		
10/1/2019	2,100,000	8/27/2020	2,100,000			2,100,000		2,100,000		
1/29/2020	65,000	4/30/2020	65,000		65,000				65,000	
4/7/2020	153,000	5/29/2020	153,000		153,000				153,000	
4/7/2020	70,000	5/7/2020	70,000		70,000				70,000	
4/7/2020	231,000	5/29/2020	231,000		231,000				231,000	
7/2/2020	112,000	8/6/2020	112,000			112,000			112,000	
12/31/2020	450,000	2/19/2021	450,000			450,000			450,000	
12/31/2020	53,000	2/23/2021	53,000			53,000			53,000	
12/31/2020	79,000	2/24/2021	22,000			22,000			22,000	
12/31/2020	26,000	3/18/2021	26,000			26,000			26,000	
Total				2,745,000	3,499,000	2,843,000	2,745,000	5,160,000	1,182,000	
				(A)					(B)	

** Penalties collected between July 1, 20X1 and June 30, 20X2 will offset assessments in budget year 20X3.

*** Penalties are recognized for financial reporting purposes when they are approved by FERC and invoiced.





Financial Statements
December 31, 2020 and 2019

Western Electricity Coordinating Council (WECC)

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Independent Auditor's Report

The Board of Directors
Western Electricity Coordinating Council (WECC)
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of WECC, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WECC as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements in 2020, WECC adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* applicable to contributions received. The Update was applied on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered into after the date of adoption. The update was not adopted previously as WECC did not have any donations during the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Salt Lake City, Utah
April 30, 2021

WECC
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 24,563,081	\$ 25,456,435
Contractually restricted cash and cash equivalents	5,829,696	5,818,562
Certificates of deposit	6,192,123	5,416,154
Investments	3,360,965	3,975,625
Accounts receivable, net	6,181,743	5,448,118
Prepaid expenses and other assets	815,130	406,112
Property and equipment, net	726,752	426,181
	\$ 47,669,490	\$ 46,947,187
Liabilities and Net Assets		
Accounts payable	\$ 5,030,966	\$ 5,017,875
Accrued expenses	3,414,901	3,311,835
Deferred revenue	11,945,326	15,667,577
Other liabilities	660,185	145,113
Total liabilities	21,051,378	24,142,400
Net Assets		
Without donor restrictions	26,618,112	22,804,787
	\$ 47,669,490	\$ 46,947,187

WECC
Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues		
Electric Reliability Organization funding	\$ 26,464,000	\$ 30,442,000
Western Renewable Energy Generation Information System (WREGIS)	2,103,103	2,361,424
Donation income	3,827,394	-
Meetings and workshops	13,486	518,952
Net investment return	314,382	474,967
Total revenues	32,722,365	33,797,343
Expenses		
Program expenses		
Statutory	17,216,668	17,235,658
Non-statutory	1,182,048	1,136,630
Total program expenses	18,398,716	18,372,288
Supporting expenses		
Management and general	10,510,324	9,827,796
Total expenses	28,909,040	28,200,084
Change in Net Assets without Donor Restrictions	3,813,325	5,597,259
Net Assets without Donor Restrictions, Beginning of Year	22,804,787	17,207,528
Net Assets without Donor Restrictions, End of Year	\$ 26,618,112	\$ 22,804,787

WECC
Statement of Functional Expenses
Year Ended December 31, 2020

	Program Services			Management and General	Total
	Statutory	Non-Statutory	Total		
Labor	\$ 15,666,865	\$ 674,429	\$ 16,341,294	\$ 5,744,846	\$ 22,086,140
Office and equipment	544,161	493,034	1,037,195	2,378,368	3,415,563
Depreciation and amortization	1,333	-	1,333	246,970	248,303
Contract labor and consultants	427,266	2,250	429,516	940,462	1,369,978
Meetings	223,697	2,335	226,032	167,866	393,898
Professional services	353,346	-	353,346	978,474	1,331,820
Excise taxes	-	-	-	53,338	53,338
Other	-	10,000	10,000	-	10,000
	<u> </u>				
Total expenses included in the statement of activities	<u>\$ 17,216,668</u>	<u>\$ 1,182,048</u>	<u>\$ 18,398,716</u>	<u>\$ 10,510,324</u>	<u>\$ 28,909,040</u>

WECC
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services			Management and General	Total
	Statutory	Non-Statutory	Total		
Labor	\$ 14,380,997	\$ 622,219	\$ 15,003,216	\$ 5,385,825	\$ 20,389,041
Office and equipment	597,295	494,645	1,091,940	2,154,626	3,246,566
Depreciation and amortization	4,335	-	4,335	242,581	246,916
Contract labor and consultants	768,197	-	768,197	628,917	1,397,114
Meetings	1,457,865	19,766	1,477,631	390,094	1,867,725
Professional services	26,969	-	26,969	972,363	999,332
Excise taxes	-	-	-	52,983	52,983
Other	-	-	-	407	407
	<u> </u>				
Total expenses included in the statement of activities	<u>\$ 17,235,658</u>	<u>\$ 1,136,630</u>	<u>\$ 18,372,288</u>	<u>\$ 9,827,796</u>	<u>\$ 28,200,084</u>

WECC
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 3,813,325	\$ 5,597,259
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	248,303	246,916
Bad debt expense	10,000	7,000
Amortization of discounts and premiums on operating investments	(202)	(2,578)
Realized and unrealized loss on operating investments	(3,504)	(28,041)
Changes in assets and liabilities		
Accounts receivable	(743,625)	(5,094,383)
Prepaid expenses and other assets	(409,018)	74,583
Accounts payable	13,091	(116,038)
Accrued expenses	103,066	992,680
Deferred revenue	(3,722,251)	481,687
Other liabilities	515,072	(259,986)
Net Cash from (used for) Operating Activities	(175,743)	1,899,099
Investing Activities		
Purchases of property and equipment	(548,874)	(304,962)
Purchases of investments and certificates of deposit	(9,374,276)	(9,169,617)
Proceeds from sale of investments and certificates of deposit	9,216,673	6,126,764
Net Cash used for Investing Activities	(706,477)	(3,347,815)
Net Change in Cash and Cash Equivalents	(882,220)	(1,448,716)
Cash and Cash Equivalents, Beginning of Year	31,274,997	32,723,713
Cash and Cash Equivalents, End of Year	\$ 30,392,777	\$ 31,274,997
Cash and Cash Equivalents are presented as follows on the statement of financial position:		
Cash and cash equivalents	\$ 24,563,081	\$ 25,456,435
Contractually restricted cash and cash equivalents	5,829,696	5,818,562
	\$ 30,392,777	\$ 31,274,997

Note 1 - Summary of Significant Accounting Policies

Organization

WECC is a not-for-profit organization whose primary mission is to effectively and efficiently mitigate risks to the reliability and security of the Western Interconnection's Bulk Power System (Western Interconnection). The Western Interconnection extends from Canada to Mexico and includes the Canadian provinces of Alberta and British Columbia, the northern part of Baja California in Mexico, and all or part of the 14 Western states in between. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement, effective October 2007, and Amended and Restated Delegation Agreement, effective January 2016, with the North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk power system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States' portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to Load-Serving Entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within the Western Interconnection. WECC funds its non-statutory activities through annual and other activity-based fees.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less, including contractually restricted cash and cash equivalents.

Pursuant to the Delegation Agreement with NERC, contractually restricted cash and cash equivalents as of December 31, 2020 and 2019, were \$5,829,696 and \$5,818,562, 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 receivables. WECC determines the allowance for uncollectable accounts receivable based on historical experience, credit risk, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2020 and 2019, the allowance was \$17,683 and \$17,972, respectively.

Donation Receivable

WECC records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2020 and 2019, the allowance was \$0, respectively.

Property and Equipment

WECC records property and equipment additions over \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years or, in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

WECC reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2020 and 2019.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of December 31, 2020 and 2019, WECC did not have any net assets with donor restrictions.

Revenue Recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. Statutory funding consists of annual assessments and penalty sanction revenue.

The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period and records it as deferred revenue. Assessments are recognized as revenue in the year they are intended to fund.

Penalty sanctions are assessed by WECC and approved by FERC for violations of the Reliability Standards. Once FERC has approved the penalty sanction, WECC has satisfied all performance obligations related to the penalty. Therefore, WECC recognizes penalty sanction revenue when it is approved by FERC.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

For the years ended December 31, 2020 and 2019, all revenue was recognized at a point in time. There were no contract assets outstanding as of December 31, 2020 and 2019.

Deferred revenue consists of advance payments from customers, in the form of cash, for revenue to be recognized in a subsequent year.

Donations are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. WECC's agreement stipulated that a portion of donations received are conditional upon certain performance requirements. Consequently, at December 31, 2020, conditional donations approximating \$300,000, all of which were received subsequent to year end, have been recognized within accrued expenses in the accompanying financial statements.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statements of activities. WECC's expenses are classified as Statutory Expenses or Non-statutory Expenses as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

Income Taxes

WECC is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(4). WECC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, WECC is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose.

WECC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements and, as such, does not have any uncertain tax positions that are material to the financial statements. WECC would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

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

Financial Instruments and Credit Risk

WECC manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, WECC has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Finance and Audit Committee believe that the investment policies and guidelines are prudent for the long-term welfare of WECC. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts NERC has delegated WECC to collect through assessments to LSEs within the Western Interconnection. Investments are made by diversified investment managers whose performance is monitored by management and the Finance and Audit Committee of the Board of Directors.

Change in Accounting Principle

As of January 1, 2020, WECC adopted has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received. Management has adopted this standard because it assists WECC in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional.

As of January 1, 2020, WECC has implemented the provisions of ASU 2018-08 applicable to contributions received during the year on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered into after the date of adoption. The update was not adopted previously as WECC did not have any donations during the year ended December 31, 2019. Management has determined that the adoption of this standard did not have a significant impact on WECC's financial statements.

Recent Accounting Guidance

In February 2016, FASB issued ASU No. 2016-02, *Leases*. The standard will require recognition of lease assets and liabilities for most leases, including leases that were previously considered operating leases. The FASB has delayed the amendment to be effective for WECC beginning with the year ending December 31, 2021. WECC has not yet determined what effect this standard will have on the results of its operations.

Subsequent Events

WECC has evaluated subsequent events through April 30, 2021, the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net assets.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 24,563,081	\$ 25,456,435
Certificates of deposit	6,192,123	5,416,154
Investments	3,360,965	3,975,625
Accounts receivable	<u>6,181,743</u>	<u>5,448,118</u>
	<u>\$ 40,297,912</u>	<u>\$ 40,296,332</u>

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, certificates of deposit, and money market funds.

Note 3 - Fair Value Measurements and Disclosures

WECC reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk or liquidity profile of the asset or liability.

WECC invests in U.S. Government obligations that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis at December 31, 2020:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	\$ 3,243,207	\$ -	\$ 3,243,207	\$ -
Debt securities	117,758	-	117,758	-
	<u>\$ 3,360,965</u>	<u>\$ -</u>	<u>\$ 3,360,965</u>	<u>\$ -</u>

The following table presents assets measured at fair value on a recurring basis at December 31, 2019:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Government agency bonds	\$ 3,975,625	\$ -	\$ 3,975,625	\$ -

Note 4 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Operating investments		
Interest and dividends	\$ 302,737	\$ 446,926
Net realized and unrealized gain	11,645	28,041
	<u>\$ 314,382</u>	<u>\$ 474,967</u>

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2020 and 2019:

	2020	2019
Equipment	\$ 1,068,052	\$ 986,552
Software	1,219,441	1,219,441
Furniture and fixtures	368,011	368,011
Leasehold improvements	1,806,627	1,339,254
	<u>4,462,131</u>	<u>3,913,258</u>
Less accumulated depreciation	<u>(3,735,379)</u>	<u>(3,487,077)</u>
	<u>\$ 726,752</u>	<u>\$ 426,181</u>

Note 6 - Net Assets

WECC reports information regarding Statutory and Non-statutory earnings to FERC in accordance with its Delegation Agreement with NERC dated October 16, 2007, as amended, and restated January 1, 2016. As of December 31, 2020 and 2019, the breakdown of such earnings included in net assets without donor restrictions consisted of the following:

	2020	2019
Non-statutory earnings	\$ 8,221,880	\$ 7,813,478
Statutory earnings	18,396,232	14,991,309
	\$ 26,618,112	\$ 22,804,787

Note 7 - Leases

WECC leases office space and equipment under various operating leases expiring at various dates through 2031. Future minimum lease payments are as follows:

Years Ending December 31,		
2021	\$	1,219,582
2022		1,270,726
2023		1,293,896
2024		1,292,650
2025		1,309,310
Thereafter		9,140,132
Total minimum lease payments		\$ 15,526,296

Rent expense for the years ended December 31, 2020 and 2019, totaled \$1,231,471 and \$1,006,236, respectively.

Note 8 - Employee Benefits

WECC sponsors a 401(k) Retirement Savings Plan (the Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. The Plan expense reflected in the accompanying statements of activities was \$1,452,650 and \$1,330,137 for the years ended December 31, 2020 and 2019, respectively. In 2006, WECC adopted an elective 457(b) deferred compensation plan to provide certain employees of WECC with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2020 and 2019 was \$19,500 and \$19,000, respectively. The Plan is entirely funded by elective employee salary deferrals.

ATTACHMENT 8

**METRICS CONCERNING ADMINISTRATIVE COSTS IN
2020 NERC AND REGIONAL ENTITY
BUDGETS AND ACTUAL COSTS**

**Analysis of Indirect (Administrative Services) Costs
2020 Actual versus 2020 Budget**

2020 ACTUAL					2020 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
\$ 78,465,988	\$ 47,484,226	\$ 30,981,762	39.5%	\$ 1.53	NERC	\$ 82,657,033	\$ 48,505,797	\$ 34,151,236	41.3%	\$ 1.42
15,848,061	9,840,576	6,007,485	37.9%	1.64	MRO	17,540,969	11,600,412	5,940,557	33.9%	1.95
14,942,338	8,968,159	5,974,179	40.0%	1.50	NPCC	16,601,647	10,123,702	6,477,945	39.0%	1.56
22,857,730	15,924,609	6,933,121	30.3%	2.30	RF	23,650,862	16,495,172	7,155,690	30.3%	2.31
23,172,445	13,348,138	9,824,307	42.4%	1.36	SERC	24,525,013	13,520,965	11,004,048	44.9%	1.23
13,543,318	7,733,061	5,810,257	42.9%	1.33	Texas RE	13,831,126	8,168,666	5,662,460	40.9%	1.44
27,190,111	17,215,337	9,974,774	36.7%	1.73	WECC	27,756,089	17,824,182	9,931,907	35.8%	1.79
\$ 196,019,991	\$ 120,514,106	\$ 75,505,885	38.5%	\$ 1.60	TOTAL/AVERAGE	\$ 206,562,739	\$ 126,238,896	\$ 80,323,843	38.9%	\$ 1.57

2020 ACTUAL FTEs					2020 BUDGETED FTEs					
Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs		Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
202.19	128.89	73.30	36.3%	1.76	NERC	213.38	139.08	74.30	34.8%	1.87
60.23	47.77	12.46	20.7%	3.83	MRO	63.00	52.77	10.23	16.2%	5.16
37.95	28.24	9.71	25.6%	2.91	NPCC	41.09	30.86	10.23	24.9%	3.02
82.80	65.09	17.71	21.4%	3.68	RF	79.35	62.60	16.75	21.1%	3.74
96.10	65.00	31.10	32.4%	2.09	SERC	98.00	64.50	33.50	34.2%	1.93
60.20	45.45	14.75	24.5%	3.08	Texas RE	60.00	45.25	14.75	24.6%	3.07
136.50	98.40	38.10	27.9%	2.58	WECC	143.00	104.50	38.50	26.9%	2.71
675.97	478.84	197.13	29.2%	2.43	AVERAGE	697.82	499.56	198.26	28.4%	2.52

2020 ACTUAL SPEND per FTE					2020 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	
\$ 388,080	\$ 368,409	\$ 422,671	\$ 153,231	NERC	\$ 387,370	\$ 348,762	\$ 459,640	\$ 160,049	
263,126	205,999	482,142	99,742	MRO	278,428	219,830	580,700	94,295	
393,737	317,569	615,260	157,422	NPCC	404,031	328,053	633,230	157,653	
276,060	244,655	391,481	83,733	RF	298,057	263,501	427,205	90,179	
241,128	205,356	315,894	102,230	SERC	250,255	209,627	328,479	112,286	
224,972	170,144	393,916	96,516	Texas RE	230,519	180,523	383,896	94,374	
199,195	174,953	261,805	73,075	WECC	194,099	170,566	257,972	69,454	
\$ 289,983	\$ 251,679	\$ 383,026	\$ 111,700	AVERAGE	\$ 296,011	\$ 252,700	\$ 405,144	\$ 115,107	

Analysis of Administrative (Indirect) Costs
2018, 2019, and 2020 Actual

	2018 ACTUAL SPEND					2019 ACTUAL SPEND					2020 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	\$ 70,569,405	\$ 41,489,041	\$ 29,080,364	41.21%	\$ 1.43	\$ 71,737,869	\$ 40,114,899	\$ 31,622,970	44.08%	\$ 1.27	\$ 78,465,988	\$ 47,484,226	\$ 30,981,762	39.48%	\$ 1.53
MRO	10,711,050	6,678,117	4,032,933	37.65%	1.66	14,361,603	8,494,244	5,867,359	40.85%	1.45	15,848,061	9,840,576	6,007,485	37.91%	1.64
NPCC	14,541,068	9,400,523	5,140,545	35.35%	1.83	14,255,185	9,114,640	5,140,545	36.06%	1.77	14,942,338	8,968,159	5,974,179	39.98%	1.50
RF	20,882,555	14,498,485	6,384,070	30.57%	2.27	22,328,205	15,375,822	6,952,383	31.14%	2.21	22,857,730	15,924,609	6,933,121	30.33%	2.30
SERC	17,272,682	7,658,360	9,614,322	55.66%	0.80	20,518,333	11,137,494	9,380,839	45.72%	1.19	23,172,445	13,348,138	9,824,307	42.40%	1.36
Texas RE	11,343,290	6,880,565	4,462,725	39.34%	1.54	15,911,973	11,046,285	4,865,688	30.58%	2.27	13,543,318	7,733,061	5,810,257	42.90%	1.33
WECC	26,961,283	17,638,680	9,322,603	34.58%	1.89	26,568,505	17,231,323	9,337,182	35.14%	1.85	27,190,111	17,215,337	9,974,774	36.69%	1.73
TOTAL/Average	\$ 185,320,122	\$ 113,780,283	\$ 71,539,839	38.60%	\$ 1.59	\$ 185,681,673	\$ 112,514,707	\$ 73,166,966	39.40%	\$ 1.54	\$ 196,019,991	\$ 120,514,106	\$ 75,505,885	38.52%	\$ 1.60
3-Year Average														38.84%	\$ 1.57

	2018 ACTUAL FTEs					2019 ACTUAL FTEs					2020 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	191.07	122.15	68.92	36.07%	1.77	202.49	131.78	70.71	34.92%	1.86	202.19	128.89	73.30	36.25%	1.76
MRO	43.18	31.67	11.51	26.66%	2.75	52.98	40.02	12.96	24.46%	3.09	60.23	47.77	12.46	20.69%	3.83
NPCC	36.53	28.53	8.00	21.90%	3.57	35.03	26.28	8.75	24.98%	3.00	37.95	28.24	9.71	25.59%	2.91
RF	74.02	59.23	14.79	19.98%	4.00	77.84	61.00	16.84	21.63%	3.62	82.80	65.09	17.71	21.39%	3.68
SERC	62.00	33.60	28.40	45.81%	1.18	78.05	52.17	25.88	33.16%	2.02	96.10	65.00	31.10	32.36%	2.09
Texas RE	55.00	40.25	14.75	26.82%	2.73	56.90	42.15	14.75	25.92%	2.86	60.20	45.45	14.75	24.50%	3.08
WECC	133.20	96.20	37.00	27.78%	2.60	127.50	92.90	34.60	27.14%	2.68	136.50	98.40	38.10	27.91%	2.58
TOTAL/Average	634.52	443.48	191.04	30.11%	2.32	630.79	446.30	184.49	29.25%	2.42	675.97	478.84	197.13	29.16%	2.43
3-Year Average														29.50%	2.39

	2018 ACTUAL SPEND per FTE				2019 ACTUAL SPEND per FTE				2020 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	\$ 369,338	\$ 339,656	\$ 421,944	\$ 152,197	\$ 354,279	\$ 304,408	\$ 447,221	\$ 156,171	\$ 388,080	\$ 368,409	\$ 422,671	\$ 153,231
MRO	248,056	210,866	350,385	93,398	271,076	212,250	452,728	110,747	263,126	205,999	482,142	99,742
NPCC	398,058	329,496	642,568	140,721	406,942	346,828	587,491	146,747	393,737	317,569	615,260	157,422
RF	282,120	244,783	431,648	86,248	286,847	252,063	412,849	89,316	276,060	244,655	391,481	83,733
SERC	278,592	227,927	338,532	155,070	262,887	213,485	362,474	120,190	241,128	205,356	315,894	102,230
Texas RE	206,242	170,946	302,558	81,140	279,648	262,071	329,877	85,513	224,972	170,144	393,916	96,516
WECC	202,412	183,354	251,962	69,990	208,380	185,482	269,861	73,233	199,195	174,953	261,805	73,075
TOTAL/Average	\$ 292,065	\$ 256,565	\$ 374,476	\$ 112,747	\$ 294,364	\$ 252,106	\$ 396,590	\$ 115,993	\$ 289,983	\$ 251,679	\$ 383,026	\$ 111,700
3-Year Average									\$ 292,137	\$ 253,450	\$ 384,697	\$ 113,480