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May 30, 2013

**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. RR13-\_-000  
Report of Comparisons of Budgeted to Actual Costs for 2012  
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 2012 for NERC and the Regional Entities.”

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

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

Respectfully submitted,

/s/ Owen E. MacBride  
Owen E. MacBride

Attorney for North American Electric  
Reliability Corporation

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

**NORTH AMERICAN ELECTRIC**                     )  
**RELIABILITY CORPORATION**            )     **Docket No. RR13-\_\_-000**  
  )

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION’S**  
**REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2012**  
**FOR NERC AND THE REGIONAL ENTITIES**

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May 30, 2013

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**Attachment 1:** North American Electric Reliability Corporation – 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements

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**Attachment 3:** Midwest Reliability Organization – 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements

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**Attachment 5:** ReliabilityFirst Corporation – 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements

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**Attachment 7:** Southwest Power Pool Regional Entity – 2012 Actual Cost-to-Budget Comparison; Audited Financial Statements of Southwest Power Pool, Inc.

**Attachment 8:** Texas Reliability Entity, Inc. – 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 9:** Western Electricity Coordinating Council – 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 10:** Metrics Concerning Administrative Costs in 2012 NERC and Regional Entity Budgets and Actual Costs

## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2012 for NERC and the eight Regional Entities.<sup>1</sup> The Commission originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007, concerning the 2008 business plans and budgets of NERC and the Regional Entities.<sup>2</sup> As described in §III below, in several subsequent orders, the Commission has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2012, 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, 2012.
- Metrics concerning NERC and Regional Entity administrative costs in their 2012 budgets and actual results.<sup>3</sup>

This filing includes the following attachments:

**Attachment 1:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

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

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

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

**Attachment 2:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

**Attachment 3:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

**Attachment 4:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

**Attachment 5:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for Reliability *First*.

**Attachment 6:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

**Attachment 7:** 2012 Actual Cost-to-Budget Comparison for SPP RE and 2011 Audited Financial Statements for Southwest Power Pool, Inc.

**Attachment 8:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

**Attachment 9:** 2012 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

**Attachment 10:** Metrics Concerning Administrative Costs in 2012 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, 2012**

As noted above, in the *2008 ERO Budget Order*, the Commission directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, “in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations.”<sup>4</sup> In the *June 19, 2008 Budget Compliance Order*, which addressed NERC’s April 1, 2008 compliance filing to the *2008 ERO Budget Order*, the Commission provided additional direction concerning the presentation of the annual filings comparing NERC’s and the Regional Entities’ actual to budgeted expenditures:

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

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

In addition, although the following directive in the *2008 ERO Budget Order* was

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<sup>4</sup> *2008 ERO Budget Order* at P 23.

expressly applicable to NERC's compliance filing due April 1, 2008 comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the April 1, 2008 compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

Finally, in its order issued June 29, 2009, on NERC's April 1, 2009 filing of actual cost-to-budget comparisons for NERC and the Regional Entities for 2008, the Commission approved NERC's proposal that the due date for the annual filings be moved to May 30 of the following year so that the comparisons can be based on the audited financial reports of NERC and the Regional Entities for the preceding year. Consistent with this proposal, NERC also proposed to include the audited financial reports in the annual filing that would be due May 30.<sup>5</sup>

The comparisons of 2012 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

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

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

- **Attachment 9: WECC**

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2012, as prepared by its independent public accounting firm.

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

- Each comparison contains a cover letter identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2012 budget, 2012 actual amounts, and the variance, for major line-item categories of Funding and Expenses.
- For those entities that engaged in both statutory and non-statutory activities in 2012, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2012 budget, 2012 actual amounts, and the variance, for major line-item categories of Funding and Expenses.<sup>6</sup>
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2012 budget, 2012 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs<sup>7</sup> (direct costs) and the overhead functions<sup>8</sup> (indirect costs). These tables also provide explanations for significant line-item actual-to-budget variances.<sup>9</sup>

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<sup>6</sup> FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2012 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2012 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

<sup>7</sup> Reliability Standards, Compliance Operations, Enforcement and Organization Registration, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection). NERC and SERC have each provided separate tables for (i) Compliance Operations and Organization Registration and (ii) Compliance Enforcement. In addition, NERC has also provided separate tables for Event Analysis and Investigations and for Critical Infrastructure Protection and Cyber Security.

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

<sup>9</sup> Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than \$10,000 over or under the budgeted amount.



The Attachments also address (generally in the cover letter) (i) where applicable, whether any statutory funds were used in 2012 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2012); (ii) the impact of the entity's 2012 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2012)<sup>10</sup>; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2012.

As it did in its actual cost-to-budget comparison filed with the Commission for 2011,<sup>11</sup> NERC has provided additional information in its 2012 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) a detailed analysis and comparison of the major sources of changes in its working capital and operating reserves for 2012, as budgeted and per actual results. The analysis of working capital and operating reserves includes a breakdown of the changes in working capital and operating reserves due to (i) 2012 budgeted operations, (ii) additions due to unbudgeted funding, and (iii) reductions due to unbudgeted expenditures. This additional information is also responsive to recommendations adopted in the approved Settlement Agreement for the Commission's financial performance

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<sup>10</sup> The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show "Change in Working Capital" for the 2012 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 2012; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2011 to fund 2012 expenditures.

<sup>11</sup> See Attachment 1 to *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2011 for NERC and the Regional Entities*, filed May 30, 2012 in Docket No. RR12-11-000 ("2011 True-Up Filing").

audit of NERC.<sup>12</sup> The table on page 3 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2012 by NERC program area, and is followed by a detailed narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area (pages 4-6). The analysis of changes in working capital and operating reserves is provided on pages 11-12 of **Attachment 1**, including the table on page 12 which shows the major sources of generation and additions to operating reserves in 2012 and the major expenditures of operating reserves in 2012.

In addition, in its 2012 report, NERC has also provided (1) details relating to Miscellaneous Expense, reporting actual expenses for Employee rewards and recognition and other Miscellaneous expenses (*see* page 7 of **Attachment 1**); and (2) an actual cost-to budget comparison of 2012 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings, Trustee Travel and Conference Call expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). The information relating to Board of Trustees expenses is provided on pages 8-9 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2012 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual-to-budget variances experienced by

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<sup>12</sup> *See North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,054 (2013), Attachment (Settlement Agreement) at §II(8)(a), specifying that NERC will “[i]ncrease the granularity of the NERC budget filings by identifying proposed budgeted expenditures, at a minimum, by the major activities to be undertaken by each program area” (Audit Staff Recommendation 4). NERC also agreed with Audit Staff Recommendation 5 to “[i]ncrease the granularity of the NERC true-up filings in line with the budget filings.”

NERC and the Regional Entities in 2012, as identified by NERC's review of the comparisons.

- A number of entities<sup>13</sup> experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Savings & Retirement), in one or more program areas, due to being unable to fill budgeted positions, due to filling budgeted positions later in the year than was assumed in the budget, or due to employees in existing positions leaving the entity, resulting in a vacant position for a portion of the year. Additionally, having fewer personnel on staff than budgeted tended to reduce Meetings and/or Travel Expense below the budgeted amounts.<sup>14</sup>
- In some instances, due to the difficulty in filling budgeted positions, the entity hired a less experienced candidate than was assumed for purposes of the budget, which may have resulted in lower Personnel Expense for the new employee than was assumed for purposes of the budget. In other cases, the entity may have found it necessary to pay higher compensation than budgeted to fill a new or vacant position.
- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2012, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- The inability to fill budgeted positions as planned, or the departure of existing employees, also resulted in some instances in higher-than budgeted Consultants & Contracts expense, due to either or both the need to use consultants or contractors to perform work that would have been done by employees, or the need to make greater use than budgeted of personnel recruiting services and search firms.
- 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 to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Most of the entities realized lower than budgeted expense for Payroll Taxes, as a result of budgeting Payroll Taxes based on historical data or at the full statutory rates, which resulted in estimates that were higher than actual costs for 2012 due to the continuation in 2012 of the temporary reduction in the maximum amount of wages subject to the employer's federal Payroll Tax rate.

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<sup>13</sup> The term "entities" is used in this discussion to include NERC as well as Regional Entities.

<sup>14</sup> In the development of their annual budgets, NERC and some of the Regional Entities have begun to address this "vacant position" variance issue by including an "attrition factor" or "labor float factor" into their budget calculations. The attrition factor 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.

- Several entities realized lower than budgeted costs for Employee Benefits due to receiving lower than projected medical program or life insurance premium increases, successfully negotiating lower rates with providers than had been budgeted, or implementing other changes to their medical and/or life insurance benefits programs, not reflected in their budgets, to contain cost increases.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. In some cases employees elected to stay on the health and medical programs of their previous employers.
- Some entities experienced lower than budgeted Retirement costs due to less-than-budgeted participation by employees in the entity's retirement plan. At least one entity made changes to its retirement plan during 2012 which resulted in lower actual costs than budgeted for this item.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continuing efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings, and (ii) scheduling meetings at NERC or Regional Entity facilities or the facilities of stakeholders (*e.g.* at the offices of Regional Entity members) rather than in rented, third-party meeting spaces.
- Some entities experienced lower Travel expenses than budgeted due to implementation of more extensive or efficient pre-Compliance Audit processes that enabled compliance auditors to spend less time at Registered Entities' sites when conducting Compliance Audits.
- Several entities were able to spend less on Consultants and Contracts and/or Professional Services than budgeted due to hiring additional staff to perform work that was budgeted to be done by consultants or contractors, or as a result of having work budgeted to be performed by contractors and consultants handled by internal staff of the entity. Also, several entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed office lease terms, or changes in the manner in which the entity accounted for Office Rent or Office Costs, as compared to the terms or accounting reflected in the budget.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs entirely in one program area but then recording the actual costs in the program area responsible for incurring the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services).
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2012 budget were either (i) completed, or at least initiated, in late 2011, (ii) not carried out in 2012 (*i.e.*, delayed/deferred to 2013), or (iii) initiated later in 2012 than assumed in the budget

and therefore not completed in 2012. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts). In other cases, projects that were planned and budgeted for execution and completion in 2011 were not fully completed in 2011 or were delayed or deferred into 2012, resulting in unbudgeted expenditures in 2012.

- Some entities budgeted certain expenditures as expenses (*e.g.*, as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures) based on the entity's capitalization policy. The determination to capitalize rather than expense these expenditures also resulted in additional Depreciation expense.
- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than assumed in the budget, making a determination not to charge fees for some programs for which fees had been budgeted, or a combination of these factors.

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

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2012, as well as year-to-date actual cost-to-budget comparisons for 2013, into account in developing their business plans and budgets for 2014, which are to be submitted to the NERC Board for approval in August 2013 and filed with the Commission for approval by August 23, 2013. In addition, the Regional Entities' working capital and operating reserve policies are being reviewed as part of the 2014 business plan and budget review process.

#### **IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2012 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS**

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

39. Our analysis of the Regional Entities' true-up statements indicates that many Regional Entities spent a significant percentage of their 2007 budgets on various administrative functions to support their statutory functions.<sup>13</sup> The amounts spent on administrative functions vary widely among the Regional Entities. . . . We recognize that 2007 is the first year that these Regional Entities have prepared a budget for statutory functions and that there are some startup costs that will be unique to 2007. The Commission anticipates, however, that such effects will diminish as NERC and the Regional Entities gain experience preparing their budgets. To promote better transparency, the Commission directs NERC to develop additional metrics to identify, in a uniform manner, information detailing its total expenses for administrative functions as well as the expenses for administrative functions for each Regional Entity. For example, one of the matrices should be the percentage spent by the Regional Entity on administrative functions as a portion of its total approved budgeted funding similar to the information provided in the table attached to this order. These new metrics should be designed to enhance the Commission's ability to compare information provided by the Regional Entities on administrative costs and to understand the reasons for any significant differences in amounts budgeted by different Regional Entities for the same function. The Commission therefore directs NERC to develop these additional metrics for use in the true-up filings for NERC's 2008 and 2009 budgets and for use in NERC's subsequent business plans and budgets beginning with NERC's 2010 Business Plan and Budget.

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

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that

NERC and the Regional Entities refer to as “indirect costs” in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as the Commission did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*), rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, as noted earlier, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two employees in each of these functions, and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.<sup>15</sup> As stated earlier, the actual cost-to-budget comparisons for 2012, as well as year-to-date actual cost-to-budget comparisons for 2013, are being taken into account in developing the NERC and Regional Entity business plans and budgets for 2014.

**Attachment 10** provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2012 budgets and 2012 actual costs:

- Statutory indirect expenditures as a percent of total statutory expenditures,<sup>16</sup> and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 10**).<sup>17</sup>
- Statutory indirect full-time equivalent employees (“FTE”) as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 10**).

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<sup>15</sup> In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Professional Services expenses budgeted in Legal and Regulatory in the direct program for which outside legal services were performed).

<sup>16</sup> This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

<sup>17</sup> The term “expenditures” is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

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

These are the same metrics that NERC provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for 2008, 2009, 2010 and 2011.<sup>18</sup> In the *June 29, 2009 Budget Compliance Order*, the Commission indicated that these metrics were acceptable.<sup>19</sup>

In reviewing indirect expenditures, it is important to take into consideration that NERC's indirect expenses support more than NERC's internal operations and also include support of software applications and communications networks that interface with Regional Entities and reliability coordinators, respectively, as well as the administrative support and management of the Interchange Data Calculator vendor and related software applications during this period (2012) that were used by reliability coordinators. Cost for outside audit resources in connection with Regional Entity oversight, as well as Compliance and Certification Committee oversight of NERC's compliance with its Rules of Procedure are also included in indirect expenses. In addition, expenses incurred in NERC's legal and executive (General and Administrative) operations, as well as those of the Regional Entities, directly support the activities of the standards, compliance and enforcement, and other statutory program areas. NERC's legal department, as well as those of the Regional Entities, devote considerable resources to supporting standards development, compliance enforcement and registration matters. NERC

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

<sup>19</sup> *June 29, 2009 Budget Compliance Order* at PP 13-14.



recently implemented a workforce management system that will put it in better position to both track and report on indirect resources supporting major activities within the statutory program areas.

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

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

The data and metrics in the top row of tables on **Attachment 10** measure the portions of its total statutory expenditures that NERC and each Regional Entity, and the Electric Reliability Organization (“ERO”) in the aggregate, are being expended on statutory direct functions and on statutory indirect functions. Based on 2012 actual data, statutory indirect expenditures averaged 30.35% of total statutory expenditures for NERC and the Regional Entities, and the average statutory direct expenditure per dollar of statutory indirect expenditure was \$2.29.<sup>20</sup> The actual average statutory indirect expenditure percentage was higher, and the actual average statutory direct expenditure per dollar of indirect expenditure was lower, than the averages based on the NERC and Regional Entity budgets (27.39% and 2.65, respectively). However, NERC and each Regional Entity increased total direct statutory expenditures in 2012 over 2011, and, as shown in the discussion of the second set of metrics, below, NERC and each Regional Entity increased total statutory direct function staffing in 2012 over 2011, thereby devoting greater amounts of

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<sup>20</sup> These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC’s and WECC’s expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is further magnified due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC’s 2012 budget and actual results.) The arithmetic averages for these two metrics are 32.29% for statutory indirect expenditures as a percent of total statutory expenditures, and \$2.97 for statutory direct expenditures per dollar of statutory indirect expenditures.

resources to their direct statutory responsibilities in 2012 than in 2011. The aggregate increase in statutory direct expenditures by NERC and the Regional Entities in 2012 over 2011 was \$9,673,130, or approximately 8.0%. Further, the 2012 actual results are not significantly different from the 2011 actual results for these metrics. The 2012 actual average statutory indirect expenditure percentage was 30.35% while the 2011 actual average statutory indirect expenditure percentage was 31.06% (2.3% difference). The 2012 actual average statutory direct expenditure per dollar of indirect expenditure was \$2.29 while the 2011 statutory direct expenditure per dollar of statutory indirect expenditure was \$2.22 (7 cents, or 3.2%, difference).<sup>21</sup> The 2012 values for these metrics are in fact almost identical to the 2010 values, which were 30.45% for the actual average statutory indirect expenditure percentage and \$2.28 for the actual average statutory direct expenditure per dollar of statutory indirect expenditure.<sup>22</sup> In other words, the average values for these two metrics have not changed materially over the three-year period 2010 through 2012.

Looking at the values of these metrics for the individual entities compared to the averages, the percentages of actual statutory indirect expenditures to total statutory expenditures for NERC, MRO and SPP RE were noticeably higher than the overall weighted and arithmetic averages, and their ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages.

For NERC, its total actual direct statutory expenditures were approximately \$3.1 million less than budgeted while its total statutory indirect expenditures exceeded budget by approximately \$1.2 million, resulting in its percentage of statutory indirect expenditures to total

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<sup>21</sup> Actual 2011 figures in this discussion are taken from the administrative cost metrics presented in Attachment 10 of the *2011 True-Up Filing*.

<sup>22</sup> Actual 2010 figures in this discussion are taken from the administrative cost metrics presented in Attachment 10 of the *2010 True-Up Filing*.

statutory expenditures rising from 37.51% in its budget to 41.27% actual. A major factor in NERC's lower-than budgeted direct statutory expenditures was lower than budgeted Personnel Expenses in every direct program area except Reliability Assessment and Performance Analysis, due to unfilled positions, lower Payroll taxes than budgeted and cost reductions achieved (after the 2012 budget was finalized) in Benefits and Savings & Retirement Expense. Additionally, although NERC also had lower than budgeted Personnel Expenses in several of the indirect functions, NERC also had higher than budgeted Office Rent (budgeted and recorded in General and Administrative) due to a change in its policy for accounting for Deferred Rent; higher than budgeted Consultants and Contracts expense and Office Costs in Information Technology ("IT") to support IT project and administration needs and due to higher internet costs; higher Professional Services expense in Legal and Regulatory due to the Commission's audit of NERC; and higher than budgeted executive recruiting costs incurred for searches to fill two executive positions.

MRO had lower than budgeted statutory direct expenditures (by about \$1 million) and higher than budgeted statutory indirect expenditures (by about \$790,000), with the result that MRO's percentage of statutory indirect expenditures to total statutory expenditures increased from 37.77% as budgeted to 47.76% actual, and its ratio of statutory direct expenditures to statutory indirect expenditures fell from \$1.65 as budgeted to \$1.09 actual. MRO's higher-than-budgeted statutory indirect expenditures were due primarily to higher than budgeted expenses in IT and in Finance and Accounting and Human Resources (MRO budgets these two indirect functions together), and the deferral into 2012 of certain build-out costs for MRO's new office that MRO had anticipated, at the time of preparation of its 2012 Business Plan and Budget, would be completed in 2011.

SPP RE's actual 2012 indirect expense amount was in fact lower than budgeted (by approximately \$350,000, or about 6%), but SPP RE's 2012 statutory direct expenditures were also lower than budgeted (by approximately \$1,500,000, or about 26%) with the result that SPP RE's percentage of statutory indirect expenditures to total statutory expenditures increased from 48.23% as budgeted to 53.93% actual, and its ratio of statutory direct expenditures to statutory indirect expenditures fell from \$1.07 as budgeted to \$0.85 actual. In other words, the principal reason for SPP RE's actual percentage of statutory indirect expenditures to total statutory expenditures being higher than budgeted for 2012 was that SPP RE's actual direct statutory expenditures were much lower than budgeted. The 2012 actual hourly rate used to charge SPP RE for indirect services provided by SPP, Inc. was \$75.88 (*see* calculation in **Attachment 7**) versus an actual rate of \$67.35 in 2011 and a budgeted rate for 2012 of \$71.04 for 2011.<sup>23</sup>

NERC, FRCC, NPCC, SERC, Texas RE and WECC experienced lower actual percentages of statutory indirect expenditures to total statutory expenditures in 2012 than in 2011. MRO, ReliabilityFirst and SPP RE experienced higher actual percentages of statutory indirect expenditures to total statutory expenditures in 2012 than in 2011. With respect to direct statutory expenditures per dollar of statutory indirect expenditures, NERC, FRCC, NPCC, SERC, Texas RE and WECC also experienced higher actual values in 2012 than in 2011, with the values for FRCC, NPCC and WECC each being significantly higher in 2012 than in 2011. MRO, ReliabilityFirst and SPP RE each experienced lower actual values for this metric for 2012 as compared to 2011.

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<sup>23</sup> As also shown in **Attachment 7**, SPP's budgeted indirect hourly cost rate of \$71.04 for the 2012 budget was the actual indirect hourly cost rate for 2010, which was the most recent actual information available at the time of preparation of SPP RE's 2012 budget.

Comparisons of the actual 2012 results for this first set of metrics to the actual results for 2011 and 2010 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, spent about the same portion of their total statutory expenditures on statutory indirect costs. Further, six of the nine entities spent a lower percentage of total statutory expenditures on indirect costs in 2012 than in 2011, while only three of the entities spent a higher percentage of total statutory expenditures on indirect costs in 2012 than in 2011.

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

On average for NERC and the Regional Entities, 2012 actual statutory indirect FTEs were 24.65% of total statutory FTEs, and on average NERC and the Regional Entities had 3.06 statutory direct FTEs per statutory indirect FTE in 2012. The 2012 actual value for statutory indirect FTEs as a percent of total statutory FTEs was slightly higher (by about 5.25%) than the 2011 value for this metric of 23.42%; while the 2012 actual value for the number of statutory direct FTEs per statutory indirect FTE was somewhat lower (by about 6.4%) than the 2011 value for this metric of 3.27. In 2012, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity in the ERO except NERC (for which the percentage was 30.86%) and MRO (29.06%); and NERC and each Regional Entity had at least 2.24 statutory direct FTE per statutory indirect FTE. FRCC, SPP RE and Texas RE each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2012 than in 2011. NERC, MRO, NPCC, ReliabilityFirst, SERC and WECC each experienced somewhat higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2012 than in 2011, although the percentage increases for NPCC, SERC and WECC with respect to this metric were not substantial. Similarly, FRCC, SPP RE and Texas RE each had a higher actual ratio of statutory direct FTEs per statutory indirect FTE in 2012 than in 2011, while NERC, MRO, NPCC,

ReliabilityFirst, SERC and WECC each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2012 than in 2011.

Total actual statutory direct function FTE staffing for NERC and the eight Regional Entities for 2012 was 677.18 FTEs, which was lower than the budgeted total of 731.37 FTEs although higher than the actual 2011 aggregate total direct function staffing of 605.06 FTEs. As reported in their individual actual-to-budget analyses in the Attachments to this filing, a number of the entities experienced difficulty in filling some budgeted positions in 2012, filled positions at later points in the year than had been assumed in the budget development, and/or experienced departures of existing staff members which resulted in vacant positions during 2012. However, NERC and each Regional Entity had higher statutory direct function staffing (FTEs) in 2012 than in 2011. As compared to 2011 actual values, NERC and the eight Regional Entities increased total statutory FTEs by approximately 72 FTEs (12%), increased total direct statutory FTEs by approximately 47 FTEs (10%), and increased total statutory indirect FTEs by approximately 25 (18%).

**Total statutory expenditures per total FTE,  
statutory direct expenditures per direct FTE,  
statutory indirect expenditures per indirect FTE,  
and statutory indirect expenditures per total FTE**

The bottom row of tables on **Attachment 10** shows the 2012 actual and budgeted (i) total statutory expenditures per total FTE (total statutory expenditures divided by total number of statutory FTE), (ii) statutory direct expenditures per direct FTE, (iii) statutory indirect expenditures per indirect FTE, and (iv) statutory indirect expenditures per total FTE (statutory indirect expenditures divided by total number of FTE), for NERC and each Regional Entity. For NERC and the eight Regional Entities, in the aggregate:

- The actual average total statutory expenditures per statutory FTE were approximately the same as budgeted (\$278,306 actual versus \$279,597 budgeted).
- The actual average statutory direct expenditures per statutory direct FTE were slightly lower than budgeted, by about 1.6% (\$257,242 actual versus \$261,536 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were also about the same as budgeted (\$342,707 actual versus \$342,252 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were higher than budgeted, by 10.3% (\$84,865 actual versus \$76,582).

Overall, for NERC and the Regional Entities in the aggregate, the actual 2012 value for each of these four metrics was somewhat lower than the actual value for 2011:

- The actual average total statutory expenditures per statutory FTE was \$278,306 in 2012 as compared to \$291,503 in 2011.
- The actual average statutory direct expenditures per statutory direct FTE was \$257,242 in 2012 as compared to \$262,409 in 2011.
- The actual average statutory indirect expenditures per statutory indirect FTE was \$342,707 in 2012 as compared to \$386,650 in 2011.
- The actual average statutory indirect expenditures per total statutory FTE was \$84,465 in 2012 as compared to \$90,544 in 2011.

This latter comparison shows that from 2011 to 2012, the ERO grew personnel (both direct function and indirect function personnel) faster than statutory expenditures grew, indicating an increase in the efficiency of use of the ERO's personnel.

## **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, 2012.

Respectfully submitted,

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**ATTACHMENT 1**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**

# North American Electric Reliability Corporation 2012 Audited Results – Actual to Budget Variance Analysis

For the year ending December 31, 2012, NERC was under budget \$1.9M (3.6%) for total expenses and fixed asset purchases.<sup>1</sup> As further explained below, this budget variance was primarily due to (1) significant savings associated with NERC's employee benefits and retirement plans as a result of changes that were implemented after the 2012 budget was developed, (2) lower personnel expenses as a result of having fewer FTEs on staff than budgeted, and (3) lower travel and conferencing expenses. Collectively, personnel, meetings, travel and conferencing expenses were under budget \$4.0M, offset by \$2.1M in over budget variances in consultant and contract costs, rent, office costs, professional services and fixed assets. The expenditure of unbudgeted funds was in accordance with the company's working capital and operating reserve policy as further detailed in this report.

## 2012 ACTUAL VERSUS BUDGET BY CATEGORY

	2012 YTD Actual	2012 YTD Budget	Variance Over/(Under)	
<b>TOTAL FUNDING</b>	<b>53,334,489</b>	<b>53,112,272</b>	<b>222,217</b>	<b>0.4%</b>
<b><u>BUDGET - EXPENSES and FIXED ASSETS</u></b>				
PERSONNEL EXPENSES	29,282,011	33,005,811	(3,723,802)	-11.3%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,616,022	3,872,780	(256,758)	-6.6%
CONSULTANTS and CONTRACTS	9,429,192	8,287,314	1,141,878	13.8%
RENT	2,594,211	2,304,257	289,954	12.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,512,100	4,870,019	642,080	13.2%
Other Non-Operating Expenses	(37,734)	-	(37,734)	100.0%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	804,411	772,090	32,321	4.2%
<b>TOTAL BUDGET</b>	<b>51,200,211</b>	<b>53,112,271</b>	<b>(1,912,062)</b>	<b>-3.6%</b>
<b>FTEs</b>	<b>167.83</b>	<b>176.75</b>	<b>(8.92)</b>	<b>-5.0%</b>

The following is an explanation of the major factors influencing budgetary performance for 2012:

<sup>1</sup> In the preliminary, unaudited 2012 year-end variance analysis presented to NERC's Finance and Audit Committee on February 1, 2013 and posted on NERC's website, NERC projected it would end the year \$1,959,309 under budget, which was \$47,247 lower than the amount determined based on the final year end audited financial statements

- **Funding**
  - Services and Software, which primarily relates to pc-GAR software which provides restricted access to GADS data, was \$120.4k, (48.2%), under budget for the year due to reductions in resources previously involved in the marketing and support of this software as NERC re-evaluated its approach and pricing for licensing of this software which is necessary in order to provide industry and equipment vendors with access to GADS data for reliability improvement purposes under strict confidentiality restrictions.
  - Workshop Fees exceeded budget \$350.8k, (292%), due to higher attendance at NASPI workshops and due to having (3) workshops that were not budgeted: an auditor training workshop, a Human Performance workshop and a Grid Security workshop.
- **Personnel Expenses** were \$3.7M (11.3%) under budget
  - Salaries expense, which is comprised of base salaries, at risk performance compensation, employment agency fees, temporary office services and the accrual for earned, but unused paid time off, was under budget \$1.4M (5.7%). Base salaries were under budget \$1.96M, primarily due to having 8.9 fewer FTEs on staff than budgeted, but also due to lower average salary expense per FTE on staff. On December 31, 2012, there were fifteen open positions that were budgeted in 2012 and included in the 2013 budget. At risk performance compensation, which was subject to achievement of corporate and departmental performance measures and year end performance reviews of personnel, as well as the receipt of management, CGHRC and Board of Trustee approvals in accordance with the company's compensation governance policies, was \$54.9k under budget. Temporary office services and employment agency fees were collectively \$151.8k over budget due to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies. Earned, but unused paid time off, which employees are permitted to use in the following year, was not previously recorded or budgeted under the previous time keeping system. In 2012, NERC implemented a new time keeping system that calculates the number of earned but unused paid time off hours for each employee. A non-cash expense of \$453.9k was recorded in 2012 to accrue the cost of unused paid time off earned in 2012.
  - Payroll taxes were \$107.1k (7.0%) under budget due to having 8.9 fewer FTEs on staff than budgeted and due to the cap on wages subject to social security taxes being lower than the estimate included in the budget.
  - Benefits, which is comprised of education and training, health and life insurance, workers compensation, and relocation was \$511.6k (16.0%) under budget, primarily due to significant savings associated with NERC's employee health and life insurance benefit plans that were implemented after the 2012 budget was developed. Health and life insurance benefits were \$725.9k under budget, offset by education and training

expenses, and by relocation expenses, which were over budget \$113.7k and \$51.2k, respectively.

- **Retirement** expenses were \$1.7M (48.6%) under budget primarily due to changes to NERC’s retirement plans, also implemented after the 2012 budget was developed, and due to forfeiture of unvested funds due to personnel attrition.
- **Meetings, Travel, Conferencing and Webinar** expenses were under budget \$256.8k (6.6%), primarily due to lower travel costs. Travel costs were \$519.3k lower than budget as a result of having 8.9 fewer FTEs on staff than budgeted, having fewer telecommuters and having department staff consolidated in either the Atlanta or Washington, DC office. Webinar and conference call expenses were under budget \$61.3k due to reduced pricing negotiated with the vendor mid-year. Meetings expense, which includes the cost of rented space and catering for meetings and workshops held in hotels and the cost of catering for meetings held in NERC or Regional Entity offices, was over budget \$323.8k primarily due to higher expenses associated with the NASPI workshop and due to expenses related to an auditor training workshop, a Human Performance workshop and the Grid Security workshop, which were not specifically budgeted. These higher expenses were funded by fees collected from attendees, which exceeded budget by \$350.8k, and did not require the use of operating reserves.
- **Consultants and Contracts** expenses were \$1.1M (13.8%) over budget. Consultants and Contracts that were not specifically budgeted and were therefore funded from operating reserves are detailed in the Analysis of Working Capital and Operating Reserves beginning on page 11 of this report. As further explained below, the following table summarizes the over and under budget variance for Consultants and Contracts by Program area.

CONSULTANTS and CONTRACTS	Actual	Budget	Over/(Under)
RELIABILITY STANDARDS	-	15,000	(15,000)
COMPLIANCE OPERATIONS	9,780	-	9,780
COMPLIANCE ENFORCEMENT	-	-	-
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	989,587	998,000	(8,413)
<b>RELIABILITY RISK MANAGEMENT</b>			
EVENT ANALYSIS	133,607	120,000	13,607
SITUATION AWARENESS	4,407,508	3,588,116	819,392
<b>RELIABILITY RISK MANAGEMENT</b>	<b>4,541,115</b>	<b>3,708,116</b>	<b>832,999</b>
CRITICAL INFRASTRUCTURE DEPARTMENT	533,926	795,000	(261,074)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	755,236	596,448	158,788
GENERAL and ADMINISTRATIVE and EXECUTIVE	-	-	-
GOVERNMENT RELATIONS	-	-	-
LEGAL and REGULATORY	113,022	141,750	(28,728)
INFORMATION TECHNOLOGY	1,604,107	1,418,000	186,107
HUMAN RESOURCES	569,643	290,000	279,643
FINANCE and ACCOUNTING	312,775	325,000	(12,225)
<b>TOTAL CONTRACTS and CONSULTANTS</b>	<b>9,429,192</b>	<b>8,287,314</b>	<b>1,141,878</b>

- The Reliability Standards Program did not require the use of the 2012 budget for consultants or contracts.
- The over budget variance in Compliance Operations was to provide hearing officer training to the CCC, which was not specifically budgeted.
- Reliability Assessments and Performance Analysis was under budget \$8.4k due to timing delays in projected spending for the Reliability Assessment Database (RADS) and lower than budgeted consulting costs for metrics development, studying impacts on reliability of geo-magnetic disturbances and modeling initiatives. The scope and requirements of RADS are currently under development through joint NERC and Regional Entity collaboration. Due to a reprioritization of reliability risk projects, these lower than budgeted costs were reallocated to fund a change order to the GADS database contract to enable more consistent and efficient reporting and metrics display across all NERC data, assist reporting entities in more timely review of the data and provide high value information for risk analysis. This cost, identified as GADS Change Order #2, is included in the Analysis of Working Capital and Operating Reserves.
- The over budget variance in Event Analysis is related to the investigation of the September 2011 southwest blackout event.
- Situation Awareness
  - The NASPI project, which is primarily related to the company's contract with the Grid Protection Alliance (GPA), was over budget approximately \$238.3k as a result of: (1) the carryover of unused 2011 contractual co-funding commitments for the SIEGate Project pursuant to the terms of NERC's contract with GPA for this project, and (2) consulting support to facilitate and accelerate maturation and adoption of synchrophasor technology across the North American electric industry and to provide support for NASPI workshops held during the year. The carryover of unused 2011 contractual co-funding commitments for the SIEGate Project was not anticipated at the time the budget was prepared and total costs of the SIEGate project remain on budget and are capped pursuant to the contract terms.
  - The SAFNR contract was approximately \$175.5k over budget primarily due to the costs of additional industry user licensing fees, as well as additional maintenance fees.
  - The contract for the secure alert system was under budget \$132.0k due to the elimination of a portion of the contract that provided help desk support, which is now performed by NERC staff, and due to delays in the implementation of plans to upgrade and replace the system. Proposals to upgrade and replace the system came in much higher than budgeted. Management has been negotiating with new vendor to refine the scope of the project and lower costs.

- The expense for various reliability monitoring tools was \$45k under budget due primarily to the elimination of the contract for Control Performance Standard 1 and Balancing Authority ACE Limits (CPS1-BAAL).
- The IDC contract was approximately \$286.3 over budget due to costs associated with the “generation to load reporting” change order, the incentive availability performance component, and the distribution factor support services agreement which were higher than budgeted. NERC has issued a notice of termination of its IDC contract, effective in the second quarter of 2013 and an association of reliability coordinator users is taking over responsibility for IDC funding.
- The cost of NERCnet was \$296.3k over budget primarily due to (1) delays in the installation of the MPLS network which was contemplated by the carrier to replace the current frame relay network, and (2) differences in the cost of the MPLS network versus estimates used in preparation of the 2012 budget. The 2012 budget was based on the carrier’s estimated cost of the new MPLS network, which was projected to be installed before the end of 2011, but is only 50% complete. Due to numerous issues related to the installation of the MPLS network and overall level of customer service received from the current vendor, a Request for Proposal is being developed to obtain quotes from the current carrier and other vendors to provide this service in the future.
- Critical Infrastructure Department
  - Contracts to support ES-ISAC operations were under budget \$213.6k at year end. The contract to provide support for development of the secure portal platform and annual hosting for communications systems, bi-directional information sharing with US-CERT was under budget \$88.3k. Various contracts to provide cyber security analyst support, including support for Aurora webinars and reports, ICS cyber situational awareness reporting, and for building a comprehensive threat model were collectively \$125.3k under budget.
  - Additional contracts to provide ESCC support, NIST/DOE risk guidelines, and cyber risk preparedness assessment support were collectively \$47.5k under budget.
- The Training, Education and Operator Certification Department was \$158.8k over budget for Contracts and Consultants at year end. The upgrade to the system operator certification and continuing education database was not planned at the time the 2012 budget was finalized and, in accordance with NERC’s working capital and operating reserves policy, required the use of \$243.8k in operating reserves which have been aggregated from user fees received for operator training and certification programs that have been collected in excess of program area costs. This over budget variance was offset by contract support for web-based course hosting, which was under budget approximately \$50k.
- The Information Technology department was \$186.1k over budget for Contracts and Consultants at year end primarily due to the use of outside contractors to manage numerous critical projects supporting operating area needs during periods of staff

vacancies. Projects supported by outside contractors included upgrades to the standards balloting software, continued development of the C-RATS database, and implementation of FERC Order 754. Funding for these contractors was approved in accordance with the company's Working Capital and Operating Reserve Policy.

- The Human Resources department was \$279.6k over budget primarily due to additional compensation and benefit consulting services which were not specifically budgeted in 2012 and were undertaken, in part, in connection with the recommendations agreed to as part of the FERC audit, as well as higher than budgeted executive recruiting costs related to the search for a Chief Operating Officer and a Vice-President of Reliability Assessments and Performance Analysis.
  - Finance and Accounting was under budget \$12.2k at year end, primarily due to timing in performance of external audit services related to Regional Entity oversight and audit services related to the CCC's review of NERC's compliance with the rules of procedure. A \$111.5k under budget variance for these items was offset by \$99.3k in contract support for systems evaluation, implementation support, and improved reporting efficiencies of existing systems as follow up to the FERC audit, which were not specifically budgeted in 2012.
- Rent was over budget \$289.95k (12.6%) due to a change in the accounting for the cash contribution from the landlord at 1325 G Street, Washington D.C. For budget purposes, the cash contribution was treated as a credit against rent expense in 2012 only, but for accounting purposes it is now amortized over the life of the lease. This non-cash over budget variance is offset by lower than budgeted rent expense that is the cumulative result of the partial buy-out of the Princeton lease, sub-lease agreements in Princeton and Washington, D.C, and refunds of excess tenant improvement allowances associated with the Atlanta and new DC office leases.
- Office Costs, Professional Services and Miscellaneous
  - Office Costs were \$274.8k (9.7%) over budget primarily due to higher telephone and internet expense, which were \$142.2k and \$376.0k over budget, respectively. The over budget variance for telephone expense is due to higher cell phone and air card expenses. NERC is currently evaluating cell phone and air card plans in effect with the current service provider and anticipates the cost per employee will be reduced in 2013. The over budget variance for internet expense is due to the delay associated with relocation of remaining applications from the Princeton data center. Data connections to the Princeton office will be terminated, allowing the company to realize the significant expense reduction in this area which was budgeted for 2013. The over budget costs for telephone and internet expenses were offset by \$117.2k under budget spending for costs associated with network printers which are leased. These network printer leases were reclassified as capital leases at the end of 2012 to be consistent with Generally Accepted Accounting Principles (GAAP). The expenses of a capital lease are recorded as depreciation and interest expense amortized over the life of the lease. Prior to this reclassification, the

leases were budgeted as operating leases, with the expenses recorded under Office Costs as a copying expense.

- Professional Services, which includes independent trustee fees and search fees, legal fees, accounting and auditing fees, and commercial insurance were over budget \$385.7k primarily due to higher trustee search fees and legal fees, which were over budget \$85.3k and \$281.8k, respectively. Two new trustees were elected to the Board of Trustees in February, 2013, but the 2012 budget was based on the assumption that one new trustee would be elected in 2013. Legal fees were over budget due to \$469.5k outside counsel fees related to the FERC audit, which were not budgeted. Excluding the fees related to the FERC audit, NERC was \$187.6k under budget for other legal fees incurred in 2012. Commercial insurance was \$50.9k over budget due to the increases in property and equipment in the Atlanta and DC offices and the new data center.
- Miscellaneous Expenses – In connection with the FERC audit, NERC agreed to provide additional details related to miscellaneous expenses and included separate budgets for Miscellaneous Expenses and Employee Rewards and Recognition activities in the 2013 Business Plan and Budget. Late in 2012, NERC established additional account codes to track actual expenses related to these activities. The following table reflects the actual expense recorded as Miscellaneous Expense and Employee Rewards and Recognition.

	2012 YTD Actual	2012 YTD Budget	Variance Over/(Under)	
<u>Miscellaneous Expenses</u>				
Miscellaneous	5,778	26,200	(20,422)	
Employee Rewards and Recognition	1,945	-	1,945	
<b>Total Miscellaneous Expenses</b>	<b>7,723</b>	<b>26,200</b>	<b>(18,477)</b>	<b>-70.5%</b>

- Other Non-Operating Expenses, which were not budgeted in 2012, reflect costs to relocate files from NERC’s DC office at 1120 G Street to the new office at 1325 G Street, costs to ship equipment from Princeton to Atlanta, an adjustment to the provision for the allowance for bad debt expense, interest expense on capitalized leases, and property tax expense paid in Fulton County, GA. Management was unaware at the time the 2012 budget was prepared that the company would be required to pay property taxes on the net book value of assets located in the Atlanta office and data center, which are both located in Fulton County, Georgia.
- Fixed Asset Purchases, which excludes the credit offset for depreciation expense, were \$32.3k, or 4.2%, over budget primarily due to the cost of leasehold improvements in the Atlanta and DC offices which were completed in 2011 but not recorded until 2012 pending final reconciliation of the tenant improvement allowance following completion of all construction.
- Allocation of Administrative Costs to the Statutory Programs – NERC allocates indirect or administrative expenses and capital expenditures to the statutory programs based upon the ratio of FTEs in those programs to total statutory program FTEs. The variances associated with this allocation are the result of the differences in the actual versus budgeted ratio of FTEs and the



differences in the actual versus budgeted spend in the administrative cost centers. The budgeted cost per FTE for the allocation of administrative (indirect) expenses plus the allocation of fixed assets to the statutory programs was \$154,441. The total of actual indirect expenses and allocated fixed assets to the statutory programs was \$201,854 per FTE. Total actual indirect expenses were \$1.5M higher than budget due to increased costs in the following areas: (i) increased travel expenses in all Administrative departments, (General and Administrative, Legal, Information Technology, Human Resources and Finance); (ii) higher contract and consultant expenses in Information Technology and Human Resources; (iii) higher rent expense in General and Administrative; (iv) higher professional fees in Legal; and (v) leasehold improvements in General and Administrative. Total Fixed Assets were \$65.1k under budget. Explanations for these variances are provided on the variance reports by department included with this report. In addition to higher than budgeted actual indirect expenses, there were 13.0 fewer FTEs than budgeted in the statutory programs. The combination of higher expenses and fewer FTEs resulted in the increased cost per FTE. In reviewing indirect expenses it's important to take into consideration that NERC's indirect expenses support more than NERC's internal operations and include support of software applications and communications networks that interface with regional entities and reliability coordinators, respectively, as well as the administrative support and management of the IDC vendor and related software applications during this period that were used by reliability coordinators. Cost for outside audit resources in connection with Regional Entity oversight, as well as CCC oversight of NERC's compliance with the rules of procedure are also included as indirect charges. In addition, costs of NERC's legal and executive operations directly support the standards, compliance and enforcement and other statutory program area activities. NERC's legal department also devotes considerable resources to supporting the standards development, compliance enforcement and registration matters. NERC recently implemented a workforce management system that will put the company in a better position to both track and report on indirect resources supporting major activities within the statutory program areas.

### **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.

### **Board of Trustees Expenses**

The following table provides actual and budgeted expenses of the Board of Trustees. The amounts reflected in this table are included in the totals by expense category in the tables presented above. Trustee travel expenses were over budget \$48.2k, primarily due to increased trustee participation at Regional Entity board meetings and trade association meetings. As previously explained above, the 2012 budget was based on the cost to fill one trustee position but two searches were required to fill the positions of Trustees whose terms are expiring.

	2012 YTD Actual	2012 YTD Budget	Variance Over/(Under)	
<b>Board of Trustee Expenses</b>				
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings	198,985	224,000	(25,015)	-11.2%
Trustee Travel	158,179	110,000	48,179	43.8%
Conference Calls	22,516	55,500	(32,984)	-59.4%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>379,680</b>	<b>389,500</b>	<b>(9,820)</b>	<b>-2.5%</b>
<b>Professional Services</b>				
Independent Trustee Fees	970,000	980,000	(10,000)	-1.0%
Trustee Search Fees	160,314	75,000	85,314	0.0%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>1,130,314</b>	<b>1,055,000</b>	<b>75,314</b>	<b>7.1%</b>
<b>Total Board of Trustee Expenses</b>	<b>1,509,994</b>	<b>1,444,500</b>	<b>65,494</b>	<b>4.5%</b>

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities, Fixed Assets and Change in Working Capital**  
**For the period ended 12/31/2012**

	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%
<b>Funding</b>				
Assessments	50,661,272	50,661,272	0	
Penalties	-	-	-	
Testing	2,057,383	2,061,000	(3,617)	
Services & Software	129,618	250,000	(120,382)	
Workshop Fees	470,800	120,000	350,800	
Interest	13,335	20,000	(6,665)	
Miscellaneous	2,081	-	2,081	
<b>Total Funding</b>	<b>53,334,489</b>	<b>53,112,272</b>	<b>222,217</b>	<b>0.42%</b>
<b>Expenses</b>				
Personnel Expenses				
Salaries	23,391,982	24,800,833	(1,408,852)	
Payroll Taxes	1,417,837	1,524,935	(107,098)	
Employee Benefits	2,678,664	3,190,308	(511,644)	
Savings & Retirement	1,793,528	3,489,736	(1,696,208)	
<b>Total Personnel Expenses</b>	<b>29,282,011</b>	<b>33,005,811</b>	<b>(3,723,802)</b>	<b>-11.28%</b>
Meeting Expenses				
Meetings	1,059,849	736,000	323,849	
Travel	2,268,588	2,787,870	(519,282)	
Conference Calls	287,586	348,910	(61,324)	
<b>Total Meeting Expenses</b>	<b>3,616,022</b>	<b>3,872,780</b>	<b>(256,758)</b>	<b>-6.63%</b>
Operating Expenses				
Consultants and Contracts	9,429,192	8,287,314	1,141,878	
Rent & Improvements	2,594,211	2,304,257	289,954	
Office Costs	3,113,631	2,838,819	274,812	
Professional Services	2,390,746	2,005,000	385,746	
Miscellaneous	7,723	26,200	(18,477)	
Depreciation	2,144,184	1,900,717	243,467	
<b>Total Operating Expenses</b>	<b>19,679,686</b>	<b>17,362,307</b>	<b>2,317,378</b>	<b>13.35%</b>
Other Non-Operating Expenses	(37,734)	-	(37,734)	
Indirect Expenses	-	-	-	
<b>Total Expenses</b>	<b>52,539,984</b>	<b>54,240,898</b>	<b>(1,700,916)</b>	<b>-3.14%</b>
<b>Net Change in Assets</b>	<b>794,505</b>	<b>(1,128,627)</b>	<b>1,923,134</b>	<b>-170.40%</b>
<b>Fixed Assets</b>				
Depreciation	(2,144,184)	(1,900,717)	(243,467)	
Computer & Software CapEx	435,309	772,090	(336,781)	
Furniture & Fixtures CapEx	212	-	212	
Equipment CapEx	223,041	-	223,041	
Leasehold Improvements	145,849	-	145,849	
Allocation of Fixed Assets	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>(1,339,773)</b>	<b>(1,128,627)</b>	<b>(211,146)</b>	<b>18.7%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>51,200,211</b>	<b>53,112,273</b>	<b>(1,912,062)</b>	<b>-3.60%</b>
<b>Change in Operating Reserves (Total Funding less Total Budget)</b>	<b>2,134,278</b>	<b>0</b>	<b>2,134,278</b>	
FTE's	167.83	176.75	(8.92)	-5.0%

## Analysis of Working Capital and Operating Reserves

The Company's "Working Capital and Operating Reserve Policy", approved by the Board of Directors on August 16, 2012, requires that management provide a report regarding additions and uses of working capital and operating reserves. The information provided in this variance report and the following table is intended to satisfy this requirement. Section (1) of the table summarizes the generation or use of operating reserves from 2012 budgeted operations by the funding and expense categories on NERC's Statement of Activities. The 2012 Actual amounts in Section (1) do not include unbudgeted funding or expenditures. Unbudgeted funding and expenditures are detailed in Sections (2) and (3).<sup>2</sup>

Section (2) of the table provides details regarding the additional sources of funding which represented additions to operating reserves. Section (3) of the table provides additional details regarding expenditures of operating reserves for unbudgeted items by expense category included in NERC's Statement of Activities. Section (4) of the table sets forth the net expenditure of operating reserves, which is the combination of the items listed under Sections (2) and (3). All of the expenditures of operating reserves were previously described in this variance report.

The year-end Working Capital and Reserve balance was \$8,167,396, which is \$6,368,819 higher than budget and \$2,726,648 higher than the projected December 31, 2012 Working Capital and Reserve balance included in NERC's 2013 Business Plan and Budget, which was \$5,440,748<sup>3</sup>. In prior years and in connection with the preparation of NERC's 2013 Business Plan and Budget, management took a very conservative approach when calculating the balance in working capital and operating reserves<sup>4</sup> and included the entire balance of Deferred Rent as a current liability. The balance in Deferred Rent was historically relatively low (\$165,559 in 2010), and represented the difference between recording rent expense on a straight-line basis over the life of the lease and the actual rent paid to the landlord, which increases over time due to escalations. In 2011 and 2012, the balance in Deferred Rent increased significantly due to the abatement of rent associated with the lease of NERC's offices in Atlanta, the cash contribution received from the landlord of the new DC office space which was negotiated as part of the lease, and refunds of excess tenant improvement allowances associated with both the Atlanta and new DC leases. These transactions also resulted in a higher cash balance. Due to the significant increase in the balance of the Deferred Rent liability and because the balance will be amortized over the life of the leases, which extend to the year 2023, management reviewed the balance to determine the current and non-current portion of the Deferred Rent liability and calculated the ending balance in working capital and operating reserves by including only the current portion of the Deferred Rent liability in the calculation. As a result of this change, the ending balance of working capital is \$2.7M higher than the projected balance included in the 2013 Business Plan and Budget. Notwithstanding this revised calculation and the resulting higher balance in working capital and operating reserves, management has adjusted the 2013 beginning balance to be equal to the level included in the 2013 Business Plan and Budget so that funds

<sup>2</sup> In order to tie back to the Statement of Activities for the period, you need to add the totals in Sections (1), (2) and (3) by funding and expense category.

<sup>3</sup> Refer to Table B-1 on page 118 of NERC's 2013 Business Plan and Budget.

<sup>4</sup> Working capital is defined as being equal to current assets minus current liabilities.

needed to offset future liabilities are not expended in 2013 without approval as a use of Unforeseen Contingency Reserves in accordance with the company's working capital and operating reserve policy. Management will continue to evaluate the balance in working capital and operating reserves necessary to manage NERC's ongoing operations in connection with the development of the 2014 Business Plan and Budget.

	2012 Actual	2012 Budget	Generation(Use) of Reserves
<b>Beginning Working Capital and Operating Reserves - 1/1/12</b>	<b>3,836,374</b>	<b>1,798,578</b>	<b>2,037,796</b>
<b>(1) Generation (Use) of Operating Reserves from Budgeted Operations</b>			
Funding	53,139,439	53,112,272	27,167
Personnel	(29,282,011)	(33,005,811)	3,723,802
Meetings, Travel and Conference Calls	(3,450,140)	(3,872,780)	422,640
Operating Expenses (net of depreciation)	(17,169,430)	(15,461,590)	(1,707,839)
Non-Operating Expenses	0	-	0
Inc(Dec) in Fixed Assets (net of depreciation)	(658,562)	(772,090)	113,528
<b>Total Operating Reserves Generated(Used) from Budgeted Operations</b>	<b>2,579,296</b>	<b>0</b>	<b>2,579,298</b>
<b>(2) Additions to Operating Reserves</b>			
<b>Fees collected from workshops not specifically budgeted</b>			
Auditor training workshop	39,225	-	39,225
Human Performance Workshop	68,850	-	68,850
Grid Security Conference	126,200	-	126,200
<b>Total Additions to Operating Reserves</b>	<b>195,050</b>	<b>-</b>	<b>195,050</b>
<b>(3) Expenditures of Operating Reserves</b>			
<b>Meetings and Workshops</b>			
Auditor training workshop	(22,277)	-	(22,277)
Human Performance Workshop	(53,551)	-	(53,551)
Grid Security Conference	(90,053)	-	(90,053)
<b>Subtotal</b>	<b>(165,881)</b>	<b>-</b>	<b>(165,881)</b>
<b>Contracts and Consultants</b>			
Hearing officer training for the CCC	(9,780)	-	(9,780)
System Operator Database Upgrade	(243,810)	-	(243,810)
GADS Change Order #2	(150,000)	-	(150,000)
Contract employees due to staff vacancies	(150,559)	-	(150,559)
FERC Order 754	(30,480)	-	(30,480)
Compensation Studies	(151,597)	-	(151,597)
Audit Implementation	(78,052)	-	(78,052)
Improve reporting efficiencies of existing accounting systems	(21,255)	-	(21,255)
<b>Subtotal</b>	<b>(835,533)</b>	<b>-</b>	<b>(835,533)</b>
<b>Operating Expenses</b>			
Professional Services - Audit	469,461	-	469,461
<b>Subtotal</b>	<b>469,461</b>	<b>-</b>	<b>469,461</b>
<b>Other Non-Operating Expenses</b>			
Fulton County Property Taxes	(51,008)	-	(51,008)
Shipment of files and equipment to new office locations	(17,438)	-	(17,438)
Provision for Allowance for Bad Debt	113,173	-	113,173
Interest Expense - Capitalized Leases	(6,993)	-	(6,993)
<b>Subtotal</b>	<b>37,734</b>	<b>-</b>	<b>37,734</b>
<b>Fixed Assets</b>			
Leasehold Improvements	(145,849)	-	(145,849)
<b>Subtotal</b>	<b>(145,849)</b>	<b>-</b>	<b>(145,849)</b>
<b>Total Expenditure of Operating Reserves</b>	<b>(640,068)</b>	<b>-</b>	<b>(640,068)</b>
<b>(4) Net Expenditure of Operating Reserves</b>	<b>(445,018)</b>	<b>-</b>	<b>(445,018)</b>
<b>TOTAL Operating Reserves</b>			
Beginning Balance 1/1/2012	3,836,374	1,798,578	2,037,796
Increase due to reclassification of non-current liabilities	2,196,744	-	2,196,744
Generation (Use) from Budgeted Operations	2,579,296	-	2,579,298
Generation (Use) from Unbudget Operations	(445,018)	-	(445,018)
<b>Total</b>	<b>8,167,396</b>	<b>1,798,578</b>	<b>6,368,819</b>

**North American Electric Reliability Corp**  
**2012 Statement of Activities**  
**For the Period Ended 12/31/12**

RELIABILITY STANDARDS	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
Funding					
Assessments	9,152,737	9,152,737	-	0%	
Penalties		-	-		
Testing			-		
Services & Software			-		
Workshop Fees	77,550	40,500	37,050	91%	Higher attendance at the Compliance-Standards workshop
Interest	2,564	3,864	(1,299)	-34%	
Misc.	400		400		
<b>Total Funding</b>	<b>9,233,251</b>	<b>9,197,101</b>	<b>36,151</b>	<b>0%</b>	
Expenses					
Personnel Expenses					
Salaries	2,985,919	3,454,036	(468,117)	-14%	Salaries and Payroll Taxes were lower than budget due to having fewer FTE's on staff than budgeted.
Payroll Taxes	193,470	222,560	(29,090)	-13%	
Employee Benefits	304,669	403,906	(99,237)	-25%	Changes to NERC's health and life benefit plans that were implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	283,826	489,649	(205,822)	-42%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>3,767,884</b>	<b>4,570,150</b>	<b>(802,266)</b>	<b>-18%</b>	
Meeting Expenses					
Meetings	151,784	148,350	3,434	2%	
Travel	314,217	447,625	(133,408)	-30%	Less travel due to consolidation of department staff in the Atlanta office with fewer telecommuters and fewer FTEs on staff than budgeted
Conference Calls	84,164	108,500	(24,336)	-22%	Reduced pricing negotiated with the vendor during 2012
<b>Total Meeting Expenses</b>	<b>550,165</b>	<b>704,475</b>	<b>(154,310)</b>	<b>-22%</b>	
Operating Expenses					
Consultants and Contracts	-	15,000	(15,000)	-100%	Subject matter experts for Standards Development not utilized
Rent & Improvements		-	-		
Office Costs	74,501	57,818	16,683	29%	\$19.4k due to higher cell phone and internet charges, offset by other office costs which were collectively \$2.7k under budget
Professional Services	-	-	-		
Miscellaneous	180	1,000	(820)	-82%	Employee recognition and other miscellaneous expenses less than anticipated
Depreciation	107	-	107		Depreciation associated with the purchase of laptops for new employees, budgeted in Information Technology
<b>Total Operating Expenses</b>	<b>74,787</b>	<b>73,818</b>	<b>969</b>	<b>1%</b>	
Other Non-Operating Expenses		-	-		
Indirect Expenses	4,282,984	4,011,842	271,143	7%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>8,675,821</b>	<b>9,360,285</b>	<b>(684,464)</b>	<b>-7%</b>	
<b>Net Change in Assets</b>	<b>557,431</b>	<b>(163,185)</b>	<b>720,615</b>	<b>-442%</b>	
Fixed Assets					
Depreciation	(107)	-	(107)		The purchase of laptops for new employees and the associated depreciation were budgeted in Information Technology
Computer & Software CapEx	6,423	-	6,423		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(220,373)	(163,184)	(57,189)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(214,057)</b>	<b>(163,184)</b>	<b>(50,874)</b>	<b>31%</b>	
<b>Total Expenses and Incr(Dec) in Fixed Assets</b>	<b>8,461,763</b>	<b>9,197,101</b>	<b>(735,338)</b>	<b>-8%</b>	
<b>Change in Working Capital</b>	<b>771,488</b>	<b>(1)</b>	<b>771,489</b>		
FTE's	22.31	24.92	(2.61)	-10%	

**North American Electric Reliability Corp**  
**2012 Statement of Activities**  
**For the Period Ended 12/31/2012**

COMPLIANCE OPERATIONS , ORGANIZATION REGISTRATION, and INVESTIGATIONS (Partial Year)			Actual		
	2012 Actual	2012 Budget	Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
Funding					
Assessments	7,990,371	7,990,371	-	0%	
Penalties			-	-	
Testing			-	-	
Services & Software			-	-	
Workshop Fees	39,225		39,225		Auditor training workshop was not budgeted.
Interest	2,246	3,358	(1,112)	-33%	
Miscellaneous	350		350		
<b>Total Funding</b>	<b>8,032,192</b>	<b>7,993,729</b>	<b>38,464</b>	<b>0%</b>	
Expenses					
Personnel Expenses					
Salaries	2,759,398	3,022,812	(263,413)	-9%	Salaries and Payroll Taxes were lower than budget due to having fewer FTE's on staff than budget. Lower Salaries expense was partially offset due to the transfer of staff responsible for Compliance Investigations from Events Analysis during the 4th quarter. Payroll Taxes were also under budget because the budget assumed a higher taxable salary for FICA than actual.
Payroll Taxes	161,544	191,988	(30,444)	-16%	
Employee Benefits	305,007	353,659	(48,652)	-14%	Changes to NERC's health and life benefit plans that were implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	234,652	423,911	(189,259)	-45%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>3,460,601</b>	<b>3,992,369</b>	<b>(531,769)</b>	<b>-13%</b>	
Meeting Expenses					
Meetings	83,445	31,175	52,270	168%	\$22.3K auditor workshop expense not budgeted, offset by \$39.2 in fees collected; meeting expense was \$31K over budget due to \$26k in expenses of the Operating Committee meetings which were budgeted in another department
Travel	309,169	416,000	(106,831)	-26%	Less travel due to consolidation of department staff in the Atlanta office with fewer telecommuters and fewer FTEs on staff than budgeted, offset by the transfer of Compliance Investigations staff from Events Analysis
Conference Calls	26,564	34,235	(7,671)	-22%	The budget included usage by Compliance Enforcement and Events Analysis because costs were not separated prior to 2012. The actual amount charged to Compliance Enforcement and Events Analysis, where no budget is indicated, was \$8,957 and \$9,473, respectively.
<b>Total Meeting Expenses</b>	<b>419,178</b>	<b>481,410</b>	<b>(62,232)</b>	<b>-13%</b>	
Operating Expenses					
Consultants and Contracts	9,780	-	9,780		Compliance and Certification Committee hearing panel training not budgeted
Rent & Improvements	-	-	-		
Office Costs	58,200	39,063	19,137	49%	Cellular, air card charges, internet, and dues \$25k higher than budgeted. offset by \$7.4k under budget spend on office supplies and maintenance & service agreements
Professional Services	-	-	-		
Miscellaneous	1,139	2,000	(861)	-43%	Employee recognition and other miscellaneous expenses less than anticipated
Depreciation	193,476	218,882	(25,406)	-12%	
<b>Total Operating Expenses</b>	<b>262,595</b>	<b>259,945</b>	<b>2,650</b>	<b>1%</b>	
Other Non-Operating Expenses					
Indirect Expenses	3,751,211	3,620,723	130,488	4%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>7,893,585</b>	<b>8,354,447</b>	<b>(460,863)</b>	<b>-6%</b>	
<b>Net Change in Assets</b>	<b>138,607</b>	<b>(360,719)</b>	<b>499,326</b>	<b>-138%</b>	
Fixed Assets					
Depreciation	(193,476)	(218,882)	25,406		
Computer & Software CapEx	10,566		10,566		Laptops for new staff budgeted in Information Technology
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(193,012)	(141,836)	(51,176)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(375,922)</b>	<b>(360,718)</b>	<b>(15,204)</b>	<b>4%</b>	
<b>Total Expenses and Incr(Dec) in Fixed</b>	<b>7,517,663</b>	<b>7,993,729</b>	<b>(476,067)</b>	<b>-6%</b>	
<b>Change in Working Capital</b>	<b>514,529</b>	<b>(1)</b>	<b>514,530</b>		
FTE's	19.54	21.66	(2.12)	-10%	

**North American Electric Reliability Corp**  
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<b>COMPLIANCE ENFORCEMENT</b>	<b>2012</b>	<b>2012</b>	<b>Actual Variance</b>	<b>%</b>	<b>Comments (Explain variances &gt; +/- 10%)</b>
	<b>Actual</b>	<b>Budget</b>	<b>from Budget</b>		
			<b>Over(Under)</b>		
<b>Funding</b>					
Assessments	6,442,202	6,442,202	0	0%	
Penalties		-	-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest	2,082	3,256	(1,174)	-36%	
Miscellaneous	325		325		
<b>Total Funding</b>	<b>6,444,609</b>	<b>6,445,458</b>	<b>(849)</b>	<b>0%</b>	
<b>Expenses</b>					
Personnel Expenses					
Salaries	1,910,068	2,310,485	(400,416)	-17%	Salaries and Payroll Taxes were lower than budget due to having fewer FTE's on staff than budgeted. Payroll Taxes were also under budget because the
Payroll Taxes	126,212	158,938	(32,726)	-21%	budget assumed a higher taxable salary for FICA than actual.
Employee Benefits	203,797	334,684	(130,887)	-39%	Changes to NERC's health and life benefit plans that were implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	176,475	329,353	(152,878)	-46%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>2,416,552</b>	<b>3,133,460</b>	<b>(716,908)</b>	<b>-23%</b>	
Meeting Expenses					
Meetings	844	-	844		
Travel	115,790	128,000	(12,210)	-10%	Due to having fewer FTEs on staff than budgeted The cost of conference calls for Compliance Enforcement was not tracked prior to 2012, but were included in the budget for Compliance Operations. Beginning in 2013, actual and budgeted costs for Compliance Enforcement conferencing and webinars will be reported.
Conference Calls	8,957	-	8,957		
<b>Total Meeting Expenses</b>	<b>125,592</b>	<b>128,000</b>	<b>(2,408)</b>	<b>-2%</b>	
Operating Expenses					
Consultants and Contracts		-	-		
Rent & Improvements		-	-		
Office Costs	39,545	23,329	16,216	70%	Cellular, air card charges, supplies and dues were collectively \$20.1k higher than budgeted; offset by \$3.8k under budget spend on express shipping
Professional Services		-	-		
Miscellaneous	832	-	832		A portion of the budget for employee recognition and other miscellaneous expenses was not allocated to this program in error.
Depreciation	106	-	106		
<b>Total Operating Expenses</b>	<b>40,483</b>	<b>23,329</b>	<b>17,154</b>	<b>74%</b>	
Other Non-Operating Expenses					
Indirect Expenses	3,478,605	3,298,184	180,421	5%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>6,061,232</b>	<b>6,582,973</b>	<b>(521,741)</b>	<b>-8%</b>	
<b>Net Change in Assets</b>	<b>383,377</b>	<b>(137,515)</b>	<b>520,892</b>	<b>-379%</b>	
<b>Fixed Assets</b>					
Depreciation	(106)	0	(106)		
Computer & Software CapEx	6,339		6,339		Laptops for new staff budgeted in Information Technology
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(178,985)	(137,515)	(41,470)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(172,751)</b>	<b>(137,515)</b>	<b>(35,236)</b>	<b>26%</b>	
<b>Total Expenses and Incr(Dec) in Fixed Assets</b>	<b>5,888,481</b>	<b>6,445,458</b>	<b>(556,977)</b>	<b>-9%</b>	
<b>Change in Working Capital</b>	<b>556,129</b>	<b>(0)</b>	<b>556,129</b>		
<b>FTE's</b>	<b>18.12</b>	<b>21.00</b>	<b>(2.88)</b>	<b>-14%</b>	



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Reliability Assessments and Performance Analysis	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
Funding					
Assessments	6,716,302	6,716,302	-	0%	
Penalties	-	-	-	-	
Testing	-	-	-	-	
Services & Software	112,094	250,000	(137,906)	-55%	Revenues from pc-GAR software less than budgeted
Workshop Fees	1,850	35,000	(33,150)	-95%	Budgeted GADS workshop was not held, offset by fees received in advance for a probability fundamentals workshop held in January, 2013.
Interest	1,903	2,558	(655)	-26%	
Miscellaneous	297	297	-	-	
<b>Total Funding</b>	<b>6,832,446</b>	<b>7,003,860</b>	<b>(171,414)</b>	<b>-2%</b>	
Expenses					
Personnel Expenses					
Salaries	2,344,555	2,189,610	154,946	7%	\$67.2k over in salaries due to variances in actual versus budgeted rates and \$70.1k in temporary services and employment agency fees budgeted in HR
Payroll Taxes	144,200	141,721	2,479	2%	
Employee Benefits	269,868	266,523	3,345	1%	\$28.9k relocation and \$13.5k in education, both budgeted in HR, offset by lower medical and life benefits due to changes in plans after the budget was developed
Savings & Retirement	216,338	313,237	(96,899)	-31%	Changes to NERC's retirement plan implemented after the budget was developed
<b>Total Personnel Expenses</b>	<b>2,974,961</b>	<b>2,911,090</b>	<b>63,870</b>	<b>2%</b>	
Meeting Expenses					
Meetings	106,285	47,500	58,785	124%	\$10K for Basic Sponsorship of Electric Infrastructure Security Council Summit in London; \$17.6K modeling workshop and \$10.6K root cause analysis workshops were not budgeted items; also includes \$26.5k in expenses of the Planning Committee meetings which were budgeted in another department
Travel	345,150	369,375	(24,225)	-7%	Less travel due to consolidation of department staff in the Atlanta office with fewer telecommuters
Conference Calls	25,478	31,950	(6,472)	-20%	Reduced pricing negotiated with the vendor during 2012
<b>Total Meeting Expenses</b>	<b>476,912</b>	<b>448,825</b>	<b>28,087</b>	<b>6%</b>	
Operating Expenses					
Consultants and Contracts	989,587	998,000	(8,413)	-1%	
Rent & Improvements	-	-	-	-	
Office Costs	160,463	93,676	66,787	71%	Annual maintenance of \$31k for SAS Institute software not budgeted; \$19.6k Ventyx software not budgeted in 2012; \$16k higher cell phone and internet expenses; offset by under budget spend for other Office Costs
Professional Services	-	-	-	-	
Miscellaneous	361	4,000	(3,639)	-91%	Employee recognition and other miscellaneous expenses less than anticipated
Depreciation	45,966	17,160	28,806	168%	Depreciation associated with the purchase of laptops for new employees and new server for SAS software, budgeted in Information Technology
<b>Total Operating Expenses</b>	<b>1,196,378</b>	<b>1,112,836</b>	<b>83,542</b>	<b>8%</b>	
Other Non-Operating Expenses	-	-	-	-	
Indirect Expenses	3,179,122	2,656,316	522,806	20%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>7,827,374</b>	<b>7,129,068</b>	<b>698,306</b>	<b>10%</b>	
<b>Net Change in Assets</b>	<b>(994,928)</b>	<b>(125,208)</b>	<b>(869,720)</b>	<b>695%</b>	
Fixed Assets					
Depreciation	(45,966)	(17,160)	(28,806)		New server to support SAS software and four new computers and the associated depreciation were budgeted in Information Technology
Computer & Software CapEx	26,025	-	26,025		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
Allocation of Fixed Assets	(163,576)	(108,047)	(55,529)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(183,517)</b>	<b>(125,207)</b>	<b>(58,310)</b>	<b>47%</b>	
<b>Total Expenses and Incr(Dec) in Fixed</b>	<b>7,643,857</b>	<b>7,003,861</b>	<b>639,996</b>	<b>9%</b>	
<b>Change in Working Capital</b>	<b>(811,411)</b>	<b>(1)</b>	<b>(811,410)</b>		
FTE's	16.56	16.50	0.06	0%	

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<b>Training, Education and Operator Certification</b>	<b>2012 Actual</b>	<b>2012 Budget</b>	<b>Actual Variance from Budget Over(Under)</b>	<b>%</b>	<b>Comments (Explain variances &gt; +/- 10%)</b>
<b>Funding</b>					
Assessments	916,083	916,083	-	0%	
Penalties		-	-		
Testing	2,057,383	2,061,000	(3,617)	0%	
Services & Software			-		
Workshop Fees			-		
Interest	783	1,047	(264)	-25%	
Miscellaneous	122		122		
<b>Total Funding</b>	<b>2,974,371</b>	<b>2,978,130</b>	<b>(3,759)</b>	<b>0%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	818,826	879,334	(60,507)	-7%	Due to timing of new hires and lower average costs per FTE than budgeted
Payroll Taxes	52,695	57,024	(4,329)	-8%	
Employee Benefits	132,780	108,673	24,107	22%	Lower costs for health and life benefits as a result of changes to NERC's plans after the budget was developed were offset by education and relocation expenses that were budgeted in HR.
Savings & Retirement	81,207	119,778	(38,571)	-32%	Changes to NERC's retirement plan implemented after the budget was developed
<b>Total Personnel Expenses</b>	<b>1,085,508</b>	<b>1,164,809</b>	<b>(79,301)</b>	<b>-7%</b>	
<b>Meeting Expenses</b>					
Meetings	31,944	4,450	27,494	618%	The Personnel Certification Governance Committee (PCGC) and Personnel Subcommittee coordinated meetings with the OC-PC-CIPC meetings at hotels. In prior years, meetings were held in Stakeholder facilities at a lower cost.
Travel	57,346	48,000	9,346	19%	Increased travel by NERC staff to meet with the PCGC
Conference Calls	33,384	58,100	(24,716)	-43%	Reduced pricing negotiated with the vendor during 2012
<b>Total Meeting Expenses</b>	<b>122,674</b>	<b>110,550</b>	<b>12,124</b>	<b>11%</b>	
<b>Operating Expenses</b>					
Consultants and Contracts	755,236	596,448	158,788	27%	Primarily related to the upgrade of the System Operator Certification and Continuing Education Database that was not budgeted but was funded from fees collected in 2012 and prior years.
Rent & Improvements		-	-		
Office Costs	92,892	63,600	29,292	46%	\$17k merchant card fees; \$2k AMA membership not budgeted. \$9.8k Cellular and air card charges higher than budgeted.
Professional Services	(102)	-	(102)		
Miscellaneous	(356)	250	(606)	-242%	
Depreciation		-	-		
<b>Total Operating Expenses</b>	<b>847,671</b>	<b>660,298</b>	<b>187,373</b>	<b>28%</b>	
<b>Other Non-Operating Expenses</b>					
Indirect Expenses	1,307,357	1,086,675	220,682	0%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>3,363,209</b>	<b>3,022,332</b>	<b>340,877</b>	<b>11%</b>	
<b>Net Change in Assets</b>	<b>(388,838)</b>	<b>(44,202)</b>	<b>(344,636)</b>	<b>780%</b>	
<b>Fixed Assets</b>					
Depreciation	0	0	-		
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(67,268)	(44,201)	(23,067)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(67,268)</b>	<b>(44,201)</b>	<b>(23,067)</b>	<b>52%</b>	
<b>Total Expenses and Incr(Dec) in Fixed Assets</b>	<b>3,295,941</b>	<b>2,978,131</b>	<b>317,810</b>	<b>11%</b>	
<b>Change in Working Capital</b>	<b>(321,570)</b>	<b>(1)</b>	<b>(321,569)</b>		
<b>FTE's</b>	<b>6.81</b>	<b>6.75</b>	<b>0.06</b>	<b>1%</b>	The PCGC approved hiring a new staff position in 2012 approved in the 2013 budget to support the needs of the program.

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Events Analysis and Investigations (Partial Year)	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
<b>Funding</b>					
Assessments	5,073,333	5,073,333	0	0%	
Penalties		-	-		
Testing			-		
Services & Software			-		
Workshop Fees	68,850		68,850		Improving Human Performance workshop was not budgeted
Interest	1,386	2,016	(630)	-31%	
Miscellaneous	216		216		
<b>Total Funding</b>	<b>5,143,785</b>	<b>5,075,349</b>	<b>68,437</b>	<b>1%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,672,745	1,943,198	(270,452)	-14%	Fewer FTEs on staff than budgeted and staff responsible for Compliance Investigations transferred to Compliance Operations during the 4th quarter
Payroll Taxes	115,543	125,163	(9,620)	-8%	Due to fewer FTEs on staff and a lower cap on earnings subject to FICA than assumed when the budget was prepared
Employee Benefits	208,544	212,843	(4,299)	-2%	
Savings & Retirement	175,017	278,926	(103,909)	-37%	Changes to NERC's retirement plan implemented after the budget was developed
<b>Total Personnel Expenses</b>	<b>2,171,849</b>	<b>2,560,130</b>	<b>(388,280)</b>	<b>-15%</b>	
<b>Meeting Expenses</b>					
Meetings	85,627	10,000	75,627	756%	Primarily due to Human Performance workshop which was not budgeted, but also due to meetings of the Planning Committee which were budgeted in another department
Travel	184,877	395,000	(210,123)	-53%	Less travel required than estimated at the time the budget was developed and due to the transfer of Compliance Investigations staff to Compliance Operations in Q4
Conference Calls	9,473	-	9,473		The cost of conference calls for Events Analysis was not tracked prior to 2012, but were included in the budget for Compliance Operations. Beginning in 2013, actual and budgeted costs for Events Analysis conferencing and webinars will be reported.
<b>Total Meeting Expenses</b>	<b>279,976</b>	<b>405,000</b>	<b>(125,024)</b>	<b>-31%</b>	
<b>Operating Expenses</b>					
Consultants and Contracts	133,607	120,000	13,607	11%	Primarily due to outside consulting support related to analysis of the September 2011 southwest blackout
Rent & Improvements		-	-		
Office Costs	42,008	31,614	10,394	33%	Primarily due to internet service for telecommuters which was higher than budgeted
Professional Services			-		
Miscellaneous	86	2,000	(1,914)	-96%	Employee recognition and miscellaneous expenses less than anticipated
Depreciation			-		
<b>Total Operating Expenses</b>	<b>175,702</b>	<b>153,614</b>	<b>22,088</b>	<b>14%</b>	
<b>Other Non-Operating Expenses</b>					
Indirect Expenses	2,315,230	2,041,732	273,498	13%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>4,942,757</b>	<b>5,160,476</b>	<b>(217,719)</b>	<b>-4%</b>	
<b>Net Change in Assets</b>	<b>201,028</b>	<b>(85,127)</b>	<b>286,155</b>	<b>-336%</b>	
<b>Fixed Assets</b>					
Depreciation	0	0	-		
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(119,126)	(85,128)	(33,998)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(119,126)</b>	<b>(85,128)</b>	<b>(33,998)</b>	<b>40%</b>	
<b>Total Expenses and Incr(Dec) in Fixed</b>	<b>4,823,631</b>	<b>5,075,348</b>	<b>(251,717)</b>	<b>-5%</b>	
<b>Change in Working Capital</b>	<b>320,154</b>	<b>1</b>	<b>320,153</b>		
FTE's	12.06	13.00	(0.94)	-7%	

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SITUATION AWARENESS	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
Funding					
Assessments	6,974,096	6,974,096	(0)	0%	
Penalties		-	-		
Testing			-		
					FIST Royalties and TSIN fees are not budgeted due to uncertainty of the amount collected in the year
Services & Software	17,524		17,524		
Workshop Fees	157,125	44,500	112,625	253%	NASPI workshop fees more than anticipated
Interest	568	3,902	(3,334)	-85%	
Miscellaneous	89		89		
<b>Total Funding</b>	<b>7,149,401</b>	<b>7,022,498</b>	<b>126,903</b>	<b>2%</b>	
Expenses					
Personnel Expenses					
Salaries	580,200	1,029,015	(448,815)	-44%	Lower salaries and payroll tax expense due to having fewer FTE's on staff than budgeted
Payroll Taxes	43,814	68,901	(25,087)	-36%	
Employee Benefits	142,360	131,509	10,852	8%	Medical and life benefits \$38.3k under budget due to fewer FTEs and changes to NERC's benefit plans that were implemented after the budget was developed; offset by \$49.1k in costs for education and relocation benefits that were budgeted in HR
Savings & Retirement	32,573	142,882	(110,310)	-77%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>798,947</b>	<b>1,372,307</b>	<b>(573,360)</b>	<b>-42%</b>	
Meeting Expenses					
					Meeting expense was \$45k under budget because the cost of quarterly OC-PC-CIPC meetings budgeted in this department but actuals were charged to Compliance Operations (OC), RAPA (PC) and CIP (CIPC). This under budget variance was offset by higher workshop expenses related to NASPI. NASPI workshop expenses were almost entirely funded by fees.
Meetings	172,328	149,070	23,258	16%	
Travel	32,377	131,000	(98,623)	-75%	Less travel required than expected and fewer FTEs on staff
Conference Calls	3,570	24,175	(20,605)	-85%	Prior to 2012, the cost of conference calls and webinars was included with Situation Awareness (SA). The 2012 budget estimated the spend for SA and CIP, but the allocation was not accurate. The SA program was \$20.6k under budget. The (2) programs combined were approximately \$6.3k under budget for conference calls.
<b>Total Meeting Expenses</b>	<b>208,275</b>	<b>304,245</b>	<b>(95,970)</b>	<b>-32%</b>	
Operating Expenses					
					NASPI contract over budget \$238.3k; SAFNR is \$175.5k over budget; IDC \$286.3k over budget ; Frame Relay over budget \$296.4K; Alerts tool \$132.0k under budget; various reliability monitoring tools \$45.0k under budget. Refer to page 4 of the cover memo for a detailed explanation of variances by contract.
Consultants and Contracts	4,407,508	3,588,116	819,392	23%	
Rent & Improvements			-		
Office Costs	35,797	50,950	(15,153)	-30%	Related to having fewer FTEs on staff than budgeted.
Professional Services	20,598		20,598		Outside counsel to assist with SAFNR and IDC contracts. Outside counsel is budgeted in the Legal Department.
Miscellaneous		1,500	(1,500)	-100%	Employee recognition and other miscellaneous expenses were not incurred. The budget included an estimate for CID. Actual amount incurred by CID recorded in the CID department.
Depreciation	43,952	47,853	(3,901)	-8%	
<b>Total Operating Expenses</b>	<b>4,507,854</b>	<b>3,688,419</b>	<b>819,435</b>	<b>22%</b>	
Other Non-Operating Expenses					
Indirect Expenses	948,361	1,777,691	(829,330)	-47%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>6,463,438</b>	<b>7,142,662</b>	<b>(679,224)</b>	<b>-10%</b>	
<b>Net Change in Assets</b>	<b>685,963</b>	<b>(120,164)</b>	<b>806,127</b>	<b>-671%</b>	
Fixed Assets					
Depreciation	(43,952)	(47,853)	3,901	-8%	
Computer & Software CapEx			-		
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(48,796)	(72,310)	23,514		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(92,748)</b>	<b>(120,163)</b>	<b>27,415</b>	<b>-23%</b>	
<b>Total Expenses and Incr(Dec) in Fixed Assets</b>	<b>6,370,691</b>	<b>7,022,499</b>	<b>(651,808)</b>	<b>-9%</b>	
<b>Change in Working Capital</b>	<b>778,711</b>	<b>(1)</b>	<b>778,711</b>		
FTE's	4.94	8.17	(3.23)	-40%	

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<b>Critical Infrastructure Protection and Cyber Security</b>	<b>2012</b>	<b>2012</b>	<b>Actual</b>	<b>Variance from</b>	<b>%</b>	<b>Comments (Explain variances &gt; +/- 10%)</b>
	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>			
<b>Funding</b>						
Assessments	7,396,148	7,396,148		(0)	0%	
Penalties		-		-		
Testing				-		
Services & Software				-		
Workshop Fees	126,200		126,200			The Grid Security Conference was not budgeted. These fees offset unbudgeted expenses recorded under Meetings expense below.
Interest	1,803		1,803			
Miscellaneous	281		281			
<b>Total Funding</b>	<b>7,524,433</b>	<b>7,396,148</b>	<b>128,284</b>		<b>2%</b>	
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	2,497,997	2,946,168		(448,171)	-15%	Fewer FTE's on staff and lower annual increase than budget
Payroll Taxes	152,405	169,764		(17,359)	-10%	Fewer FTEs on staff and lower maximum taxable salary for FICA
Employee Benefits	243,186	280,269		(37,083)	-13%	Changes to NERC's health and life benefit plans that were implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	225,534	409,489		(183,954)	-45%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>3,119,122</b>	<b>3,805,690</b>	<b>(686,568)</b>		<b>-18%</b>	
<b>Meeting Expenses</b>						
Meetings	192,132	104,570		87,562	84%	The cost of CIPC meetings were less than budgeted, offset by the Grid Security Conference which was not budgeted. The cost of the Grid Sec. Conf is offset by collected Workshop Fees which also were not budgeted.
Travel	332,504	440,000		(107,496)	-24%	Fewer FTEs on staff than budgeted and less travel than planned
Conference Calls	38,339	24,000		14,339	60%	Prior to 2012, the cost of conference calls and webinars was included with Situation Awareness (SA). The 2012 budget estimated the spend for SA and CIP, but the allocation was not accurate. The SA program was \$20.6k under budget. The (2) programs combined were approximately \$6.3k under budget for conference calls.
<b>Total Meeting Expenses</b>	<b>562,974</b>	<b>568,570</b>	<b>(5,596)</b>		<b>-1%</b>	
<b>Operating Expenses</b>						
Consultants and Contracts	533,926	795,000		(261,074)	-33%	ES-ISAC under budget \$213.6k, but \$59.0k of the annual budget was used for Ventyx software maintenance and a Amenza Secure Tree software license which were not budgeted and are recorded under Office Costs and Fixed Assets, respectively. Contract and consultant support for ESCC, cyber risk preparedness assessment and NIST/DOE risk guidelines were collectively \$47.5k under budget.
Rent & Improvements				-		
Office Costs	76,425	45,000		31,425	70%	Cell phone and air card use over budget \$23.8k; maintenance agreements over budget \$21.5k related to Ventyx software; offset by \$12k under budget spending for subscriptions
Professional Services				-		
Miscellaneous	550		550			Employee recognition and other miscellaneous expenses were budgeted in Situation Awareness and were not allocated proportionally to CID. Actual amount incurred by CID recorded in the CID department.
Depreciation	7,468		7,468			Depreciation for Amenza software license which was not budgeted
<b>Total Operating Expenses</b>	<b>618,369</b>	<b>840,000</b>	<b>(221,631)</b>		<b>-26%</b>	
<b>Other Non-Operating Expenses</b>						
Indirect Expenses	3,012,103	2,274,398		737,705	32%	Refer to page 7 of the cover letter for an explanation of this variance.
<b>Total Expenses</b>	<b>7,312,568</b>	<b>7,488,658</b>	<b>(176,090)</b>		<b>-2%</b>	
<b>Net Change in Assets</b>	<b>211,864</b>	<b>(92,510)</b>	<b>304,374</b>		<b>-329%</b>	
<b>Fixed Assets</b>						
Depreciation	(7,468)	0		(7,468)		37.5k Amenza software for ES-ISAC not budgeted; 5 new laptops budgeted in Information Technology
Computer & Software CapEx	48,066		48,066			
Furniture & Fixtures CapEx				-		
Equipment CapEx				-		
Leasehold Improvements				-		
Allocation of Fixed Assets	(154,982)	(92,510)		(62,472)		Refer to page 7 of the cover letter for an explanation of this variance.
<b>Incr(Dec) in Fixed Assets</b>	<b>(114,384)</b>	<b>(92,510)</b>	<b>(21,874)</b>		<b>24%</b>	
<b>Total Expenses and Incr(Dec) in Fixed Assets</b>	<b>7,198,184</b>	<b>7,396,148</b>	<b>(197,964)</b>		<b>-3%</b>	
<b>Change in Working Capital</b>	<b>326,248</b>	<b>0</b>	<b>326,248</b>			
<b>FTE's</b>	<b>15.69</b>	<b>17.00</b>		<b>(1.31)</b>	<b>-8%</b>	

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General and Administrative	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
<b>Funding</b>					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,861,223	1,561,192	300,031	19%	Salaries and payroll taxes were over budget due to 2 FTEs transferring in
Payroll Taxes	83,209	67,331	15,878	24%	from other departments
Employee Benefits	213,649	208,279	5,370	3%	The cost of having additional FTEs over budget was offset by reductions in benefits costs related to changes to NERC's plans that were not known at the time the budget was developed.
Savings & Retirement	(102,824)	236,295	(339,119)	-144%	Changes to NERC's retirement plan that were not known at the time the budget was developed and forfeiture of unvested defined contributions due to personnel attrition
<b>Total Personnel Expenses</b>	<b>2,055,257</b>	<b>2,073,097</b>	<b>(17,840)</b>	<b>-1%</b>	
<b>Meeting Expenses</b>					
Meetings	216,765	224,000	(7,235)	-3%	The cost of quarterly Board of Trustee meetings were \$25.0k under budget, offset by meeting expenses of the ERO EMG which were more than budgeted
Travel	327,519	265,120	62,399	24%	More FTEs on staff than budgeted and increased travel expenses for the Board of Trustees to attend Regional Board meetings and industry group meetings which were not included in the budget
Conference Calls	40,841	57,500	(16,659)	-29%	Reduced pricing negotiated with the vendor during 2012
<b>Total Meeting Expenses</b>	<b>585,126</b>	<b>546,620</b>	<b>38,506</b>	<b>7%</b>	
<b>Operating Expenses</b>					
Consultants and Contracts	-	-	-		
Rent & Improvements	2,593,291	2,304,257	289,034	13%	2012 actual includes straight-line lease expense, straight-line amortization of cash contribution negotiated as part of the new DC office lease, amortization of the refund of excess tenant improvement allowances in Atlanta and DC and the offset of monthly sublease income from Princeton and former DC office space. When the budget was prepared, it was assumed the entire cash contribution would offset rent expense in 2012 only and it was assumed that the refund of the excess tenant improvement allowance would offset fixed asset expenditures.
Office Costs	391,930	480,500	(88,570)	-18%	Under budget due to reclassification of leases for network copiers to capital leases. As a capital lease obligation, expenses are recorded under depreciation and interest expense. (Refer to page 6 of the cover letter for further explanation.)
Professional Services	1,292,822	1,130,000	162,822	14%	BOT search fee over budget \$85.3k due to search for 2 Trustees versus 1 which was planned; commercial insurance \$50.9k over budget due to increase in assets; outside services fees related to payroll were \$33.2k over budget due to being budgeted in Finance. Finance was under budget in this expense category.
Miscellaneous	1,211	10,000	(8,789)	-88%	The company did not sponsor a holiday party for employees. Other miscellaneous and employee recognition expenses were less than budgeted.
Depreciation	550,418	255,775	294,643	115%	
<b>Total Operating Expenses</b>	<b>4,829,672</b>	<b>4,180,532</b>	<b>649,140</b>	<b>16%</b>	
Other Non-Operating Expenses	(48,123)	-	(48,123)		\$9.6k DC office moving; \$51K property tax expenses; offset by \$2.5 gain from sale of assets; less adjustment to AR reserve \$113k
Indirect Expenses	(7,421,932)	(6,800,249)	(621,683)	0%	
<b>Total Expenses</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>0%</b>	
<b>Net Change in Assets</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0%</b>	

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<b>General and Administrative</b>	<b>2012</b>	<b>2012</b>	<b>Actual Variance</b>		
	<b>Actual</b>	<b>Budget</b>	<b>from Budget</b>	<b>Over(Under)</b>	<b>%</b>
					<b>Comments (Explain variances &gt; +/- 10%)</b>
Fixed Assets					
Depreciation	(550,418)	(255,775)	(294,643)		
Computer & Software CapEx	4,309	-	4,309		New laptop budgeted in Information Technology
Furniture & Fixtures CapEx	212	-	212		
Equipment CapEx	-	-	-		
Leasehold Improvements	145,849	-	145,849		The cost of leasehold improvements in the Atlanta and DC offices which were completed in 2011 but not recorded until 2012 pending final reconciliation of the tenant improvement allowance following completion of all construction.
Allocation of Fixed Assets	400,048	255,775	144,272		
Incr(Dec) in Fixed Assets	<u>0</u>	<u>0</u>	<u>(1)</u>	<u>0%</u>	
Total Expenses and Incr(Dec) in Fixed Assets	0	-	(1)	0%	
Change in Working Capital	<u>(0)</u>	<u>-</u>	<u>1</u>		
FTE's	8.84	7.00	1.84	26%	2 transfers in from other departments

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LEGAL and REGULATORY	2012 Actual	2012 Budget	Actual Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10%)
<b>Funding</b>					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
<b>Total Funding</b>	-	-	-		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	2,327,332	2,317,740	9,592	0%	
Payroll Taxes	121,213	118,966	2,246	2%	
Employee Benefits	222,621	249,428	(26,807)	-11%	Changes to NERC's health and life benefit plans that were implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	182,937	327,545	(144,607)	-44%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
<b>Total Personnel Expenses</b>	<b>2,854,102</b>	<b>3,013,679</b>	<b>(159,577)</b>	<b>-5%</b>	
<b>Meeting Expenses</b>					
Meetings	3,548	5,000	(1,452)	-29%	
Travel	100,922	74,000	26,922	36%	Increased in travel due to attendance at drafting team meetings and onsite compliance audits of regional entities
Conference Calls	4,077	3,200	877	27%	
<b>Total Meeting Expenses</b>	<b>108,546</b>	<b>82,200</b>	<b>26,346</b>	<b>32%</b>	
<b>Operating Expenses</b>					
Consultants and Contracts	113,022	141,750	(28,728)	-20%	The contract for external affairs related to Canada was less than estimated in the budget.
Rent & Improvements		-	-		
Office Costs	65,424	32,915	32,509	99%	Cellular, air card charges, computer supplies, subscriptions, and dues were higher than budgeted.
Professional Services	951,407	750,000	201,407	27%	Legal fees related to outside counsel expenses incurred in connection with the FERC audit were \$469.5k and were not budgeted, offset by lower than budgeted outside counsel expenses related to other NERC matters;
Miscellaneous	899	750	149	20%	
Depreciation	157		157		Depreciation for laptop budgeted in Information Technology
<b>Total Operating Expenses</b>	<b>1,130,908</b>	<b>925,415</b>	<b>205,493</b>	<b>22%</b>	
<b>Other Non-Operating Expenses</b>					
Indirect Expenses	(4,093,557)	(4,021,294)	(72,263)	0%	
<b>Total Expenses</b>	<b>-</b>	<b>(0)</b>	<b>0</b>	<b>0%</b>	
<b>Net Change in Assets</b>	<b>-</b>	<b>0</b>	<b>(0)</b>	<b>0%</b>	
<b>Fixed Assets</b>					
Depreciation	(157)	0	(157)		
Computer & Software CapEx	9,064		9,064		New laptop computers which were budgeted in Information Technology.
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(8,907)	-	(8,907)		
<b>Incr(Dec) in Fixed Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Total Expenses and Incr(Dec) in Fixed</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0%</b>	
<b>Change in Working Capital</b>	<b>(0)</b>	<b>0</b>	<b>0</b>		
<b>FTE's</b>	<b>12.95</b>	<b>13.00</b>	<b>(0.05)</b>	<b>0%</b>	



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INFORMATION TECHNOLOGY	2012 Actual	2012 Budget	Actual from Budget Over(Under)	Variance %	Comments (Explain variances > +/- 10%)
<b>Funding</b>					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
<b>Total Funding</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,742,234	1,412,180	330,054	23%	Salaries and Payroll Taxes were higher than budget due to having more FTE's on staff than budgeted.
Payroll Taxes	121,992	100,329	21,663	22%	More FTEs on staff than budgeted, offset by lower benefits costs related to changes in NERC's benefit plans that were not known when the budget was developed.
Employee Benefits	215,917	204,053	11,864	6%	Changes to NERC's retirement plan that were not known at the time the budget was developed. Due to the timing of hiring which affects eligibility, the additional FTEs on staff did not increase expense for the discretionary contribution.
Savings & Retirement	<u>127,641</u>	<u>203,123</u>	<u>(75,482)</u>	<u>-37%</u>	
<b>Total Personnel Expenses</b>	<u>2,207,785</u>	<u>1,919,685</u>	<u>288,100</u>	<u>15%</u>	
<b>Meeting Expenses</b>					
Meetings	4,879	-	4,879		A meeting of the newly formed Information Technology Steering Group was not budgeted
Travel	77,295	26,750	50,545	189%	Additional travel between DC, Atlanta and Princeton offices which was not anticipated when the budget was developed
Conference Calls	<u>4,906</u>	<u>4,800</u>	<u>106</u>	<u>2%</u>	
<b>Total Meeting Expenses</b>	<u>87,080</u>	<u>31,550</u>	<u>55,530</u>	<u>176%</u>	
<b>Operating Expenses</b>					
Consultants and Contracts	1,604,107	1,418,000	186,107	13%	Primarily due to the use of outside contractors to manage numerous critical projects supporting operating area needs during periods of staff vacancies. Details provided in the cover letter.
Rent & Improvements	920	-	920		Maintenance fee related to building security
Office Costs	1,997,590	1,898,470	99,120	5%	Internet expenses were \$344.2k over budget due to the delay in relocating all applications from the Princeton data center to Atlanta; offset by \$282.2K under budget spending in computer, maintenance & service agreements, and software expenses.
Professional Services	2,550	-	2,550		Support from the audio visual supplier for a large meeting to ensure the technology performance and provide onsite staff training on new equipment was not budgeted.
Miscellaneous	458	1,600	(1,142)	-71%	
Depreciation	<u>1,300,412</u>	<u>1,360,276</u>	<u>(59,864)</u>	<u>-4%</u>	
<b>Total Operating Expenses</b>	<u>4,906,037</u>	<u>4,678,346</u>	<u>227,691</u>	<u>5%</u>	
<b>Other Non-Operating Expenses</b>					
	<u>10,249</u>	<u>-</u>	<u>10,249</u>		\$7.9k to relocate servers from Princeton to Atlanta; \$2.3k loss on two laptops that were stolen.
Indirect Expenses	<u>(7,211,151)</u>	<u>(6,629,581)</u>	<u>(581,570)</u>	<u>9%</u>	
<b>Total Expenses</b>	<u>0</u>	<u>(0)</u>	<u>0</u>	<u>0%</u>	
<b>Net Change in Assets</b>	<u>(0)</u>	<u>0</u>	<u>(0)</u>	<u>0%</u>	
<b>Fixed Assets</b>					
Depreciation	(1,300,412)	(1,360,276)	59,864		
Computer & Software CapEx	310,804	772,090	(461,286)		The budget for computers, software and network equipment was not allocated between the (2) categories. Laptops for new employees and replacements for older equipment were all budgeted in IT, but were charged to various departments when purchased. In total, NERC was \$113.7k under budget in these (2) categories, primarily related to budgeted software licensing costs that were not required.
Furniture & Fixtures CapEx			-		
Equipment CapEx	223,041		223,041		
Leasehold Improvements			-		
Allocation of Fixed Assets	766,568	588,186	178,382		
<b>Incr(Dec) in Fixed Assets</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0%</u>	
<b>Assets</b>	<u>0</u>	<u>(0)</u>	<u>-</u>	<u>0%</u>	
<b>Change in Working Capital</b>	<u>(0)</u>	<u>0</u>	<u>-</u>		
<b>FTE's</b>	15.34	12.75	2.59	20%	3 transfers in from other departments

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HUMAN RESOURCES	Actual Variance				Comments (Explain variances > +/- 10%)
	2012 Actual	2012 Budget	from Budget Over(Under)	%	
Funding					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
Total Funding	-	-	-		
Expenses					
Personnel Expenses					
Salaries	638,495	711,539	(73,044)	-10%	Salaries and payroll taxes were under budget due having 2 fewer FTEs on staff which were transferred to other departments. The under budget variance for salaries expense was offset by higher use of temporary office services than budgeted.
Payroll Taxes	29,905	37,353	(7,448)	-20%	Fewer FTEs on staff, lower benefits costs due to changes in NERC's benefit plans that were not known when the budget was prepared and due to education and relocation expenses, which are budgeted in HR but are charged to the employee's home department.
Employee Benefits	83,309	294,372	(211,063)	-72%	Changes to NERC's retirement plan implemented after the budget was developed and fewer FTEs on staff than budgeted
Savings & Retirement	48,048	70,798	(22,750)	-32%	
Total Personnel Expenses	799,758	1,114,063	(314,305)	-28%	
Meeting Expenses					
Meetings	644	11,385	(10,741)	-94%	Additional travel between the DC and Atlanta offices which was not anticipated when the budget was developed.
Travel	18,648	7,000	11,648	166%	
Conference Calls	3,009	600	2,409	402%	
Total Meeting Expenses	22,302	18,985	3,317	17%	
Operating Expenses					
Consultants and Contracts	569,643	290,000	279,643	96%	Due to additional compensation and benefit consulting services which were not specifically budgeted in 2012 and were undertaken, in part, in connection with the FERC audit, as well as higher than budgeted executive recruiting costs related to the search for a Chief Operating Officer and a Vice-President of Reliability Assessments and Performance Analysis.
Rent & Improvements		-	-		
Office Costs	39,278	13,094	26,184	200%	Primarily related to maintenance of skillsoft software which was not budgeted and higher than expected express shipping and telephone expenses, offset by lower than expected dues and subscription expenses.
Professional Services	22,353	5,000	17,353	347%	Related to legal fees which are budgeted in legal department; higher than budgeted fees for the HRIS and outside services fees associated with new benefit plans that were not known when the budget was developed.
Miscellaneous	2,223	3,000	(777)	-26%	
Depreciation	1,289		1,289		Depreciation related to performance management software license that was not budgeted
Total Operating Expenses	634,787	311,094	323,693	104%	
Other Non-Operating Expenses		-	-		
Indirect Expenses	(1,456,847)	(1,444,142)	(12,705)	1%	
Total Expenses	0	(0)	0	0%	
Net Change in Assets	(0)	0	(0)	0%	
Fixed Assets					
Depreciation	(1,289)	0	(1,289)		
Computer & Software CapEx	11,600		11,600		Performance management software that was not budgeted
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(10,311)	-	(10,311)		
Incr(Dec) in Fixed Assets	0	0	0		
Total Expenses and Incr(Dec) in Fixed Assets	0	(0)	0		
Change in Working Capital	(0)	0	(0)		
FTE's	4.00	6.00	(2.00)	-33%	2 transfers to other departments

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<b>FINANCE and ACCOUNTING</b>	<b>2012</b>	<b>2012</b>	<b>Actual</b>	<b>Variance</b>	
	<b>Actual</b>	<b>Budget</b>	<b>from Budget</b>	<b>%</b>	<b>Comments (Explain variances &gt; +/- 10%)</b>
			<b>Over(Under)</b>		
<b>Funding</b>					
Assessments			-		
Penalties			-		
Testing			-		
Services & Software			-		
Workshop Fees			-		
Interest			-		
Miscellaneous			-		
<b>Total Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
					More FTEs on staff than budgeted, use of temporary office services which is budgeted in HR, and accrual of unused vacation expense which was not budgeted
Salaries	1,252,987	1,023,527	229,459	22%	
Payroll Taxes	71,636	64,896	6,740	10%	More FTEs on staff than budgeted
Employee Benefits	132,958	142,111	(9,153)	-6%	The cost of having additional FTEs over budget was offset by reductions in benefits costs related to changes to NERC's plans that were not known at the time the budget was developed.
Savings & Retirement	112,103	144,750	(32,646)	-23%	Changes to NERC's retirement plan that were not known at the time the budget was developed. Due to the timing of hiring which affects eligibility, the additional FTEs on staff did not increase expense for the discretionary contribution.
<b>Total Personnel Expenses</b>	<b>1,569,684</b>	<b>1,375,284</b>	<b>194,400</b>	<b>14%</b>	
<b>Meeting Expenses</b>					
					ERO EMG meeting related to common assumptions for 2013 budget and face-to-face meeting of FAC to discuss 2013 preliminary budget assumptions not budgeted.
Meetings	9,623	500	9,123	1825%	
Travel	52,774	40,000	12,774	32%	Additional travel by the Meeting Planner not anticipated.
Conference Calls	4,824	1,850	2,974	161%	
<b>Total Meeting Expenses</b>	<b>67,221</b>	<b>42,350</b>	<b>24,871</b>	<b>59%</b>	
<b>Operating Expenses</b>					
Consultants and Contracts	312,775	325,000	(12,225)	-4%	
Rent & Improvements		-	-		
Office Costs	39,576	8,790	30,786	350%	Cellular and air card charges higher than budgeted; software maintenance associated with fixed asset tracking software which was not budgeted
Professional Services	101,118	120,000	(18,882)	-16%	Primarily due to lower costs associated with the external audit of NERC's financial statements
Miscellaneous	140	100	40	40%	
Depreciation	834	771	63	8%	
<b>Total Operating Expenses</b>	<b>454,442</b>	<b>454,661</b>	<b>(219)</b>	<b>0%</b>	
<b>Other Non-Operating Expenses</b>	<b>140</b>	<b>-</b>	<b>140</b>		
<b>Indirect Expenses</b>	<b>(2,091,487)</b>	<b>(1,872,295)</b>	<b>(219,192)</b>	<b>0%</b>	
<b>Total Expenses</b>	<b>0</b>	<b>(0)</b>	<b>0</b>	<b>-1125%</b>	
<b>Net Change in Assets</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>	<b>-1125%</b>	
<b>Fixed Assets</b>					
Depreciation	(834)	(771)	(63)		
Computer & Software CapEx	2,113		2,113		Fixed asset tracking software that was not budgeted
Furniture & Fixtures CapEx			-		
Equipment CapEx			-		
Leasehold Improvements			-		
Allocation of Fixed Assets	(1,279)	771	(2,050)		
<b>Incr(Dec) in Fixed Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Total Expenses and Incr(Dec) in Fixed</b>	<b>1</b>	<b>(0)</b>	<b>0</b>		
<b>Change in Working Capital</b>	<b>(1)</b>	<b>0</b>	<b>(0)</b>		
<b>FTE's</b>	<b>10.67</b>	<b>9.00</b>	<b>1.67</b>	<b>19%</b>	1 transfer in from another department and 1 addition that was not budgeted

Financial Statements and Report of  
Independent Certified Public Accountants

**North American Electric Reliability Corporation**

December 31, 2012

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## **Report of Independent Certified Public Accountants**

To the Board of Trustees of  
North American Electric Reliability Corporation:

We have audited the accompanying financial statements of North American Electric Reliability Corporation (a New Jersey non-profit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

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



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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Electric Reliability Corporation as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of expenses shown on pages 14-15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Grant Thornton LLP*

Atlanta, Georgia

May 9, 2013

# Statement of Financial Position

**December 31, 2012**

**Assets**

Cash and cash equivalents	\$ 27,936,696
Accounts receivable, net of allowance for doubtful accounts of \$62,572	4,281,602
Prepaid expenses	888,087
Property and equipment, net	5,220,210
Security deposits	114,903
Cash surrender value of insurance policies	337,414
457b Plan Assets	118,243
Total assets	\$ 38,897,155

**Liabilities and net assets**

Accounts payable and accrued expenses	\$ 5,868,604
Deferred revenue	5,177,751
Regional assessments collected in advance	9,614,829
Deferred rent	3,741,537
Deferred compensation	739,588
Accrued retirement liabilities	1,409,548
Capital lease obligations	113,036
Total liabilities	26,664,893

**Net assets**

Unrestricted	9,719,762
Temporarily restricted	2,512,500
Total net assets	12,232,262
Total liabilities and net assets	\$ 38,897,155

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



# Statement of Activities

	For the Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
<b>Revenues:</b>			
NERC assessments	\$ 50,661,271	\$ -	\$ 50,661,271
Penalty income	-	100,000	100,000
Testing / fees	2,057,383	-	2,057,383
Services and software	129,618	-	129,618
Workshops	470,800	-	470,800
Rental Income	314,080	-	314,080
Interest	13,335	-	13,335
Gain on disposal of fixed assets	34	-	34
Miscellaneous revenues	2,081	-	2,081
Total revenues	<u>53,648,602</u>	<u>100,000</u>	<u>53,748,602</u>
<b>Expenses:</b>			
Salaries	23,391,982	-	23,391,982
Employee costs	4,096,501	-	4,096,501
Retirement and savings plans	1,793,528	-	1,793,528
Travel and meetings	3,616,022	-	3,616,022
Services	11,819,937	-	11,819,937
Rent	2,908,290	-	2,908,290
Office costs	1,829,606	-	1,829,606
Computer	1,284,025	-	1,284,025
Depreciation and amortization	2,144,184	-	2,144,184
Property tax expense	51,008	-	51,008
Provision for bad debts	(113,173)	-	(113,173)
Miscellaneous expenses	25,197	-	25,197
Interest	6,993	-	6,993
Total expenses	<u>52,854,100</u>	<u>-</u>	<u>52,854,100</u>
Change in net assets	794,502	100,000	894,502
<b>Net assets, beginning of year</b>	<u>8,925,260</u>	<u>2,412,500</u>	<u>11,337,760</u>
<b>Net assets, end of year</b>	<u>\$ 9,719,762</u>	<u>\$ 2,512,500</u>	<u>\$ 12,232,262</u>

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

# Statement of Cash Flows

## For the Year Ended December 31, 2012

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 894,502
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,144,184
Straight-line rent adjustment	1,583,373
Gain on disposal of fixed assets	(34)
Provision for bad debts	(113,173)
Change in value of insurance policies	(55,316)
Increase (decrease) in cash attributable to changes in operating assets and liabilities:	
Accounts receivable	(625,538)
Prepaid expenses	(336,246)
Receipt of funds for regional entities	115,437,437
Disbursements of funds to regional entities	(115,437,437)
Accounts payable and accrued expenses	(913,150)
Deferred income	2,533,575
Regional assessments collected in advance	4,939,801
Deferred compensation	26,716
Accrued retirement liabilities	(272,933)
Net cash provided by operating activities	9,805,761
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(804,411)
Proceeds from sales of property an equipment	2,381
Net cash used in investing activities	(802,030)
<b>Cash flows from financing activities</b>	
Capital lease payments	(83,185)
Net cash used in financing activities	(83,185)
Net increase in cash and cash equivalents	8,920,546
<b>Cash and cash equivalents, beginning of year</b>	<b>19,016,150</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 27,936,696</b>
<b>Supplemental disclosure of non-cash information:</b>	
Capital lease obligation for equipment	\$ 93,242
<b>Supplemental disclosure of cash paid:</b>	
Interest	\$ 6,993

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

# Notes to the Financial Statements

## 1 Organization and Nature of Business

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

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

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

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

Annually, the board of trustees approves an operating budget for the Corporation that includes a provision for operating reserves and which is recovered through assessments to a Load-Serving Entity ("LSE"). The Corporation assesses each LSE its proportional share of the operating budget based on "net energy for load". During 2012, the assessments to LSEs made up approximately 94% of the total funding for the Corporation. The Corporation also generates funding from the collection of fees charged for various services. These services include the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on various reliability matters.

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

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

## **2 Summary of Significant Accounting Policies**

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

The financial statements of the Corporation have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of December 31, 2012. Net assets totaling \$2,512,500 were temporarily restricted by FERC as of December 31, 2012 for use to offset future assessments.

### **Cash and Cash Equivalents**

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

### **Use of Estimates**

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

### **Revenue Recognition**

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

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

### **Deferred Revenue**

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

### **Accounts Receivable**

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

### Property and Equipment

Purchased property and equipment are capitalized at cost. Donated assets are capitalized at the fair market value of the assets on the date of contribution. The Corporation's minimum capitalization policy is for additions greater than \$2,000.

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

	<b>Years</b>
Software development	3 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, 2012, the Corporation has recorded accrued compensated absences of \$453,950 related to days earned, included with deferred compensation on the statement of financial position.

### Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from Federal income taxes under Section 501(c)(6) of the Internal Revenue Code. The Corporation is subject to income taxes on revenues related to unrelated business activities. The Corporation is subject to a proxy tax related to nondeductible lobbying and political expenses incurred. There was no proxy tax incurred in 2012.

The Corporation recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. The Corporation is no longer subject to federal and state tax examinations by the respective taxing authorities for the years prior to 2009. Tax years 2009 through 2012 remain subject to examination by major tax jurisdictions.

### Subsequent Events

The Corporation discloses material events that occur after the statement of financial position date but before financial statements are issued. In general, these events are recognized in the financial statements if the condition existed at the date of the statement of financial position, but are not recognized if the condition did not exist at the statement of financial position date. The Corporation discloses non-recognized events if required to keep the financial statements from being misleading. Management evaluated events occurring subsequent to December 31, 2012 through May 9, 2013, the date the financial statements were available for issuance, and determined that no subsequent event disclosures were required.

### 3 Property and Equipment

Property and equipment consist of the following at December 31:

<b>December 31, 2012</b>	
Software development	\$ 1,599,433
Furniture and equipment	7,269,259
Leasehold improvements	1,241,799
	<b>10,110,491</b>
Accumulated depreciation and amortization	<b>(4,890,281)</b>
	<b>\$ 5,220,210</b>

Depreciation and amortization expense for the year ended December 31, 2012 was \$2,144,184.

### 4 Line of Credit

The Corporation has a line of credit with a bank that expires in June 2013. The line of credit provides for up to \$4,000,000 of availability to be used for working capital needs. The line of credit accrues interest at prime plus 0.5% (3.25% at December 31, 2012). Total borrowings under the line of credit may not exceed 70% of the qualified accounts receivable. The line of credit is collateralized by all existing and future assets and subject to a filing under the Uniform Commercial Code. As part of the line of credit agreement, the Corporation must maintain \$400,000 in a non-interest bearing account with the lender. The \$400,000 is classified within cash and cash equivalents on the statement of financial position. There were no borrowings outstanding at December 31, 2012. At December 31, 2012, the available amount under the line of credit was reduced by open letters of credit totaling \$101,236 which represents security deposits for the Corporation's office lease agreements. Pursuant to the line of credit agreement, the Corporation is required to comply with financial covenants primarily related to minimum net asset requirements.

### 5 Penalty Income

The Corporation received \$100,000 of penalty income in 2012, which is temporarily restricted. The penalty income received in 2012 and 2011 will be utilized in 2013, in accordance with the timing of the receipt of the income and FERC's requirement for the use of penalty income to reduce assessments. During 2012, NERC did not transfer any penalty income from temporarily restricted net assets to unrestricted net assets.

### 6 Regional Assessments Collected in Advance

In addition to Corporation assessments billed to LSEs or designees, a regional assessment is also billed by the Corporation on behalf of the regional entities. The regional assessment is based on approved budgets of the eight regional entities and remitted to the regional entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSEs or designees before the regional assessments are due to the regional entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill in a subsequent period for any uncollected assessments. Regional assessments billed and remitted for 2012 were as follows:

<b>For the Year Ended December 31, 2012</b>	
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$110,280,847
Total regional assessments remitted to regional entities	<b>(110,147,242)</b>
Billings over remittances	<b>\$ 133,605</b>

As of December 31, 2012, regional assessments collected in advance for 2013 and not remitted to the regional entities totaled \$9,614,829.

## **7 Deferred Compensation**

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

During 2005, the Council entered into a deferred compensation agreement (the "Deferred Compensation Agreement") with a retiring executive that provided benefits to the individual upon reaching normal retirement age and was payable over a period selected by the retiring employee. Under certain circumstances, benefits were payable to his surviving spouse. The Corporation assumed the liabilities upon merger with the Council effective January 1, 2007. The present value of the estimated liability under the agreement at December 31, 2007 was accrued using a discount rate of 4.91%. The Corporation provided for some of the benefit funding through a variable universal life policy. Effective October 15, 2008, the Deferred Compensation Agreement was superseded by a new agreement. The variable universal life policy used to fund the liability, including the cash surrender value of the policy, was assigned and transferred to the retired executive in January 2009. In accordance with the new agreement, the Corporation will continue to pay the policy premiums through 2014. At December 31, 2012, the present value of the unfunded liability, using a discount rate of 0.75% was \$38,968, and is included in deferred compensation on the statement of financial position.

On October 15, 2008, the Corporation entered into various Executive Benefit Agreements (the "Agreements") with certain executives and the aforementioned retired executive. The Agreements supersede and replace all previous written or oral agreements between the Corporation and these executives. In accordance with the Agreements, while employed by the Corporation, the executives shall be provided with life insurance coverage, through individual and/or group policies, providing a death benefit equal to the lesser of three times base salary or \$500,000, or three times base salary depending upon the executives' employment date. The executives agreed to issue split dollar endorsement agreements with respect to such policies. The Corporation is the sole and exclusive owner of the executives' policies. All policy dividends shall be applied to purchase paid-up additional death benefits. One former and two executives employed as of December 31, 2012 have insurance policies, and the Corporation agreed to pay the premiums on these policies through December 31, 2013, provided the policies stay in force. Premium costs of the policies will be expensed as incurred during the remaining employment terms of the executives. At December 31, 2012, the cash surrender value of all remaining policies was \$337,414 and is included as an asset and deferred compensation on the statement of financial position since the policies will be transferred to the employees upon their termination of employment per the Agreements.

### **Deferred Compensation Plan**

The Corporation established a deferred compensation plan in 2012 in accordance with Internal Revenue Code Section 457 for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. The asset and liability for this deferred compensation plan of \$118,243 at December 31, 2012, is included in 457b Plan Assets and deferred compensation on the statement of financial position.

### **Retiree Medical Benefits**

Effective September 1, 2007, the board of trustees approved and adopted a policy to provide medical coverage for a very limited number of current retirees and any and all dependents and transition retirees and any and all dependents, as defined by the board resolution, up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. Assumptions used in recording the retiree medical benefits included the 2007 Social Security Administration Actuarial Period Life Table, annual inflation rate of 5% and discount rate of 8%. At December 31, 2012 the accrued retiree medical benefits liability was \$241,394 and is included in deferred compensation on the statement of financial position. The retiree medical expense related to this policy was \$22,170 for the year ended December 31, 2012.

## 8 Commitments

### Operating Leases

The Corporation leases office space in Princeton, New Jersey, Washington, D.C., and Atlanta, Georgia under non-cancellable lease agreements, with various expiration dates through 2023.

In 2012, the Corporation entered into an agreement to expand the amount of leased space in Atlanta, Georgia with an expiration date in 2023, which is coterminous with the term of the lease for the original premises.

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

Approximate future minimum payments on office lease space, net of rental income for sub-leased space, at December 31, 2012, for the next five years are as follows:

Years Ending December 31,	Leased Space	Sub-leased Space	Net
2013	\$ 3,025,000	\$ (289,000)	\$ 2,736,000
2014	2,966,000	(276,000)	2,690,000
2015	3,044,000	(286,000)	2,758,000
2016	3,123,000	(248,000)	2,875,000
2017	2,923,000	(50,000)	2,873,000
Thereafter	14,428,000	-	14,428,000
	\$ 29,509,000	\$ (1,149,000)	\$ 28,360,000

The office leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year. The Corporation has received tenant improvement allowances as of December 31, 2012 totaling \$2,256,634. The difference between rent expense calculated ratably over the lease term and rent paid according to the lease is recorded as a deferred rent obligation on the statement of financial position in the amount of \$3,741,537 at December 31, 2012, of which \$120,801 is expected to reverse during the year ended December 31, 2013.

Office rent expense, net of rental income of \$314,080, for the year ended December 31, 2012 was \$2,508,580.

### Capital Leases

The Corporation has entered into a capital lease agreements for office equipment. Depreciation expense related to these capital leases was \$65,407 for the year ended December 31, 2012.

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

December 31, 2012	
Copier leases	\$ 196,221
Accumulated depreciation	(85,431)
Net Book Value	\$ 110,790



The following is a schedule of future minimum lease payments under these capital leases, together with the future obligation net of interest and maintenance as of December 31, 2012:

Years ending December 31,	Future Minimum Payments
2013	\$ 83,249
2014	56,688
<b>Total Minimum Lease Payments</b>	<b>139,937</b>
<b>Less: Amounts representing interest and maintenance</b>	<b>(26,901)</b>
<b>Future Obligation net of Interest and Maintenance</b>	<b>\$ 113,036</b>

### Contractual Commitments

The Corporation has software license, maintenance support and data management service agreements with varying expiration dates through 2017. The following table is a schedule of future commitments under the terms of the agreements:

Years ending December 31,	Future Minimum Payments
2013	\$ 643,000
2014	196,000
2015	192,000
2016	197,000
2017	51,000
<b>Total Service Agreements</b>	<b>\$ 1,279,000</b>

## 9 Savings and Investment Plan

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible participating employees may elect to contribute up to the Internal Revenue Service Code 402(g) (1) limit. The Corporation contributes a 75% match of the participant's elective contribution, provided that the elective contribution does not exceed 6% of eligible compensation. The Corporation also makes a discretionary contribution equal to a percentage of the eligible compensation of all qualifying participants. The additional discretionary contributions are determined annually by the Board of Trustees and are subject to the limitation imposed by the Internal Revenue Service Code 401(a) (17). The Corporation's expenses related to the Plan for the years ended December 31, 2012 were \$1,793,528. The contributions accrued as of December 31, 2012 amounted to \$1,409,548 and are included in accrued retirement liabilities in the statement of financial position.

## 10 Concentration of Credit Risk

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

## 11 Functional Classification

The Corporation is required to provide information about expenses reported by their functional classification, which is a method of grouping expenses according to the purpose for which costs are incurred. The Corporation groups expenses by operational programs and by administrative programs as defined by FERC.

The following table shows the functional classification of expenses for the year ended December 31, 2012:

### For the Year Ended December 31, 2012

Operational Programs:	
Reliability Standards	\$ 4,392,836
Compliance and Organization Registration Certification	9,352,528
Reliability Assessment and Performance Analysis	4,648,251
Training and Education	2,055,853
Situation Awareness and Infrastructure Security	9,815,542
	30,265,010
Administrative Programs:	
General & Administrative	7,736,014
Legal and Regulatory	4,093,557
Information Technology	7,211,151
Human Resources	1,456,847
Finance and Accounting	2,091,487
	22,589,056
Total Expenses	\$ 52,854,066

# Supplemental Schedule of Expenses

**For the Year Ended December 31, 2012**

Employee costs:	
Payroll taxes (FICA, SUI, FUI, Medicare)	\$ 1,417,838
Employee benefits - medical	1,961,176
Employee benefits - life / disability	169,987
Employee benefits - officers' life	53,188
Insurance - workers' compensation	64,697
Relocation expenses	201,182
Educational	228,433
	<b>\$ 4,096,501</b>
Travel and meetings:	
Meetings	\$ 569,258
Workshops	490,591
Travel	2,268,587
On-line meetings	287,586
	<b>\$ 3,616,022</b>

# Supplemental Schedule of Expenses (continued)

## For the Year Ended December 31, 2012

Services:	
Insurance - commercial	\$ 125,932
Contract and consultants	9,429,191
Independent trustee fees	970,000
Search fees	160,314
Temporary office services and agency fees	62,749
Accounting and auditing fees	39,926
Legal fees	1,031,825
	\$ 11,819,937
Office costs:	
Publications and subscriptions	\$ 43,075
Dues	46,079
Postage	14,007
UPS, express mail, etc.	42,202
Telephone	585,469
Office and equipment repair/services	83,775
Copying	21,754
Stationery and office forms	1,380
Office supplies	177,589
Bank charges	23,392
Sales and use tax	17,935
Card fees	84,058
Internet expenses	688,891
	\$ 1,829,606

**ATTACHMENT 2**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**



FLORIDA RELIABILITY COORDINATING COUNCIL, INC.  
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## True Up 2012

### 2012 Budget Variance Explanations Based on Audited Financials

#### Statutory Funding

##### **Total Funding - Favorable Variance \$16k:**

Greater attendance for System Operator Seminar (SOS) Training Workshops  
**Favorable Variance \$18k**  
Maintenance Agreement Pass-thru  
**Unfavorable Variance \$2k**

#### Statutory Expenditures

##### **Total Expenditures Favorable Variance \$875k**

#### Statutory Personnel Expenses

##### **Total Favorable Variance \$874k:**

Reliability Standards Development (RSD) – Standards manager budgeted 100% in RSD but spent time in Reliability Assessment (RA) program associated with the preparation and definition of the BES Exception process. Additionally the cost of a North American Electric Reliability Corporation (NERC) Certification course was budgeted but not spent. **(.11) FTE**  
**Favorable Variance \$7,000**

Compliance Enforcement – Represents 3 unfilled budgeted FTE's not hired (a Compliance Administrator scheduled 1/2012 not planning to fill, a Compliance Enforcement Specialist scheduled 3/2012 still unfilled, and a Compliance Auditor/Engineer scheduled 4/2012 filled 12/2012). The open Manager of Enforcement position was filled by internal promotion in September leaving a vacancy of that position (Enforcement Specialist) equating to 1 more unfilled position for the year. Additionally, it was determined that due to the improved efficiencies gained from the FERC approved Find, Fix and Track process it will be unnecessary to hire 2 positions (1 Compliance Enforcement Specialist and 1 Legal Assistant) at all in 2012. Finally, more time was spent in training seminars held for the entities. This decrease in FTE's also affects all of the salary related benefits associated with these vacancies. **(5.24) FTE**  
**Favorable Variance \$812,000**

Reliability Assessment – Budgeted relocation costs for the new hire in 2012 were not spent and the retirement cost associated with the new position were less than budgeted. These reductions in benefits were slightly offset by additional time being charged in this program associated with the preparation and definition of the BES Exception Process. **+0.11 FTE**  
**Favorable Variance \$14,000**

Training & Education – More time was spent by Compliance personnel conducting training seminars for the entities than was anticipated. This increase in FTE's also affects all salary related benefits associated with this increase. **+0.14 FTE**  
**Unfavorable Variance \$44,000**

Situational Awareness – Less time was required on this program than budgeted. This decrease also affects all salary related benefits associated with this decrease. **(0.15) FTE**

**Favorable Variance \$16,000**

General Administrative – There was a lapse of time between filling the CEO position after the retirement of Ms. Rogers and the new CEO was hired at a lower salary. Offset by increased charges from the VP of Standards & Compliance for general corporate work. The lapse in time for the CEO position affects all salary related benefits.

**Favorable Variance \$69,000**

### **Statutory Meeting Expenses**

**Total Favorable Variance \$80k:**

Reliability Standards Development – Less Travel and in house Meetings were required than anticipated for this program.

**Favorable Variance \$18,000**

Compliance Enforcement – Travel associated with the 5.24 open FTE's and a favourable travel expense variance for current staff travel creates the majority of the under budget amount. Lower travel expenses were partially offset by increased conference call expenses.

**Favorable Variance \$44,000**

Reliability Assessment - All line items within this category are less than anticipated.

**Favorable Variance \$17,000**

Training & Education – SOS charges were greater than budgeted (see offset in Revenue since this is a self funded program) due to an increase in attendance. This is partially offset by a favourable variance in travel and conference calls for the program.

**Unfavorable Variance \$3,000**

Situational Awareness – Less travel was done for this program than anticipated.

**Favorable Variance \$4,000**

### **Statutory Operating Expenses**

**Total Unfavorable Variance \$18k:**

Reliability Standards –An unbudgeted salary compensation survey was conducted in the 4<sup>th</sup> Quarter and the Legal Committee representation were under budgeted.

**Unfavorable Variance \$6,000**

Compliance Enforcement – A salary compensation survey in the 4<sup>th</sup> Quarter as well as an assessment of the Compliance processes and procedures by an independent outside audit firm were done and not budgeted. Additionally, the cost of audits (conducted by SERC (the CEA) under contract with FRCC RE) of the Reliability Coordinator (RC) and Planning Authority (PA) functions, and Regional Entity (RE) Legal Committee representation were under budgeted. This is offset by reduced Depreciation due to Compliance spending less than anticipated on the Guidance software in 2010 and 2011 – and reduced office costs as the result of having 5.24 fewer FTE's.

**Unfavorable Variance \$124,000**

Reliability Assessment – The Stability Working Group (SWG) Reliability & Security Assessments for NERC TPL Standards (contingency Categories C and D) did not require as much time as budgeted and the Reliability Working Group (RWG) Load Forecast, the RWG Assessment Report and RWG Seasonal Assessments have not been billed

**Favorable Variance \$65,000**

Training & Education – Office costs (supplies and printing) were over budget due to the increase in SOS Training seminar attendance offset by favourable variance in the cost of the

outside consultants and trainers being used for the seminars.

**Favorable Variance \$10,000**

Situational Awareness – Outside consultants and contractors were less than budgeted.

**Favorable Variance \$9,000**

Administrative GA – General legal fees budgeted here but when they materialized as specific subject matter they were charged directly to the program seeking legal advice.

**Favorable Variance \$28,000**

**Increase/(Decrease) in Statutory Net Fixed Assets (Purchases less Depreciation Expense)**

**Total Unfavorable Variance \$61k**

Depreciation expense is less than budgeted due to projections made for the Compliance Portal system in 2011 not being expended and the decrease in furniture and equipment necessary associated with the 5.24 fewer FTE's on the Compliance program 2012 purchases offset by the CMEP Guidance Portal 1.5 Upgrade costs were not budgeted

**Unfavorable Variance \$61,000**

**Non Statutory (Member Services) Funding:**

**Total Actual Favorable Budget \$710k:**

Pass through billings to members for Telecommunications are greater than expected

**Favorable Budget \$54,000**

Special Assessment required for unbudgeted expenses

**Favorable Budget \$700,000**

Non Cash Postretirement Loss unbudgeted

**Unfavorable Budget (\$44,000)**

**Non Statutory Expenditures**

**Total Expenditures Unfavorable Variance \$128k**

**Non Statutory Personnel Expenses**

**Total Favorable Variance \$10k:**

Planning –Staff has been spending more time than budgeted in the Planning Member Services area rather than the Statutory Programs. **+0.05 FTE**

**Unfavorable Variance \$5,000**

Operations:

Reliability Coordinator –When the Operations budget was split for the first time, it was unknown all of the functions that would be considered RC versus those that would be considered Non RC, so the split was done by estimate and the actual is being charged as each staff member allocates their time each day. Additionally, an addition to staff was not hired in 2012 due to other budget constraints. This affects not only salaries and benefits, but relocation expenses that were budgeted for this new position. **(1.78) FTE**

**Favorable Variance \$277,000**



Non RC Operations – Same as RC. **+1.11 FTE** **Unfavorable Variance \$262,000**

The net effect for Total Operations is an under budget of **(0.50) FTE** and a total of \$15,000 under budget. The decision to postpone the hiring of an Operations Engineer until 2013 (in an effort to soften the effect of the unbudgeted CIP Audit preparation costs and the unbudgeted RC Console costs) is partially offset by more time being spent in Member Services than on Statutory Programs.

### **Non Statutory Meeting Expenses**

**Total Favorable Variance \$18k**

Planning – Less travel was necessary for the program.

**Favorable Variance \$8,000**

Operations:

Reliability Coordinator – More meetings are being held via conference call versus travelling to Miami.

**Favorable Variance \$6,000**

Non RC Operations – Less travel and fewer conference calls than anticipated partially offset by more meetings scheduled.

**Favorable Variance \$4,000**

### **Non Statutory Operating Expenses**

**Total Unfavorable Variance \$200k:**

Planning – Equipment maintenance and legal fees lower than anticipated partially offset by contracts and consultants costs were greater than budgeted.

**Favorable Variance \$4,000**

Operations:

Reliability Coordinator – The costs to prepare for the CIP audit and the costs for an RC Console were not budgeted for but have been partially offset by reduced monthly RC costs and an over accrual from 2011. Also the legal costs to take back over the IDC Calculator have begun in 2012 and were not budgeted for until 2013.

**Unfavorable Variance \$192,000**

Non RC Operations – Primarily pass thru telephone lines (see revenue) offset by the Fuel Reliability Working Group discretionary analyses being deferred to 2013.

**Unfavorable Variance \$12,000**

### **Increase/(Decrease) in Non Statutory Fixed Assets (Purchases less Depreciation Expense)**

**Total Favorable Variance \$86k:**

2012 purchases were delayed until January 2013 due to the scheduled build out of the new space not taking place until 2013

**Favorable Variance \$86,000**

Other Non-Operating Expenses – Change in Post Retirement Obligation unbudgeted

**Unfavorable Variance \$42,000**

### **Change in Working Capital for the Year ended 12/31/2012:**

Addition to Working Capital \$480k

Statutory – Reduction of Working Capital \$103k

Member Services Non Statutory – Addition to Working Capital of \$582k

**Total Net Assets As Of 12/31/2012:** Surplus \$2,113k

Statutory – Surplus of \$1,368k

Member Services Non Statutory – Surplus of \$745k

### **Statements Concerning Work Completed in 2012:**

#### **Compliance Monitoring & Enforcement Program**

Although there was significant surplus, the FRCC did complete all work as scheduled for 2012. Specifically, the Compliance Department verifies that:

1. All O&P Compliance audits (17) (includes one Purchasing-Selling Entity (PSE) audit where SPP was lead) planned for 2012 were completed as scheduled;
2. All CIP Audits (16) planned for 2012 were completed as scheduled;
3. No Spot Checks were scheduled for 2012; however, the TFE Part-B reviews were conducted under the Spot Check monitoring process.
4. Part A-CIP reviews were completed for all (136) TFEs submitted in 2012 per the ROP Appendix 4D;
5. Part B-reviews for (111) TFEs were completed in 2012 and were completed within the one year rule per the ROP Appendix 4D;
6. The annual self-certification of all registered entities in the region was completed on schedule;
7. Review, acceptance or rejection was completed for ninety-seven (97) Mitigation Plans submitted by registered entities in 2012;
8. Verification of entity completion was finalized for sixty-four (64) Mitigation plans during 2012; and
9. Regional Compliance Assessments were completed for four (4) entity reliability events during 2012.

A portion of the surplus in 2012 is due to positions that were determined to be unnecessary due to the improvements in enforcement processing including FFT. The remaining portion is due to open positions during the year created by attrition or longer times to hire than anticipated during budgeting. The FRCC compliance staff worked overtime as necessary to ensure that all work scheduled for 2012 was completed.

#### **Reliability Assessment Program**

NERC Reliability Assessments (Summer, Winter and Long Term Reliability Assessment) including two Post-Seasonal Assessments were all completed as scheduled. In addition, the FRCC completed the majority of the work to support the NERC Probabilistic Assessment which is not due until first quarter 2013.

The FRCC has actively participated in the ERO Events Analysis Process, developed the necessary procedures, and worked with registered entities and NERC to provide meaningful reports and Lessons Learned. FRCC continues to support the NERC Alerts process including the Facility Rating Alert efforts.

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

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

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

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

**Cash Reserves Statement**

No Cash Reserves were used by the FRCC in 2012.

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

No Statutory Funds were used to pay for Member Services Functions in 2012 and no Member Services Funds were used to pay for Statutory Functions.

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**TOTAL COMPANY**  
**For the Year Ended 12/31/2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 4,424,850	\$ 4,424,850	\$ -	
Penalty Sanctions	874,700	874,700	-	
<b>Total ERO Funding</b>	<u>\$ 5,299,550</u>	<u>\$ 5,299,550</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	\$ 5,674,178	\$ 5,674,178	-	
Testing Fees	-	-	-	
Services & Software	307,953	256,000	51,953	
Workshops	100,815	83,430	17,385	
Interest	-	-	-	
Special Assessment	699,999	-	699,999	
<b>Total Funding</b>	<u>\$12,082,495</u>	<u>\$11,313,158</u>	<u>\$ 769,337</u>	<u>6.8%</u>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 4,781,955	\$ 5,362,680	(580,725)	
Payroll Taxes	336,704	360,833	(24,129)	
Benefits	617,196	791,201	(174,005)	
Retirement Costs	627,507	732,691	(105,184)	
<b>Total Personnel Expenses</b>	<u>\$ 6,363,362</u>	<u>\$ 7,247,405</u>	<u>\$ (884,043)</u>	<u>-12.2%</u>
<b>Meeting Expenses</b>				
Meetings	\$ 91,761	\$ 79,938	11,823	
Travel	196,101	302,121	(106,020)	
Conference Calls	37,601	42,250	(4,649)	
<b>Total Meeting Expenses</b>	<u>\$ 325,463</u>	<u>\$ 424,309</u>	<u>\$ (98,846)</u>	<u>-23.3%</u>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 3,333,893	\$ 3,109,998	223,895	
Office Rent	522,978	533,087	(10,109)	
Office Costs	560,025	590,350	(30,325)	
Professional Services	256,670	269,200	(12,530)	
Miscellaneous	-	(82,797)	82,797	
Depreciation	134,544	170,273	(35,729)	
<b>Total Operating Expenses</b>	<u>\$ 4,808,110</u>	<u>\$ 4,590,111</u>	<u>\$ 217,999</u>	<u>4.7%</u>
<b>Total Indirect Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Expenses</b>	<u>\$11,496,935</u>	<u>\$12,261,825</u>	<u>\$ (764,890)</u>	<u>-6.2%</u>
<b>Change in Assets</b>	<u>\$ 585,560</u>	<u>\$ (948,667)</u>	<u>\$ 1,534,227</u>	<u>-100.0%</u>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (134,544)	\$ (170,273)	\$ 35,729	
Software CapEx	113,222	60,000	53,222	
Furniture & Fixtures CapEx	13,201	110,320	(97,119)	
Equipment & Computers CapE	15,839	24,760	(8,921)	
Leasehold Improvements	11,796	20,000	(8,204)	
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ 19,514</u>	<u>\$ 44,807</u>	<u>\$ (25,293)</u>	<u>100.0%</u>
<b>Total Budget</b>	<u>\$11,516,449</u>	<u>\$12,306,632</u>	<u>\$ (790,183)</u>	<u>-6.4%</u>
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ 566,046</u>	<u>\$ (993,474)</u>	<u>\$ 1,559,520</u>	<u>100.0%</u>
<b>FTEs</b>	39.14	44.85	(5.71)	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**TOTAL STATUTORY ONLY**  
**For the Year Ended 12/31/2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 4,424,850	\$ 4,424,850	\$ -	
Penalty Sanctions	874,700	874,700	-	
Total ERO Funding	<u>\$ 5,299,550</u>	<u>\$ 5,299,550</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	20,160	22,000	(1,840)	
Workshops	96,915	79,430	17,485	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u>\$ 5,416,625</u>	<u>\$ 5,400,980</u>	<u>\$ 15,645</u>	0.3%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 3,098,301	\$ 3,667,708	\$ (569,407)	
Payroll Taxes	217,141	246,785	(29,644)	
Benefits	370,820	550,278	(179,458)	
Retirement Costs	405,813	501,111	(95,298)	
Total Personnel Expenses	<u>\$ 4,092,075</u>	<u>\$ 4,965,882</u>	<u>\$ (873,807)</u>	-17.6%
<b>Meeting Expenses</b>				
Meetings	\$ 67,575	\$ 62,776	\$ 4,799	
Travel	161,260	239,180	(77,920)	
Conference Calls	12,658	19,858	(7,200)	
Total Meeting Expenses	<u>\$ 241,493</u>	<u>\$ 321,814</u>	<u>\$ (80,321)</u>	-25.0%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 340,048	\$ 203,016	\$ 137,032	
Office Rent	429,268	437,647	(8,379)	
Office Costs	134,058	183,959	(49,901)	
Professional Services	153,153	177,376	(24,223)	
Miscellaneous	-	-	-	
Depreciation	114,438	150,899	(36,461)	
Total Operating Expenses	<u>\$ 1,170,965</u>	<u>\$ 1,152,897</u>	<u>\$ 18,068</u>	1.6%
<b>Total Indirect Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Expenses</b>	<u>\$ 5,504,533</u>	<u>\$ 6,440,593</u>	<u>\$ (936,060)</u>	-14.5%
<b>Change in Assets</b>	<u>\$ (87,908)</u>	<u>\$ (1,039,613)</u>	<u>\$ 951,705</u>	-91.5%
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (114,438)	\$ (150,899)	\$ 36,461	
Software CapEx	113,222	60,000	53,222	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	15,839	24,760	(8,921)	
Leasehold Improvements	-	20,000	(20,000)	
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ 14,623</u>	<u>\$ (46,139)</u>	<u>\$ 60,762</u>	-131.7%
<b>Total Budget</b>	<u>\$ 5,519,156</u>	<u>\$ 6,394,454</u>	<u>\$ (875,298)</u>	-13.7%
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ (102,531)</u>	<u>\$ (993,474)</u>	<u>\$ 890,943</u>	-89.7%
<b>FTEs</b>	25.42	30.68	(5.26)	
Beginning Working Capital 1/1/2012	1,455,607	1,313,197	142,410	
Change in Working Capital	(102,531)	(993,474)	890,943	
Working Capital at 9/30/2012	1,353,076	319,723	1,033,353	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**RELIABILITY STANDARDS**  
**For the Year Ended 12/31/2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 283,143	\$ 283,143	\$ -	0.0%	
Penalty Sanctions	43,948	43,948	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 327,091</b>	<b>\$ 327,091</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Dues	\$ -	-	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 327,091</b>	<b>\$ 327,091</b>	<b>\$ -</b>	<b>0.0%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	158,941	\$ 160,141	(1,200)	-0.7%	
Payroll Taxes	12,008	10,775	1,233	11.4%	
Benefits	20,612	27,479	(6,867)	-25.0%	
Retirement Costs	21,245	21,880	(635)	-2.9%	
<b>Total Personnel Expenses</b>	<b>\$ 212,806</b>	<b>\$ 220,275</b>	<b>\$ (7,469)</b>	<b>-3.4%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 256	\$ 2,814	(2,558)	-90.9%	
Travel	28,937	45,423	(16,486)	-36.3%	Less travel required than anticipated and the use of more conference calls
Conference Calls	745	118	627	531.4%	
<b>Total Meeting Expenses</b>	<b>\$ 29,938</b>	<b>\$ 48,355</b>	<b>\$ (18,417)</b>	<b>-38.1%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 2,506	\$ 86	2,420	2814.0%	
Office Rent	8,809	9,018	(209)	-2.3%	
Office Costs	7,118	6,585	533	8.1%	
Professional Services	11,073	7,744	3,329	43.0%	
Miscellaneous	-	-	-		
Depreciation	1,413	1,053	360	34.2%	
<b>Total Operating Expenses</b>	<b>\$ 30,919</b>	<b>\$ 24,486</b>	<b>\$ 6,433</b>	<b>26.3%</b>	
<b>Total Indirect Expenses</b>	<b>\$ 39,631</b>	<b>\$ 35,028</b>	<b>\$ 4,603</b>	<b>13.1%</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>\$ 313,294</b>	<b>\$ 328,144</b>	<b>\$ (14,850)</b>	<b>-4.5%</b>	
<b>Change in Assets</b>	<b>\$ 13,797</b>	<b>\$ (1,053)</b>	<b>\$ 14,850</b>	<b>100.0%</b>	
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (1,413)	\$ (1,053)	\$ (360)	34.2%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	314	-	314		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (1,099)</b>	<b>\$ (1,053)</b>	<b>\$ (46)</b>	<b>4.4%</b>	
<b>Total Budget</b>	<b>\$ 312,195</b>	<b>\$ 327,091</b>	<b>\$ (14,896)</b>	<b>-4.6%</b>	
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 14,896</b>	<b>\$ -</b>	<b>\$ 14,896</b>		
<b>Direct FTEs</b>	1.13	1.34	(0.21)	-15.7%	
<b>Indirect FTE's</b>	0.48	0.38	0.10	26.3%	
<b>Total FTE's</b>	1.61	1.72	(0.11)	-6.4%	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**COMPLIANCE**  
**For the Year Ended 12/31/2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 3,955,024	\$ 3,955,024	\$ -	0.0%	
Penalty Sanctions	653,975	653,975	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 4,608,999</b>	<b>\$ 4,608,999</b>	<b>\$ -</b>		
Membership Dues		\$ -			
Testing Fees					
Services & Software					
Workshops					
Interest					
Miscellaneous					
<b>Total Funding</b>	<b>\$ 4,608,999</b>	<b>\$ 4,608,999</b>	<b>\$ -</b>	<b>0.0%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 1,839,319	\$ 2,382,994	(543,675)	-22.8%	
Payroll Taxes	129,384	160,342	(30,958)	-19.3%	
Benefits	229,049	382,775	(153,726)	-40.2%	4 Unfilled Positions and 2 budgetd additions were vacant due to FFT process efficiencies and more time being spent in Training (5.24) FTE's. Also affects all benefits.
Retirement Costs	241,534	325,583	(84,049)	-25.8%	
<b>Total Personnel Expenses</b>	<b>\$ 2,439,286</b>	<b>\$ 3,251,694</b>	<b>\$ (812,408)</b>	<b>-25.0%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 3,962	\$ 5,849	(1,887)	-32.3%	
Travel	85,443	131,240	(45,797)	-34.9%	Travel associated with 5.24 fewer FTE's
Conference Calls	7,473	4,053	3,420	84.4%	Use of Conference calls rather than traveling
<b>Total Meeting Expenses</b>	<b>\$ 96,878</b>	<b>\$ 141,142</b>	<b>\$ (44,264)</b>	<b>-31.4%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 199,748	\$ 28,284	171,464	606.2%	Salary Comp Study unbudgeted and SERC CEA expenses over budget
Office Rent	359,665	365,307	(5,642)	-1.5%	
Office Costs	78,609	84,535	(5,926)	-7.0%	
Professional Services	116,056	115,246	810	0.7%	
Miscellaneous					
Depreciation	93,487	130,674	(37,187)	-28.5%	
<b>Total Operating Expenses</b>	<b>\$ 847,565</b>	<b>\$ 724,046</b>	<b>\$ 123,519</b>	<b>17.1%</b>	
<b>Total Indirect Expenses</b>	<b>\$ 410,436</b>	<b>\$ 521,241</b>	<b>\$ (110,805)</b>	<b>-21.3%</b>	Less FTE's than budgeted, thus less allocation of GA
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>\$ 3,794,165</b>	<b>\$ 4,638,123</b>	<b>\$ (843,958)</b>	<b>-18.2%</b>	
<b>Change in Assets</b>	<b>\$ 814,834</b>	<b>\$ (29,124)</b>	<b>\$ 843,958</b>		
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (93,487)	\$ (130,674)	\$ 37,187	-28.5%	
Software CapEx	113,222	60,000	53,222	88.7%	Guidance 1.5 Portal under budgeted
Furniture & Fixtures CapEx					
Equipment & Computers CapE	13,187	21,550	(8,363)	-38.8%	Leaseholds and furniture & equipment budgeted for the move will be expensed in January 2013
Leasehold Improvements		20,000	(20,000)	-100.0%	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 32,922</b>	<b>\$ (29,124)</b>	<b>\$ 62,046</b>		
<b>Total Budget</b>	<b>\$ 3,827,087</b>	<b>\$ 4,608,999</b>	<b>\$ (781,912)</b>	<b>-17.0%</b>	
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 781,912</b>	<b>\$ -</b>	<b>\$ 781,912</b>		
<b>Direct FTEs</b>	14.67	19.94	(5.27)	-26.4%	
<b>Indirect FTE's</b>	2.70	2.67	0.03	1.1%	
<b>Total FTE's</b>	17.37	22.61	(5.24)	-23.2%	



**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**RELIABILITY ASSESSMENT**  
**For the Year Ended 12/31/2012**

*(In Whole Dollars)*

			2012		
	2012 Actual	2012 Budget	Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 981,230	\$ 981,230	\$ -	0.0%	
Penalty Sanctions	149,555	149,555	-	0.0%	
<b>Total ERO Funding</b>	<u>\$ 1,130,785</u>	<u>\$ 1,130,785</u>	<u>\$ -</u>		
Membership Dues	-	-	-		
Testing Fees	-	-	-		
Services & Software	20,160	22,000	(1,840)	-8.4%	
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<u>\$ 1,150,945</u>	<u>\$ 1,152,785</u>	<u>\$ (1,840)</u>	<u>-0.2%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 546,249	\$ 544,958	1,291	0.2%	
Payroll Taxes	37,373	36,668	705	1.9%	
Benefits	62,138	74,167	(12,029)	-16.2%	Budgeted Relocation Expenses not Spent
Retirement Costs	70,863	74,456	(3,593)	-4.8%	
<b>Total Personnel Expenses</b>	<u>\$ 716,623</u>	<u>\$ 730,249</u>	<u>\$ (13,626)</u>	<u>-1.9%</u>	
<b>Meeting Expenses</b>					
Meetings	\$ 2,901	\$ 4,548	(1,647)	-36.2%	
Travel	39,906	48,214	(8,308)	-17.2%	
Conference Calls	3,596	10,847	(7,251)	-66.8%	
<b>Total Meeting Expenses</b>	<u>\$ 46,403</u>	<u>\$ 63,609</u>	<u>\$ (17,206)</u>	<u>-27.0%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 102,358	\$ 115,471	\$ (13,113)	-11.4%	RWG budgeted Assessment and SWG Rel & Sec C & D less time
Office Rent	30,247	30,685	(438)	-1.4%	
Office Costs	17,318	64,005	(46,687)	-72.9%	Software MA Reclassified to Consultants & Contracts
Professional Services	21,616	26,355	(4,739)	-18.0%	
Miscellaneous	-	-	-		
Depreciation	4,922	4,799	123	2.6%	
<b>Total Operating Expenses</b>	<u>\$ 176,461</u>	<u>\$ 241,315</u>	<u>\$ (64,854)</u>	<u>-26.9%</u>	
<b>Total Indirect Expenses</b>	<u>\$ 126,408</u>	<u>\$ 119,201</u>	<u>\$ 7,207</u>	<u>6.0%</u>	
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>Total Expenses</b>	<u>\$ 1,065,895</u>	<u>\$ 1,154,374</u>	<u>\$ (88,479)</u>	<u>-7.7%</u>	
<b>Change in Assets</b>	<u>\$ 85,050</u>	<u>\$ (1,589)</u>	<u>\$ 86,639</u>		
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (4,922)	\$ (4,799)	\$ (123)	2.6%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapE	2,296	3,210	(914)	-28.5%	
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ (2,626)</u>	<u>\$ (1,589)</u>	<u>\$ (1,037)</u>	<u>65.3%</u>	
<b>Total Budget</b>	<u>\$ 1,063,269</u>	<u>\$ 1,152,785</u>	<u>\$ (89,516)</u>	<u>-7.8%</u>	
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ 87,676</u>	<u>\$ -</u>	<u>\$ 87,676</u>		
<b>Direct FTEs</b>	4.56	4.56	-	0.0%	
<b>Indirect FTE's</b>	0.88	0.77	0.11	14.3%	
<b>Total FTE's</b>	5.44	5.33	0.11	2.1%	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**TRAINING AND EDUCATION**  
**For the Year Ended 12/31/2012**

(In Whole Dollars)

			2012		Comments (Explain Variances >+/- 10% and >\$10,000)
	2012 Actual	2012 Budget	Variance	%	
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 119,986	\$ 119,986	\$ -	0.0%	
Penalty Sanctions	16,071	16,071	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 136,057</b>	<b>\$ 136,057</b>	<b>\$ -</b>		
Membership Dues	-	\$ -	-		
Testing Fees	-	-	-		
Services & Software	-	-	-		
Workshops	96,915	79,430	17,485	22.0%	Self Funded Program - SOS Attendance was up
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 232,972</b>	<b>\$ 215,487</b>	<b>\$ 17,485</b>	<b>8.1%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 92,447	\$ 58,559	33,888	57.9%	More time than budgeted spent by Compliance Personnel conducting training
Payroll Taxes	6,323	3,940	2,383	60.5%	
Benefits	9,855	6,617	3,238	48.9%	
Retirement Costs	12,391	8,001	4,390	54.9%	
<b>Total Personnel Expenses</b>	<b>\$ 121,016</b>	<b>\$ 77,117</b>	<b>\$ 43,899</b>	<b>56.9%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 60,417	\$ 48,863	11,554	23.6%	Self Funded Program - SOS Attendance was up
Travel	6,198	10,327	(4,129)	-40.0%	
Conference Calls	669	4,771	(4,102)	-86.0%	
<b>Total Meeting Expenses</b>	<b>\$ 67,284</b>	<b>\$ 63,961</b>	<b>\$ 3,323</b>	<b>5.2%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 26,885	\$ 48,894	(22,009)	-45.0%	Decreased use of outside consultants and outside trainers for SOS
Office Rent	4,962	3,297	1,665	50.5%	
Office Costs	15,811	6,577	9,234	140.4%	Increased due to attendance increased for SOS
Professional Services	3,456	2,832	624	22.0%	
Miscellaneous	-	-	-		
Depreciation	1,229	915	314	34.3%	
<b>Total Operating Expenses</b>	<b>\$ 52,343</b>	<b>\$ 62,515</b>	<b>\$ (10,172)</b>	<b>-16.3%</b>	
<b>Total Indirect Expenses</b>	<b>\$ 19,841</b>	<b>\$ 12,809</b>	<b>\$ 7,032</b>	<b>54.9%</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>\$ 260,484</b>	<b>\$ 216,402</b>	<b>\$ 44,082</b>	<b>20.4%</b>	
<b>Change in Assets</b>	<b>\$ (27,512)</b>	<b>\$ (915)</b>	<b>\$ (26,597)</b>		
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (1,229)	\$ (915)	\$ (314)	34.3%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment & Computers CapEx	34	-	34		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (1,195)</b>	<b>\$ (915)</b>	<b>\$ (280)</b>	<b>30.6%</b>	
<b>Total Budget</b>	<b>\$ 259,289</b>	<b>\$ 215,487</b>	<b>\$ 43,802</b>	<b>20.3%</b>	
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ (26,317)</b>	<b>\$ -</b>	<b>\$ (26,317)</b>		
<b>Direct FTEs</b>	0.62	0.49	0.13	26.5%	
<b>Indirect FTE's</b>	0.11	0.10	0.01	10.0%	
<b>Total FTE's</b>	0.73	0.59	0.14	23.7%	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**SITUATIONAL AWARENESS**  
**For the Year Ended 12/31/2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ 78,941	\$ 78,941	\$ -	0.0%	
Penalty Sanctions	11,151	11,151	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 90,092</b>	<b>\$ 90,092</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Dues	-	\$ -	-	-	
Testing Fees	-	-	-	-	
Services & Software	-	-	-	-	
Workshops	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
<b>Total Funding</b>	<b>\$ 90,092</b>	<b>\$ 90,092</b>	<b>\$ -</b>	<b>0.0%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 29,373	\$ 40,633	(11,260)	-27.7%	Decreased time spent on program (.15) FTE
Payroll Taxes	1,939	2,734	(795)	-29.1%	
Benefits	3,200	4,955	(1,755)	-35.4%	
Retirement Costs	3,745	5,552	(1,807)	-32.5%	
<b>Total Personnel Expenses</b>	<b>\$ 38,257</b>	<b>\$ 53,874</b>	<b>\$ (15,617)</b>	<b>-29.0%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 39	\$ 331	(292)	-88.2%	
Travel	687	3,976	(3,289)	-82.7%	
Conference Calls	175	5	170	3400.0%	
<b>Total Meeting Expenses</b>	<b>\$ 901</b>	<b>\$ 4,312</b>	<b>\$ (3,411)</b>	<b>-79.1%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 306	\$ 10,022	(9,716)	-96.9%	
Office Rent	1,577	2,288	(711)	-31.1%	
Office Costs	11,158	8,743	2,415	27.6%	
Professional Services	952	1,965	(1,013)	-51.6%	
Miscellaneous	-	-	-	-	
Depreciation	11,423	11,451	(28)	-0.2%	
<b>Total Operating Expenses</b>	<b>\$ 25,416</b>	<b>\$ 34,469</b>	<b>\$ (9,053)</b>	<b>-26.3%</b>	
<b>Total Indirect Expenses</b>	<b>\$ 6,121</b>	<b>\$ 8,888</b>	<b>\$ (2,767)</b>	<b>-31.1%</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Expenses</b>	<b>\$ 70,695</b>	<b>\$ 101,543</b>	<b>\$ (30,848)</b>	<b>-30.4%</b>	
<b>Change in Assets</b>	<b>\$ 19,397</b>	<b>\$ (11,451)</b>	<b>\$ 30,848</b>		
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (11,423)	\$ (11,451)	\$ 28	-0.2%	
Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment & Computers CapEx	8	-	8		
Leasehold Improvements	-	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ (11,415)</b>	<b>\$ (11,451)</b>	<b>\$ 36</b>	<b>-0.3%</b>	
<b>Total Budget</b>	<b>\$ 59,280</b>	<b>\$ 90,092</b>	<b>\$ (30,812)</b>	<b>-34.2%</b>	
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 30,812</b>	<b>\$ -</b>	<b>\$ 30,812</b>		
<b>Direct FTEs</b>	0.24	0.34	(0.10)	-29.4%	
<b>Indirect FTE's</b>	0.03	0.08	(0.05)	-62.5%	
<b>Total FTE's</b>	0.27	0.42	(0.15)	-35.7%	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**GENERAL ADMINISTRATIVE**  
**For the Year Ended 12/31/2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ (993,474)	\$ (993,474)	\$ -	0.0%	
Penalty Sanctions					
<b>Total ERO Funding</b>	<u>\$ (993,474)</u>	<u>\$ (993,474)</u>	<u>\$ -</u>		
Membership Dues		\$ -	\$ -		
Testing Fees					
Services & Software					
Workshops					
Interest					
Miscellaneous					
<b>Total Funding</b>	<u>\$ (993,474)</u>	<u>\$ (993,474)</u>	<u>\$ -</u>	0.0%	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 431,972	\$ 480,423	\$ (48,451)	-10.1%	Lapse in time for new CEO and lower salaried replacement
Payroll Taxes	30,114	32,326	(2,212)	-6.8%	
Benefits	45,966	54,285	(8,319)	-15.3%	
Retirement Costs	56,035	65,639	(9,604)	-14.6%	
<b>Total Personnel Expenses</b>	<u>\$ 564,087</u>	<u>\$ 632,673</u>	<u>\$ (68,586)</u>	-10.8%	
<b>Meeting Expenses</b>					
Meetings		\$ 371	\$ (371)		
Travel	89		89		
Conference Calls		64	(64)		
<b>Total Meeting Expenses</b>	<u>\$ 89</u>	<u>\$ 435</u>	<u>\$ (346)</u>	-79.5%	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 8,245	\$ 259	\$ 7,986		
Office Rent	24,008	27,052	(3,044)	-11.3%	
Office Costs	4,044	13,514	(9,470)	-70.1%	
Professional Services		23,234	(23,234)		Legal was charged direct to subject matter
Miscellaneous					
Depreciation	1,964	2,007	(43)	-2.1%	
<b>Total Operating Expenses</b>	<u>\$ 38,261</u>	<u>\$ 66,066</u>	<u>\$ (27,805)</u>	-42.1%	
<b>Total Indirect Expenses</b>	<u>\$ (602,437)</u>	<u>\$ (697,167)</u>	<u>\$ 94,730</u>		
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ 2,007</u>	<u>\$ (2,007)</u>	-100.0%	
<b>Change in Assets</b>	<u>\$ (993,474)</u>	<u>\$ (995,481)</u>	<u>\$ 2,007</u>	-0.2%	
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (1,964)	\$ (2,007)	\$ 43	-2.1%	
Software CapEx					
Furniture & Fixtures CapEx					
Equipment & Computers CapEx					
Leasehold Improvements					
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ (1,964)</u>	<u>\$ (2,007)</u>	<u>\$ 43</u>	-2.1%	
<b>Total Budget</b>	<u>\$ (1,964)</u>	<u>\$ -</u>	<u>\$ (1,964)</u>		
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ (991,510)</u>	<u>\$ (993,474)</u>	<u>\$ 1,964</u>	-0.2%	
<b>FTEs</b>	4.20	4.01	0.19	4.7%	

**Florida Reliability Coordinating Council, Inc.**  
**2012 Statement of Activities and Capital Expenditures**  
**TOTAL MEMBER SERVICES - NON STATUTORY**  
**For the Year Ended 12/31/2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	Variance	%	Comments (Explain Variances >+/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Dues	5,674,178	5,674,178	-	0.0%	
Testing Fees	-	-	-		Pass Thru Telephone Lines over budget
Services & Software	287,793	234,000	53,793	23.0%	
Workshops	3,900	4,000	(100)	-2.5%	Special Assessment needed due to unexpected expenses
Special Assessment	699,999	-	699,999		
Non Cash Postretirement	(44,015)	-	(44,015)		
<b>Total Funding</b>	<u>\$ 6,621,855</u>	<u>\$ 5,912,178</u>	<u>\$ 709,677</u>	<u>12.0%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					(.45) fewer FTE's
Salaries	\$ 1,683,654	\$ 1,694,972	(11,318)	-0.7%	
Payroll Taxes	119,563	114,048	5,515	4.8%	
Benefits	246,376	240,923	5,453	2.3%	
Retirement Costs	221,694	231,580	(9,886)	-4.3%	
<b>Total Personnel Expenses</b>	<u>\$ 2,271,287</u>	<u>\$ 2,281,523</u>	<u>\$ (10,236)</u>	<u>-0.4%</u>	
<b>Meeting Expenses</b>					
Meetings	\$ 24,186	\$ 17,162	7,024	40.9%	Less travel than anticipated
Travel	34,841	62,941	(28,100)	-44.6%	
Conference Calls	24,943	22,392	2,551	11.4%	
<b>Total Meeting Expenses</b>	<u>\$ 83,970</u>	<u>\$ 102,495</u>	<u>\$ (18,525)</u>	<u>-18.1%</u>	
<b>Operating Expenses</b>					CIP audit preparation fees and console upgrades not budgeted
Consultants & Contracts	\$ 2,993,845	\$ 2,906,982	86,863	3.0%	
Office Rent	93,710	95,440	(1,730)	-1.8%	Pass Thru Telephone Lines over budget
Office Costs	425,967	406,391	19,576	4.8%	Legal fees expended for IDC Calculator but not budgeted until 2013
Professional Services	103,517	91,824	11,693	12.7%	Reserve not used but budgeted
Miscellaneous	-	(82,797)	82,797	-100.0%	
Depreciation	20,106	19,374	732	3.8%	
<b>Total Operating Expenses</b>	<u>\$ 3,637,145</u>	<u>\$ 3,437,214</u>	<u>\$ 199,931</u>	<u>5.8%</u>	
<b>Total Indirect Expenses</b>					
<b>Other Non-Operating Expenses</b>	<u>\$ 42,455</u>	<u>\$ -</u>	<u>\$ 42,455</u>		
<b>Total Expenses</b>	<u>\$ 6,034,857</u>	<u>\$ 5,821,232</u>	<u>\$ 213,625</u>	<u>3.7%</u>	
<b>Change in Assets</b>	<u>\$ 586,998</u>	<u>\$ 90,946</u>	<u>\$ 496,052</u>		
<b>Fixed Asset Expenditures</b>					
Depreciation	\$ (20,106)	\$ (19,374)	\$ (732)	3.8%	
Software CapEx	-	-	-		
Furniture & Fixtures CapEx	13,201	110,320	(97,119)	-88.0%	
Equipment & Computers CapEx	-	-	-		
Leasehold Improvements	11,796	-	11,796		
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ 4,891</u>	<u>\$ 90,946</u>	<u>\$ (86,055)</u>	<u>-94.6%</u>	
<b>Total Budget</b>	<u>\$ 6,039,748</u>	<u>\$ 5,912,178</u>	<u>\$ 127,570</u>	<u>2.2%</u>	
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ 582,107</u>	<u>\$ -</u>	<u>\$ 582,107</u>		
<b>FTEs</b>	13.72	14.17	(0.45)		

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL SCHEDULES  
December 31, 2012**



Certified Public Accountants  
Business Consultants  
Limited Liability Company

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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## INDEPENDENT AUDITORS' REPORT



## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of Florida Reliability Coordinating Council, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Reliability Coordinating Council, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other-Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statutory and non-statutory schedules on Pages 16 to 24 inclusive, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

February 5, 2013

## FINANCIAL STATEMENTS

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**STATEMENT OF FINANCIAL POSITION  
December 31, 2012**

<u><b>ASSETS</b></u>	
<b>Current assets:</b>	
Cash	\$ 4,693,041
Member receivables	2,613,212
Related party receivable	27,024
Prepaid expenses	<u>14,477</u>
<b>Total current assets</b>	<b>7,347,754</b>
<b>Property and equipment - at cost</b>	
Equipment and computers	487,493
Software	774,408
Furniture and fixtures	290,730
Leasehold improvements	<u>84,833</u>
Total	1,637,464
Less accumulated depreciation and amortization	<u>(1,358,981)</u>
<b>Total property and equipment, net</b>	<b>278,483</b>
<b>Other assets</b>	<u>151,388</u>
<b>Total assets</b>	<u><u>\$ 7,777,625</u></u>
<u><b>LIABILITIES AND NET ASSETS</b></u>	
<b>Current liabilities:</b>	
Accounts payable	\$ 149,435
Current portion of accrued postretirement benefit obligation	17,603
Deferred revenue	3,055,986
Compliance penalty assessment	544,500
Accrued expenses	<u>1,073,894</u>
<b>Total current liabilities</b>	<b>4,841,418</b>
<b>Long-term liabilities:</b>	
Accrued postretirement benefit obligation	823,564
<b>Net assets:</b>	
Unrestricted statutory - FERC designated	1,367,703
Unrestricted member services - board designated	<u>744,940</u>
<b>Total net assets</b>	<u><b>2,112,643</b></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 7,777,625</u></u>

See Notes to Financial Statements.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**STATEMENT OF ACTIVITIES**  
**For the year ended December 31, 2012**

<b>Revenues:</b>	
Nonstatutory member assessments	\$ 6,374,177
Statutory member assessments	4,424,850
Services and software	307,954
Training and education fees	100,815
Postretirement benefit loss	(44,015)
Penalty and sanctions realized	874,700
Interest income	
	<hr/>
<b>Total revenue</b>	<b>12,038,481</b>
<b>Expenses:</b>	
Salaries	4,781,955
Payroll taxes	336,703
Employee benefits	617,195
Retirement and deferred compensation plans	627,507
Meetings	91,760
Travel	196,103
Conference Calls	37,601
Contracts & Consultants	3,333,893
Facilities rental	522,977
Office costs	560,024
Legal and accounting	256,670
Depreciation and amortization	134,544
	<hr/>
<b>Total expenses</b>	<b>11,496,932</b>
<b>Increase in net assets before change in accumulated post retirement obligation</b>	<b>541,549</b>
<b>Net periodic change in postretirement obligation</b>	<b>(42,455)</b>
	<hr/>
<b>Increase in net assets</b>	<b>499,094</b>
<b>Net assets - beginning of year</b>	<b>1,613,549</b>
	<hr/>
<b>Net assets - end of year</b>	<b>\$ 2,112,643</b>
	<hr/> <hr/>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF CASH FLOWS  
For the year ended December 31, 2012

<b>Cash flows from operating activities:</b>	
Cash received from members	\$ 11,716,172
Cash paid to suppliers and employees	<u>(12,247,985)</u>
<b>Net cash used by operating activities</b>	(531,813)
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	<u>(154,062)</u>
<b>Net cash used by investing activities</b>	(154,062)
<b>Net decrease in cash</b>	<u>(685,875)</u>
<b>Cash at beginning of year</b>	<u>\$ 5,378,916</u>
<b>Cash at end of year</b>	<u><u>\$ 4,693,041</u></u>
<b>Reconciliation of increase in net assets to net cash used by operating activities</b>	
Increase in net assets	\$ 499,096
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation and amortization	134,546
Increase in receivables, prepaid expenses, and other assets	(418,220)
Decrease in accounts payable and accrued expenses	(1,361,185)
Increase in postretirement benefit obligation	86,470
Increase in deferred income	<u>527,480</u>
<b>Net cash used by operating activities</b>	<u><u>\$ (531,813)</u></u>

See Notes to Financial Statements.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

**1. General and Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

Income Taxes – The Company has been approved for tax-exempt status under Section 501(c) (6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements. Tax years after 2008 remain subject to examination by taxing authorities.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

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

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

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

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

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

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

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

Deferred Compensation – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2012, the Company contributed \$8,492 to benefit the participant in this Plan.

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



**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

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

Date of Management's Review – Management has evaluated events and transactions for potential recognition or disclosure through February 5, 2013, which is the date the financial statements were available to be issued.

**2. Deferred Revenues**

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2013 budget, thus at December 31, 2012 it would be known whether all members are continuing with their membership.

**3. Commitments**

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

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

In June 2007, the Company entered into an agreement with Open Access Technology International, Inc. to provide certain webOASIS (Open Access Same-time Information System) and webTrans services for six of the Company's customers. The initial term of the agreement is 36 months at \$3,180 per member. In December 2010, the Company entered into an extension of this contract for additional 12 months periods until language could be worked out between all parties and the contract could be entered into directly by the six members who utilize this service. During 2008, the payment for these services and the related assessments to members were transferred to Florida Electric Power Coordinating Group, Inc. ("FCG") although the contract remains with FRCC (see Note 7) and will remain there until a participant agreement is completed by the six members.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

**3. Commitments – (Continued)**

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. In 2008, the Company entered into an agreement with several of the other regional entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. In June of 2011, the consortium broke up with certain member regions deciding to change software and vendors and go in a different direction for their Compliance Tracking System. The Company decided to remain with Guidance and has agreed to share costs of software enhancements with one other region that remains with Guidance. The cost of enhancements added or in progress for 2012 was \$113,222. The Company is obligated for enhancements in progress as of December 31, 2012 from this regional agreement of approximately \$15,200 for enhancements to be completed in 2013.

**4. Operating Leases**

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

<b>Year ended December 31,</b>	
2013	\$ 366,400
2014	745,740
2015	766,199
2016	787,166
2017	808,832
2018 and thereafter	<u>2,329,920</u>
	<u><u>\$ 5,804,257</u></u>

Rent expense charged to operations during the year ended December 31, 2012 was \$522,977, including the effects of lease payment escalations over the term of the leases.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

**4. Operating Leases – (Continued)**

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

Year Ended December 31,		
2013	\$	729,464
2014		753,399
2015		753,399
2016		753,399
2017		753,399
2018 and thereafter		1,969,545
	\$	<u>5,712,605</u>

**5. Postretirement Benefits Other Than Pensions**

The Company adheres to ASC 715-30, *Defined Benefit Plans-Pension*, which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan. The current year effect is a \$42,455 decrease to unrestricted net assets.

The following table sets forth the plan's funded status reconciled with the amount shown in the Company's statement of financial position at December 31, 2012:

Accumulated postretirement benefit obligation:		
Plan assets at fair value		<u>-0-</u>
Funded status		<u><u>-0-</u></u>
Accrued postretirement benefit obligation:		
Current portion	\$	17,603
Long-term portion		823,564
	\$	<u>841,167</u>

Since the plan is non-contributory, the entire balance of the accumulated benefit obligation is recorded as a liability in the statement of financial position as of December 31, 2012.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

5. **Postretirement Benefits Other Than Pensions – (Continued)**

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2012.

Service Cost	\$ (30,255)
Interest Cost	(29,868)
Amortization of unrecognized net obligation	(10,664)
Recognition of net actuarial gain	<u>10,771</u>
Net periodic postretirement benefit cost	(60,016)
Benefits paid during 2012	<u>16,001</u>
Net postretirement benefit loss	<u>\$ (44,015)</u>
Items not yet recognized as a component of net periodic postretirement benefit costs	
Unrecognized net gain	\$ 125,778
Unrecognized net transition obligations	<u>(50,647)</u>
Transitional effect of ASC 715-30	<u>\$ 75,131</u>
Postretirement effect of ASC 715-30 as of December 31, 2011	\$ 117,586
Net periodic change in postretirement obligation	<u>(42,455)</u>
Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2012	<u>\$ 75,131</u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

5. **Postretirement Benefits Other Than Pensions – (Continued)**

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

Year Ended December 31,	
2012	\$ 17,603
2013	18,883
2014	20,052
2015	21,075
2016	27,415
Thereafter	<u>170,251</u>
	<u><u>\$ 275,279</u></u>

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial gain of approximately (\$11,000) and \$11,000, respectively. For measurement purposes, an 8% annual rate increase in the per capita cost of covered health care benefits was assumed for 2014; the rate was assumed to decrease gradually to 5% for 2017 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at December 31, 2012 would be increased \$168,578 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2012 would be increased by \$5,840.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 4%. Mortality was based on the RP-2000 Combined Mortality Tables for Healthy Males and Females. The measurement date of the accumulated postretirement benefit obligation was December 31, 2012.

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

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

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

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

**6. Retirement Plan**

Effective January 1, 2001, the Company adopted a 401(k) Plan ("Plan") intended to benefit substantially all employees with 6 months of service and 21 years of age. On September 30, 2007, the plan was amended to enable employees with one hour of service to be eligible to enter the plan. Participants can contribute any amount of their compensation for the Plan year, not to exceed the limits determined by the Internal Revenue Code. The Company may make matching contributions with prescribed limits. The Company may also make additional non-elective discretionary contributions to the Plan. The Company made matching contributions to the Plan of \$241,076 and a discretionary contribution to the Plan of \$407,531 (net of forfeitures) for the year ending December 31, 2012.

**7. Related Parties**

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

The Company is providing Florida Electric Power Coordinating Group, Inc. ("FCG") with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 3.56% of the Company's administrative expenses in 2012. The service agreement with FCG is a one-year agreement that will automatically renew unless canceled in advance by either party. The original agreement was renewed for an additional year in February 2012. At December 31, 2012, the Company had billed and collected a total of \$234,432 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$27,024.

The Company is purchasing the services from Florida Power and Light ("FPL"), a member of the Company, to fulfill the responsibilities of reliability coordinator, operations planning coordinator, state capacity emergency coordinator as well as various other services. In 2009, the Company decided to increase the reliability coordinator coverage to full time, 24/7 coverage as of June 1, 2009. The Company paid FPL \$2,662,604 relating all of to these services and at December 31, 2012 had \$269,610 of accrued expenses recorded on the books.

**8. Concentrations**

Two members make up approximately 55% of the member services assessments and dues. The same two members comprise 66.4% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory functions.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

**9. Contingencies**

As part of the Company's Delegation Agreement with NERC, the Company has the authority to fine entities within its region for violation of reliability standards. During 2012, three (3) notices of penalty were filed with FERC with settlement agreements addressing alleged violations of reliability standards for the entities within the FRCC region. The penalties totaling \$262,000 as of December 31, 2012, were approved by FERC and paid by the entities. The Delegation Agreement Rules of Procedures from NERC stipulate that any penalty monies collected by June 30 of each year, which is between budget submissions, are to be held until they can be accounted for in a budget submission. At year-end December 31, 2012, a total of \$544,500 penalty assessment is being held for future use of which \$304,500 was accounted for in the 2012 budget submission and will be taken into operating income at the beginning of 2013 to offset funding from all entities in the region. The balance, plus any penalties billed and collected prior to June 30, 2013 will be held and accounted for in the 2014 budget submission.

The Company is the registered entity for the FRCC Region Reliability Coordinator functions and as a Planning Authority within the FRCC region. As a NERC registered entity, the Company must comply with applicable NERC reliability standards. Violations of these standards can result in financial penalties. The Company is involved in various enforcement actions for possible violations of electric reliability standards related to the NERC registered entity functions. Several of the possible violations were self-reported by FRCC which may result in no penalty. At this time, the Company cannot fully determine the effect of the possible penalties that may arise. Based on the limited information available at this time the Company estimates that it is reasonably possible for a penalty to be assessed ranging from zero to \$200,000, however the Company cannot conclude that any amount within this range is a better estimate than any other, and accordingly the Company has not accrued a contingent liability.

**FLORIDA RELIABILITY COORDINATING COUNCIL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**10. Functional Expenses**

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

<b>Statutory expenses:</b>	
Reliability Standards Development	\$ 313,294
Compliance Enforcement	3,794,165
Reliability Assessment & Performance Analysis	1,065,894
Training & Education	260,484
Situational Awareness & Infrastructure	<u>70,693</u>
Total statutory expenses	5,504,530
 <b>Member Services expenses:</b>	
Planning Committee	633,756
Operations Committee	5,358,646
General and Administrative	<u>42,455</u>
Total member services expenses	<u>6,034,857</u>
<b>Total expenses</b>	<b><u><u>\$ 11,539,387</u></u></b>

**11. Net Assets**

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

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

<b>Statutory</b>	\$ 1,367,703
<b>Member services</b>	<u>744,940</u>
<b>Total unrestricted - board-designated net assets</b>	<b><u><u>\$ 2,112,643</u></u></b>



**SUPPLEMENTAL INFORMATION**

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**TOTAL COMPANY**  
**December 31, 2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 4,424,850	\$ 4,424,850	\$ -	
Penalty Sanctions	874,700	874,700	-	
<b>Total ERO Funding</b>	<b>\$ 5,299,550</b>	<b>\$ 5,299,550</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Dues	\$ 5,674,178	\$ 5,674,178	-	
Testing Fees	-	-	-	
Services & Software	307,953	256,000	51,953	
Workshops	100,815	83,430	17,385	
Interest	-	-	-	
Special Assessment	699,999	-	699,999	
NonCash Post Ret Gain (Loss)	(44,015)	-	(44,015)	
<b>Total Funding</b>	<b>\$ 12,038,480</b>	<b>\$ 11,313,158</b>	<b>\$ 725,322</b>	<b>6.4%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 4,781,955	\$ 5,362,680	(580,725)	
Payroll Taxes	336,704	360,833	(24,129)	
Benefits	617,196	791,201	(174,005)	
Retirement Costs	627,507	732,691	(105,184)	
<b>Total Personnel Expenses</b>	<b>\$ 6,363,362</b>	<b>\$ 7,247,405</b>	<b>\$ (884,043)</b>	<b>-12.2%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 91,761	\$ 79,938	11,823	
Travel	196,101	302,121	(106,020)	
Conference Calls	37,601	42,250	(4,649)	
<b>Total Meeting Expenses</b>	<b>\$ 325,463</b>	<b>\$ 424,309</b>	<b>\$ (98,846)</b>	<b>-23.3%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 3,333,893	\$ 3,109,998	223,895	
Office Rent	522,978	533,087	(10,109)	
Office Costs	560,025	590,350	(30,325)	
Professional Services	256,670	269,200	(12,530)	
Miscellaneous	-	(82,797)	82,797	
Depreciation	134,544	170,273	(35,729)	
<b>Total Operating Expenses</b>	<b>\$ 4,808,110</b>	<b>\$ 4,590,111</b>	<b>\$ 217,999</b>	<b>4.7%</b>
<b>Total Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ 42,455</b>	<b>\$ -</b>	<b>\$ 42,455</b>	
<b>Total Expenses</b>	<b>\$ 11,539,390</b>	<b>\$ 12,261,825</b>	<b>\$ (722,435)</b>	<b>-5.9%</b>
<b>Change in Assets</b>	<b>\$ 499,090</b>	<b>\$ (948,667)</b>	<b>\$ 1,447,757</b>	<b>-100.0%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (134,544)	\$ (170,273)	\$ 35,729	
Software CapEx	113,222	60,000	53,222	
Furniture & Fixtures CapEx	13,201	110,320	(97,119)	
Equipment & Computers CapEx	15,839	24,760	(8,921)	
Leasehold Improvements	11,796	20,000	(8,204)	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 19,514</b>	<b>\$ 44,807</b>	<b>\$ (25,293)</b>	<b>100.0%</b>
<b>Total Budget</b>	<b>\$ 11,558,904</b>	<b>\$ 12,306,632</b>	<b>\$ (747,728)</b>	<b>-6.1%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 479,576</b>	<b>\$ (993,474)</b>	<b>\$ 1,473,050</b>	<b>100.0%</b>
<b>FTEs</b>	39.14	44.85	(5.71)	

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**TOTAL Statutory Only**  
**December 31, 2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 4,424,850	\$ 4,424,850	\$ -	
Penalty Sanctions	874,700	874,700	-	
Total ERO Funding	<u>\$ 5,299,550</u>	<u>\$ 5,299,550</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	20,160	22,000	(1,840)	
Workshops	96,915	79,430	17,485	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u><b>\$ 5,416,625</b></u>	<u><b>\$ 5,400,980</b></u>	<u><b>\$ 15,645</b></u>	<b>0.3%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 3,098,301	\$ 3,667,708	\$ (569,407)	
Payroll Taxes	217,141	246,785	(29,644)	
Benefits	370,820	550,278	(179,458)	
Retirement Costs	405,813	501,111	(95,298)	
<b>Total Personnel Expenses</b>	<u><b>\$ 4,092,075</b></u>	<u><b>\$ 4,965,882</b></u>	<u><b>\$ (873,807)</b></u>	<b>-17.6%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 67,575	\$ 62,776	\$ 4,799	
Travel	161,260	239,180	(77,920)	
Conference Calls	12,658	19,858	(7,200)	
<b>Total Meeting Expenses</b>	<u><b>\$ 241,493</b></u>	<u><b>\$ 321,814</b></u>	<u><b>\$ (80,321)</b></u>	<b>-25.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 340,048	\$ 203,016	\$ 137,032	
Office Rent	429,268	437,647	(8,379)	
Office Costs	134,058	183,959	(49,901)	
Professional Services	153,153	177,376	(24,223)	
Miscellaneous	-	-	-	
Depreciation	114,438	150,899	(36,461)	
<b>Total Operating Expenses</b>	<u><b>\$ 1,170,965</b></u>	<u><b>\$ 1,152,897</b></u>	<u><b>\$ 18,068</b></u>	<b>1.6%</b>
<b>Total Indirect Expenses</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	
<b>Other Non-Operating Expenses</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	
<b>Total Expenses</b>	<u><b>\$ 5,504,533</b></u>	<u><b>\$ 6,440,593</b></u>	<u><b>\$ (936,060)</b></u>	<b>-14.5%</b>
<b>Change in Assets</b>	<u><b>\$ (87,908)</b></u>	<u><b>\$ (1,039,613)</b></u>	<u><b>\$ 951,705</b></u>	<b>-91.5%</b>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (114,438)	\$ (150,899)	\$ 36,461	
Software CapEx	113,222	60,000	53,222	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	15,839	24,760	(8,921)	
Leasehold Improvements	-	20,000	(20,000)	
<b>Increase/(Decrease) in Fixed Assets</b>	<u><b>\$ 14,623</b></u>	<u><b>\$ (46,139)</b></u>	<u><b>\$ 60,762</b></u>	<b>-131.7%</b>
<b>Total Budget</b>	<u><b>\$ 5,519,156</b></u>	<u><b>\$ 6,394,454</b></u>	<u><b>\$ (875,298)</b></u>	<b>-13.7%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<u><b>\$ (102,531)</b></u>	<u><b>\$ (993,474)</b></u>	<u><b>\$ 890,943</b></u>	<b>-89.7%</b>
<b>FTEs</b>	25.42	30.68	(5.26)	
Beginning Working Capital 1/1/2012	1,455,607	1,313,197	142,410	
Change in Working Capital	(102,531)	(993,474)	890,943	
Working Capital at 12/31/2012	1,353,076	319,723	1,033,353	

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**RELIABILITY STANDARDS**  
**December 31, 2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 283,143	\$ 283,143	\$ -	
Penalty Sanctions	43,948	43,948	-	
Total ERO Funding	<u>\$ 327,091</u>	<u>\$ 327,091</u>	<u>\$ -</u>	
Membership Dues		\$ -	-	
Testing Fees		-	-	
Services & Software		-	-	
Workshops		-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u><b>\$ 327,091</b></u>	<u><b>\$ 327,091</b></u>	<u><b>\$ -</b></u>	<u><b>0.0%</b></u>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	158,941	\$ 160,141	(1,200)	
Payroll Taxes	12,008	10,775	1,233	
Benefits	20,612	27,479	(6,867)	
Retirement Costs	21,245	21,880	(635)	
<b>Total Personnel Expenses</b>	<u><b>\$ 212,806</b></u>	<u><b>\$ 220,275</b></u>	<u><b>\$ (7,469)</b></u>	<u><b>-3.4%</b></u>
<b>Meeting Expenses</b>				
Meetings	\$ 256	\$ 2,814	(2,558)	
Travel	28,937	45,423	(16,486)	
Conference Calls	745	118	627	
<b>Total Meeting Expenses</b>	<u><b>\$ 29,938</b></u>	<u><b>\$ 48,355</b></u>	<u><b>\$ (18,417)</b></u>	<u><b>-38.1%</b></u>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 2,506	\$ 86	2,420	
Office Rent	8,809	9,018	(209)	
Office Costs	7,118	6,585	533	
Professional Services	11,073	7,744	3,329	
Miscellaneous			-	
Depreciation	1,413	1,053	360	
<b>Total Operating Expenses</b>	<u><b>\$ 30,919</b></u>	<u><b>\$ 24,486</b></u>	<u><b>\$ 6,433</b></u>	<u><b>26.3%</b></u>
<b>Total Indirect Expenses</b>	<u><b>\$ 39,631</b></u>	<u><b>\$ 35,028</b></u>	<u><b>\$ 4,603</b></u>	<u><b>13.1%</b></u>
<b>Other Non-Operating Expenses</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	
<b>Total Expenses</b>	<u><b>\$ 313,294</b></u>	<u><b>\$ 328,144</b></u>	<u><b>\$ (14,850)</b></u>	<u><b>-4.5%</b></u>
<b>Change in Assets</b>	<u><b>\$ 13,797</b></u>	<u><b>\$ (1,053)</b></u>	<u><b>\$ 14,850</b></u>	<u><b>100.0%</b></u>
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,413)	\$ (1,053)	\$ (360)	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	314		314	
Leasehold Improvements			-	
<b>Increase/(Decrease) in Fixed Assets</b>	<u><b>\$ (1,099)</b></u>	<u><b>\$ (1,053)</b></u>	<u><b>\$ (46)</b></u>	<u><b>4.4%</b></u>
<b>Total Budget</b>	<u><b>\$ 312,195</b></u>	<u><b>\$ 327,091</b></u>	<u><b>\$ (14,896)</b></u>	<u><b>-4.6%</b></u>
<b>CHANGE IN WORKING CAPITAL</b>	<u><b>\$ 14,896</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 14,896</b></u>	
<b>Direct FTEs</b>	1.13	1.34	(0.21)	-15.7%
<b>Indirect FTE's</b>	0.48	0.38	0.10	26.3%
<b>Total FTE's</b>	<u>1.61</u>	<u>1.72</u>	<u>(0.11)</u>	<u>-6.4%</u>

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**COMPLIANCE**  
**December 31, 2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 3,955,024	\$ 3,955,024	\$ -	
Penalty Sanctions	653,975	653,975	-	
<b>Total ERO Funding</b>	<b>\$ 4,608,999</b>	<b>\$ 4,608,999</b>	<b>\$ -</b>	
Membership Dues	-	-	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<b>\$ 4,608,999</b>	<b>\$ 4,608,999</b>	<b>\$ -</b>	0.0%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 1,839,319	\$ 2,382,994	(543,675)	
Payroll Taxes	129,384	160,342	(30,958)	
Benefits	229,049	382,775	(153,726)	
Retirement Costs	241,534	325,583	(84,049)	
<b>Total Personnel Expenses</b>	<b>\$ 2,439,286</b>	<b>\$ 3,251,694</b>	<b>\$ (812,408)</b>	-25.0%
<b>Meeting Expenses</b>				
Meetings	\$ 3,962	\$ 5,849	(1,887)	
Travel	85,443	131,240	(45,797)	
Conference Calls	7,473	4,053	3,420	
<b>Total Meeting Expenses</b>	<b>\$ 96,878</b>	<b>\$ 141,142</b>	<b>\$ (44,264)</b>	-31.4%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 199,748	\$ 28,284	171,464	
Office Rent	359,665	365,307	(5,642)	
Office Costs	78,609	84,535	(5,926)	
Professional Services	116,056	115,246	810	
Miscellaneous			-	
Depreciation	93,487	130,674	(37,187)	
<b>Total Operating Expenses</b>	<b>\$ 847,565</b>	<b>\$ 724,046</b>	<b>\$ 123,519</b>	17.1%
<b>Total Indirect Expenses</b>	<b>\$ 410,436</b>	<b>\$ 521,241</b>	<b>\$ (110,805)</b>	-21.3%
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses</b>	<b>\$ 3,794,165</b>	<b>\$ 4,638,123</b>	<b>\$ (843,958)</b>	-18.2%
<b>Change in Assets</b>	<b>\$ 814,834</b>	<b>\$ (29,124)</b>	<b>\$ 843,958</b>	
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (93,487)	\$ (130,674)	\$ 37,187	
Software CapEx	113,222	60,000	53,222	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	13,187	21,550	(8,363)	
Leasehold Improvements		20,000	(20,000)	
<b>Increase/(Decrease) in Fixed Assets</b>	<b>\$ 32,922</b>	<b>\$ (29,124)</b>	<b>\$ 62,046</b>	
<b>Total Budget</b>	<b>\$ 3,827,087</b>	<b>\$ 4,608,999</b>	<b>\$ (781,912)</b>	-17.0%
<b>CHANGE IN WORKING CAPITAL</b>	<b>\$ 781,912</b>	<b>\$ -</b>	<b>\$ 781,912</b>	
<b>Direct FTEs</b>	14.67	19.94	(5.27)	-26.4%
<b>Indirect FTE's</b>	2.70	2.67	0.03	1.1%
<b>Total FTE's</b>	17.37	22.61	(5.24)	-23.2%

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**RELIABILITY ASSESSMENT**  
**December 31, 2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 981,230	\$ 981,230	\$ -	
Penalty Sanctions	149,555	149,555	-	
Total ERO Funding	<u>\$ 1,130,785</u>	<u>\$ 1,130,785</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	20,160	22,000	(1,840)	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u><b>\$ 1,150,945</b></u>	<u><b>\$ 1,152,785</b></u>	<u><b>\$ (1,840)</b></u>	<b>-0.2%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 546,249	\$ 544,958	1,291	
Payroll Taxes	37,373	36,668	705	
Benefits	62,138	74,167	(12,029)	
Retirement Costs	70,863	74,456	(3,593)	
<b>Total Personnel Expenses</b>	<u><b>\$ 716,623</b></u>	<u><b>\$ 730,249</b></u>	<u><b>\$ (13,626)</b></u>	<b>-1.9%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 2,901	\$ 4,548	(1,647)	
Travel	39,906	48,214	(8,308)	
Conference Calls	3,596	10,847	(7,251)	
<b>Total Meeting Expenses</b>	<u><b>\$ 46,403</b></u>	<u><b>\$ 63,609</b></u>	<u><b>\$ (17,206)</b></u>	<b>-27.0%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 102,358	\$ 115,471	\$ (13,113)	
Office Rent	30,247	30,685	(438)	
Office Costs	17,318	64,005	(46,687)	
Professional Services	21,616	26,355	(4,739)	
Miscellaneous	-	-	-	
Depreciation	4,922	4,799	123	
<b>Total Operating Expenses</b>	<u><b>\$ 176,461</b></u>	<u><b>\$ 241,315</b></u>	<u><b>\$ (64,854)</b></u>	<b>-26.9%</b>
<b>Total Indirect Expenses</b>	<u><b>\$ 126,408</b></u>	<u><b>\$ 119,201</b></u>	<u><b>\$ 7,207</b></u>	<b>6.0%</b>
<b>Other Non-Operating Expenses</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	
<b>Total Expenses</b>	<u><b>\$ 1,065,895</b></u>	<u><b>\$ 1,154,374</b></u>	<u><b>\$ (88,479)</b></u>	<b>-7.7%</b>
<b>Change in Assets</b>	<u><b>\$ 85,050</b></u>	<u><b>\$ (1,589)</b></u>	<u><b>\$ 86,639</b></u>	
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (4,922)	\$ (4,799)	\$ (123)	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	2,296	3,210	(914)	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<u><b>\$ (2,626)</b></u>	<u><b>\$ (1,589)</b></u>	<u><b>\$ (1,037)</b></u>	<b>65.3%</b>
<b>Total Budget</b>	<u><b>\$ 1,063,269</b></u>	<u><b>\$ 1,152,785</b></u>	<u><b>\$ (89,516)</b></u>	<b>-7.8%</b>
<b>CHANGE IN WORKING CAPITAL</b>	<u><b>\$ 87,676</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 87,676</b></u>	
<b>Direct FTEs</b>	4.56	4.56	-	0.0%
<b>Indirect FTE's</b>	0.88	0.77	0.11	14.3%
<b>Total FTE's</b>	5.44	5.33	0.11	2.1%

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**TRAINING AND EDUCATION**  
**December 31, 2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 119,986	\$ 119,986	\$ -	
Penalty Sanctions	16,071	16,071	-	
<b>Total ERO Funding</b>	<u>\$ 136,057</u>	<u>\$ 136,057</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees		-	-	
Services & Software			-	
Workshops	96,915	79,430	17,485	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u>\$ 232,972</u>	<u>\$ 215,487</u>	<u>\$ 17,485</u>	8.1%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 92,447	\$ 58,559	33,888	
Payroll Taxes	6,323	3,940	2,383	
Benefits	9,855	6,617	3,238	
Retirement Costs	12,391	8,001	4,390	
<b>Total Personnel Expenses</b>	<u>\$ 121,016</u>	<u>\$ 77,117</u>	<u>\$ 43,899</u>	56.9%
<b>Meeting Expenses</b>				
Meetings	\$ 60,417	\$ 48,863	11,554	
Travel	6,198	10,327	(4,129)	
Conference Calls	669	4,771	(4,102)	
<b>Total Meeting Expenses</b>	<u>\$ 67,284</u>	<u>\$ 63,961</u>	<u>\$ 3,323</u>	5.2%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 26,885	\$ 48,894	(22,009)	
Office Rent	4,962	3,297	1,665	
Office Costs	15,811	6,577	9,234	
Professional Services	3,456	2,832	624	
Miscellaneous			-	
Depreciation	1,229	915	314	
<b>Total Operating Expenses</b>	<u>\$ 52,343</u>	<u>\$ 62,515</u>	<u>\$ (10,172)</u>	-16.3%
<b>Total Indirect Expenses</b>	<u>\$ 19,841</u>	<u>\$ 12,809</u>	<u>\$ 7,032</u>	54.9%
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Expenses</b>	<u>\$ 260,484</u>	<u>\$ 216,402</u>	<u>\$ 44,082</u>	20.4%
<b>Change in Assets</b>	<u>\$ (27,512)</u>	<u>\$ (915)</u>	<u>\$ (26,597)</u>	
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,229)	\$ (915)	\$ (314)	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx	34	-	34	
Leasehold Improvements			-	
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ (1,195)</u>	<u>\$ (915)</u>	<u>\$ (280)</u>	30.6%
<b>Total Budget</b>	<u>\$ 259,289</u>	<u>\$ 215,487</u>	<u>\$ 43,802</u>	20.3%
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ (26,317)</u>	<u>\$ -</u>	<u>\$ (26,317)</u>	
<b>Direct FTEs</b>	0.62	0.49	0.13	26.5%
<b>Indirect FTE's</b>	0.11	0.10	0.01	10.0%
<b>Total FTE's</b>	<u>0.73</u>	<u>0.59</u>	<u>0.14</u>	23.7%

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**SITUATIONAL AWARENESS**  
**December 31, 2012**

*(In Whole Dollars)*

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 78,941	\$ 78,941	\$ -	
Penalty Sanctions	11,151	11,151	-	
Total ERO Funding	<u>\$ 90,092</u>	<u>\$ 90,092</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u><b>\$ 90,092</b></u>	<u><b>\$ 90,092</b></u>	<u><b>\$ -</b></u>	<u><b>0.0%</b></u>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 29,373	\$ 40,633	(11,260)	
Payroll Taxes	1,939	2,734	(795)	
Benefits	3,200	4,955	(1,755)	
Retirement Costs	3,745	5,552	(1,807)	
<b>Total Personnel Expenses</b>	<u><b>\$ 38,257</b></u>	<u><b>\$ 53,874</b></u>	<u><b>\$ (15,617)</b></u>	<u><b>-29.0%</b></u>
<b>Meeting Expenses</b>				
Meetings	\$ 39	\$ 331	(292)	
Travel	687	3,976	(3,289)	
Conference Calls	175	5	170	
<b>Total Meeting Expenses</b>	<u><b>\$ 901</b></u>	<u><b>\$ 4,312</b></u>	<u><b>\$ (3,411)</b></u>	<u><b>-79.1%</b></u>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 306	\$ 10,022	(9,716)	
Office Rent	1,577	2,288	(711)	
Office Costs	11,158	8,743	2,415	
Professional Services	952	1,965	(1,013)	
Miscellaneous	-	-	-	
Depreciation	11,423	11,451	(28)	
<b>Total Operating Expenses</b>	<u><b>\$ 25,416</b></u>	<u><b>\$ 34,469</b></u>	<u><b>\$ (9,053)</b></u>	<u><b>-26.3%</b></u>
<b>Total Indirect Expenses</b>	<u><b>\$ 6,121</b></u>	<u><b>\$ 8,888</b></u>	<u><b>\$ (2,767)</b></u>	<u><b>-31.1%</b></u>
<b>Other Non-Operating Expenses</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	
<b>Total Expenses</b>	<u><b>\$ 70,695</b></u>	<u><b>\$ 101,543</b></u>	<u><b>\$ (30,848)</b></u>	<u><b>-30.4%</b></u>
<b>Change in Assets</b>	<u><b>\$ 19,397</b></u>	<u><b>\$ (11,451)</b></u>	<u><b>\$ 30,848</b></u>	
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (11,423)	\$ (11,451)	\$ 28	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	8	-	8	
Leasehold Improvements	-	-	-	
<b>Increase/(Decrease) in Fixed Assets</b>	<u><b>\$ (11,415)</b></u>	<u><b>\$ (11,451)</b></u>	<u><b>\$ 36</b></u>	<u><b>-0.3%</b></u>
<b>Total Budget</b>	<u><b>\$ 59,280</b></u>	<u><b>\$ 90,092</b></u>	<u><b>\$ (30,812)</b></u>	<u><b>-34.2%</b></u>
<b>CHANGE IN WORKING CAPITAL</b>	<u><b>\$ 30,812</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 30,812</b></u>	
<b>Direct FTEs</b>	0.24	0.34	(0.10)	-29.4%
<b>Indirect FTE's</b>	0.03	0.08	(0.05)	-62.5%
<b>Total FTE's</b>	<u>0.27</u>	<u>0.42</u>	<u>(0.15)</u>	<u>-35.7%</u>

See Independent Auditors' Report



**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**GENERAL ADMINISTRATIVE**  
**December 31, 2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ (993,474)	\$ (993,474)	\$ -	
Penalty Sanctions		-	-	
<b>Total ERO Funding</b>	<u>\$ (993,474)</u>	<u>\$ (993,474)</u>	<u>\$ -</u>	
Membership Dues	-	-	-	
Testing Fees		-	-	
Services & Software			-	
Workshops			-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding</b>	<u>\$ (993,474)</u>	<u>\$ (993,474)</u>	<u>\$ -</u>	0.0%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 431,972	\$ 480,423	\$ (48,451)	
Payroll Taxes	30,114	32,326	(2,212)	
Benefits	45,966	54,285	(8,319)	
Retirement Costs	56,035	65,639	(9,604)	
<b>Total Personnel Expenses</b>	<u>\$ 564,087</u>	<u>\$ 632,673</u>	<u>\$ (68,586)</u>	-10.8%
<b>Meeting Expenses</b>				
Meetings		\$ 371	\$ (371)	
Travel	89		89	
Conference Calls		64	(64)	
<b>Total Meeting Expenses</b>	<u>\$ 89</u>	<u>\$ 435</u>	<u>\$ (346)</u>	-79.5%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 8,245	\$ 259	\$ 7,986	
Office Rent	24,008	27,052	(3,044)	
Office Costs	4,044	13,514	(9,470)	
Professional Services		23,234	(23,234)	
Miscellaneous			-	
Depreciation	1,964	2,007	(43)	
<b>Total Operating Expenses</b>	<u>\$ 38,261</u>	<u>\$ 66,066</u>	<u>\$ (27,805)</u>	-42.1%
<b>Total Indirect Expenses</b>	<u>\$ (602,437)</u>	<u>\$ (697,167)</u>	<u>\$ 94,730</u>	
<b>Other Non-Operating Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ 2,007</u>	<u>\$ (2,007)</u>	-100.0%
<b>Change in Assets</b>	<u>\$ (993,474)</u>	<u>\$ (995,481)</u>	<u>\$ 2,007</u>	-0.2%
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (1,964)	\$ (2,007)	\$ 43	
Software CapEx			-	
Furniture & Fixtures CapEx			-	
Equipment & Computers CapEx			-	
Leasehold Improvements			-	
<b>Increase/(Decrease) in Fixed Assets</b>	<u>\$ (1,964)</u>	<u>\$ (2,007)</u>	<u>\$ 43</u>	-2.1%
<b>Total Budget</b>	<u>\$ (1,964)</u>	<u>\$ -</u>	<u>\$ (1,964)</u>	
<b>CHANGE IN WORKING CAPITAL</b>	<u>\$ (991,510)</u>	<u>\$ (993,474)</u>	<u>\$ 1,964</u>	-0.2%
<b>FTEs</b>	4.20	4.01	0.19	4.7%

See Independent Auditors' Report

**Florida Reliability Coordinating Council, Inc.**  
**Statement of Activities - Total Actual To Total Budget**  
**TOTAL MEMBER SERVICES - NON STATUTORY**  
**December 31, 2012**

(In Whole Dollars)

	2012 Actual	2012 Budget	2012 Variance	%
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ -	\$ -	\$ -	
Penalty Sanctions	-	-	-	
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Membership Dues	5,674,178	5,674,178	-	
Testing Fees	-	-	-	
Services & Software	287,793	234,000	53,793	
Workshops	3,900	4,000	(100)	
Special Assessment	699,999	-	699,999	
Non Cash Postretirement	(44,015)	-	(44,015)	
<b>Total Funding</b>	<u><b>\$ 6,621,855</b></u>	<u><b>\$ 5,912,178</b></u>	<u><b>\$ 709,677</b></u>	12.0%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 1,683,654	\$ 1,694,972	(11,318)	
Payroll Taxes	119,563	114,048	5,515	
Benefits	246,376	240,923	5,453	
Retirement Costs	221,694	231,580	(9,886)	
<b>Total Personnel Expenses</b>	<u><b>\$ 2,271,287</b></u>	<u><b>\$ 2,281,523</b></u>	<u><b>\$ (10,236)</b></u>	-0.4%
<b>Meeting Expenses</b>				
Meetings	\$ 24,186	\$ 17,162	7,024	
Travel	34,841	62,941	(28,100)	
Conference Calls	24,943	22,392	2,551	
<b>Total Meeting Expenses</b>	<u><b>\$ 83,970</b></u>	<u><b>\$ 102,495</b></u>	<u><b>\$ (18,525)</b></u>	-18.1%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 2,993,845	\$ 2,906,982	86,863	
Office Rent	93,710	95,440	(1,730)	
Office Costs	425,967	406,391	19,576	
Professional Services	103,517	91,824	11,693	
Miscellaneous	-	(82,797)	82,797	
Depreciation	20,106	19,374	732	
<b>Total Operating Expenses</b>	<u><b>\$ 3,637,145</b></u>	<u><b>\$ 3,437,214</b></u>	<u><b>\$ 199,931</b></u>	5.8%
<b>Total Indirect Expenses</b>				
<b>Other Non-Operating Expenses</b>	<u><b>\$ 42,455</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 42,455</b></u>	
<b>Total Expenses</b>	<u><b>\$ 6,034,857</b></u>	<u><b>\$ 5,821,232</b></u>	<u><b>\$ 213,625</b></u>	3.7%
<b>Change in Assets</b>	<u><b>\$ 586,998</b></u>	<u><b>\$ 90,946</b></u>	<u><b>\$ 496,052</b></u>	
<b>Fixed Asset Expenditures</b>				
Depreciation	\$ (20,106)	\$ (19,374)	\$ (732)	
Software CapEx	-	-	-	
Furniture & Fixtures CapEx	13,201	110,320	(97,119)	
Equipment & Computers CapEx	-	-	-	
Leasehold Improvements	11,796	-	11,796	
<b>Increase/(Decrease) in Fixed Assets</b>	<u><b>\$ 4,891</b></u>	<u><b>\$ 90,946</b></u>	<u><b>\$ (86,055)</b></u>	-94.6%
<b>Total Budget</b>	<u><b>\$ 6,039,748</b></u>	<u><b>\$ 5,912,178</b></u>	<u><b>\$ 127,570</b></u>	2.2%
<b>CHANGE IN WORKING CAPITAL</b>	<u><b>\$ 582,107</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 582,107</b></u>	
<b>FTEs</b>	13.72	14.17	(0.45)	

See Independent Auditors' Report

**ATTACHMENT 3**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**MIDWEST RELIABILITY ORGANIZATION**



*Sue Clarke, VP of Finance and Administration*

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April 30, 2013

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

RE: 2012 Budget Variance Explanation Based on Audited Financials

Dear Mr. Walker and Ms. Turpen:

MRO staff reports the audited final numbers to be 2.63% **under** budget (\$238k). While MRO was under budget, MRO staff believes the principal responsibilities under the delegation agreement were met in 2012.

As requested, the year-to-date variances greater than \$10,000 and 10 percent are explained below.

**Personnel (Actual - \$71,956 under budget)**

Due to an error in budgeting, Personnel Expenses were misallocated among Salaries, Payroll taxes, employee Benefits, and Savings & Retirement in the budget. Actual expenses were correctly recorded in the appropriate expense line item. Therefore, variances in these line items are largely due to the erroneous allocation in the budgeting process. This budgeting error is explained on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.

**Meeting Expenses (Actual - \$259,534 under budget)**

- Meeting expenses were under budget by \$78,995. This was due to the new MRO facility having provided more opportunities to host meetings which enabled staff to reduce cost significantly more than originally expected by eliminating the cost of meeting room and audio visual rentals as well as lower catering costs.
- Travel expenses were under budget by \$153,540. Greater than budgeted use of the new MRO facility resulted in less travel by MRO staff.
- Conference call expenses were under budget by \$26,999. Expenditures in conference calls in 2012 were expected to increase to improve efficiency of pre-audits, which in turn would reduce time spent on-site. Although less time was spent on-site, the anticipated increase in conference calls was not realized in the audits that were performed in 2012.

**Consultants and Contracts (Actual - \$288,858 under budget)**

MRO had expected to come in on budget by the end of the year. Several reasons contributed to the actual under budgeted amount, of which the principal reasons were (1) Finance anticipated that a new financial reporting package would be put in place prior to year end. This was placed on hold in order to further investigate our options. (2) MRO experienced turnover in the IT area



in the last quarter. This impeded anticipated fourth quarter activity related to IT projects, resulting in under-budget consultant and contract expenses for this work.

**Office Rent (Actual - \$40,471 under budget)**

Unlike our former lease, the new facility lease *includes* office cleaning, waste management, utilities, and other building maintenance costs (otherwise referred to as common area maintenance or CAM). This change resulted in an under-budget variance.

**Office Costs (Actual - \$37,573 under budget)**

MRO was under budget due to savings being realized in contract computer software maintenance support. MRO staff had internal resources for the first three quarters in 2012 that supported our needs internally as opposed to previous years using third party IT contractors.

**Professional Services (Actual - \$130,232 under budget)**

External counsel is requested when necessary and this cost is difficult to trend.

**Other non-Operating Expenses (Actual - \$39,451 under budget)**

MRO staff was highly successful in negotiating one-time costs for its facilities move that were lower than budgeted.

**Fixed Assets (Actual - \$520,753 over budget)**

Fixed asset costs were anticipated in 2011 from a facility move. However, due to the timing of the lease agreement, the costs were incurred in 2012 and approved by the MRO Board on March 29, 2012.

**Change in Assets and Year End Projection**

MRO was **under budget by \$238k** as explained above.

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

Thank you,

*Sue Clarke*

Sue Clarke

Cc: Daniel Skaar, MRO

Midwest Reliability Organization  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

Per Audit

Consolidated	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	8,349,029	8,349,029	-
Penalty Sanctions	418,500	418,500	0
<b>Total ERO Funding</b>	<b>\$ 8,767,529</b>	<b>\$ 8,767,529</b>	<b>\$ 0</b>
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	-	-	-
Miscellaneous	-	-	-
<b>Total Funding (A)</b>	<b>\$ 8,767,529</b>	<b>\$ 8,767,529</b>	<b>\$ 0</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	4,358,349	4,513,030	(154,681)
Payroll Taxes	254,396	300,538	(46,142)
Employee Benefits	333,703	412,900	(79,197)
Savings & Retirement	782,536	574,473	208,063
<b>Total Personnel Expenses</b>	<b>5,728,984</b>	<b>5,800,940</b>	<b>(71,957)</b>
<b>Meeting Expenses</b>			
Meetings	55,259	134,254	(78,995)
Travel	424,900	578,440	(153,540)
Conference Calls	23,501	50,500	(26,999)
<b>Total Meeting Expenses</b>	<b>503,660</b>	<b>763,194</b>	<b>(259,534)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	507,918	796,776	(288,858)
Rent & Improvements	351,209	391,680	(40,471)
Office Costs	434,146	471,719	(37,573)
Professional Services	63,768	194,000	(130,232)
Miscellaneous	-	-	-
Depreciation	497,618	388,498	109,120
<b>Total Operating Expenses</b>	<b>1,854,659</b>	<b>2,242,673</b>	<b>(388,014)</b>
<b>Indirect Expenses</b>	-	-	(0)
<b>Other Non-Operating Expenses</b>	<b>38,033</b>	<b>77,484</b>	<b>(39,451)</b>
<b>Total Expenses (B)</b>	<b>8,125,336</b>	<b>8,884,291</b>	<b>(758,956)</b>
<b>Change in Assets (A - B)</b>	<b>642,193</b>	<b>(116,762)</b>	<b>758,956</b>
<b>Fixed Assets</b>			
Depreciation	(497,618)	(388,498)	(109,120)
Computer & Software CapEx	459,291	350,435	108,856
Furniture & Fixtures CapEx	366,395	-	366,395
Equipment CapEx	29,074	-	29,074
Leasehold Improvements	336,548	211,000	125,548
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ 693,690</b>	<b>\$ 172,937</b>	<b>\$ 520,753</b>
Allocation of Fixed Assets	-	-	362,868
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>693,690</b>	<b>(189,933)</b>	<b>883,621</b>
<b>TOTAL BUDGET (B + C)</b>	<b>8,819,026</b>	<b>8,694,358</b>	<b>124,665</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(51,497)</b>	<b>73,171</b>	<b>(124,665)</b>
<b>FTEs</b>	<b>35.4</b>	<b>37.0</b>	<b>(1.6)</b>

Midwest Reliability Organization  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012  
Per Audit

RELIABILITY STANDARDS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	454,789	454,789	-	0.00%	
Penalty Sanctions	22,827	22,827	0	0.00%	
<b>Total ERO Funding</b>	<b>\$ 477,616</b>	<b>\$ 477,616</b>	<b>\$ 0</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>477,616</b>	<b>477,616</b>	<b>0</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC. Shift in resources between Stds and Compliance to better match the skills required in each area. Sr staff was transferred to act as a facilitator to the Registered Entities participating on drafting teams.
Salaries	201,515	153,497	48,018	31.28%	
Payroll Taxes	11,170	12,655	(1,485)	-11.73%	
Employee Benefits	14,385	18,238	(3,853)	-21.13%	
Savings & Retirement	32,443	20,652	11,791	57.09%	
<b>Total Personnel Expenses</b>	<b>259,513</b>	<b>205,042</b>	<b>54,471</b>	<b>26.57%</b>	
<b>Meeting Expenses</b>					The utilization of the new MRO facility provided more opportunities to host meetings internally which enabled staff to reduce meeting expenses significantly more than originally expected in the budget by eliminating meeting room costs and audio visual rentals as well as lowering catering costs.
Meetings	2,535	13,000	(10,465)	-80.50%	
Travel	33,206	42,000	(8,794)	-20.94%	
Conference Calls	14,839	18,000	(3,161)	-17.56%	
<b>Total Meeting Expenses</b>	<b>50,580</b>	<b>73,000</b>	<b>(22,420)</b>	<b>-30.71%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	12,000	12,000	-	0.00%	
Rent & Improvements	-	-	-		
Office Costs	9,111	1,000	8,111	811.10%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>21,111</b>	<b>13,000</b>	<b>8,111</b>	<b>62.39%</b>	
<b>Indirect Expenses</b>	202,912	176,678	26,234	14.85%	Total actual indirect costs exceeded budgeted, therefore there were more indirect costs than budgeted allocated to this program.
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	<b>534,116</b>	<b>467,720</b>	<b>66,396</b>	<b>14.20%</b>	
<b>Change in Assets (A - B)</b>	<b>(56,500)</b>	<b>9,896</b>	<b>(66,396)</b>	<b>-670.94%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	40,484	(9,896)	50,380	-509.09%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to this program.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>40,484</b>	<b>(9,896)</b>	<b>50,380</b>	<b>-509.09%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>574,600</b>	<b>457,824</b>	<b>116,776</b>	<b>25.51%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>96,984</b>	<b>(19,792)</b>	<b>116,776</b>		
<b>FTEs</b>	<b>1.5</b>	<b>1.6</b>	<b>(0.1)</b>	<b>-8.81%</b>	

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COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	5,623,628	5,623,628	-	0.00%	
Penalty Sanctions	275,076	275,076	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 5,898,704</b>	<b>\$ 5,898,704</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>5,898,704</b>	<b>5,898,704</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	2,034,762	2,393,502	(358,740)	-14.99%	1 open position dropped; 2 staff moved to another program; Mgmt position not replaced until last Qtr in 2012. This was a deliberate shift as we have gained efficiency in compliance audits and re-invested in risk assessment and mitigation.
Payroll Taxes	121,111	146,389	(25,278)	-17.27%	
Employee Benefits	161,150	219,744	(58,594)	-26.66%	
Savings & Retirement	346,646	285,616	61,030	21.37%	
<b>Total Personnel Expenses</b>	<b>2,663,669</b>	<b>3,045,251</b>	<b>(381,582)</b>	<b>-12.53%</b>	
<b>Meeting Expenses</b>					
Meetings	4,984	6,200	(1,216)	-19.61%	
Travel	99,286	189,199	(89,913)	-47.52%	Greater than budgeted use of new MRO facility has resulted in less travel by MRO staff. Four unbudgeted working groups were hosted by MRO staff in 2012.
Conference Calls	4,624	9,200	(4,576)	-49.74%	
<b>Total Meeting Expenses</b>	<b>108,894</b>	<b>204,599</b>	<b>(95,705)</b>	<b>-46.78%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	81,998	302,000	(220,002)	-72.85%	MRO experienced greater efficiencies with common IT platforms with other regions (webCDMS).
Rent & Improvements	-	-	-		
Office Costs	93,667	83,572	10,095	12.08%	Hearing body procedures were revised in late 2012. All staff training on roles and responsibilities was unbudgeted. There also was training for the non-engineer on BES and transmission system that was taken but unbudgeted.
Professional Services	-	15,000	(15,000)	-100.00%	Dollars were budgeted for Canadian matters; however, there were no such actual events in 2012 requiring legal assistance in the Canadian provinces.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>175,665</b>	<b>400,572</b>	<b>(224,907)</b>	<b>-56.15%</b>	
<b>Indirect Expenses</b>	<b>2,387,363</b>	<b>2,129,027</b>	<b>258,336</b>	<b>12.13%</b>	Total actual indirect costs exceeded budgeted, therefore there were more indirect costs than budgeted allocated to this program.
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	<b>5,335,591</b>	<b>5,779,449</b>	<b>(443,858)</b>	<b>-7.68%</b>	
<b>Change in Assets (A - B)</b>	<b>563,113</b>	<b>119,255</b>	<b>443,858</b>	<b>372.19%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	476,311	(119,255)	595,566	-499.41%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to this program.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>476,311</b>	<b>(119,255)</b>	<b>595,566</b>	<b>-499.41%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>5,811,903</b>	<b>5,660,194</b>	<b>151,709</b>	<b>2.68%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>(86,801)</b>	<b>(238,510)</b>	<b>151,709</b>	<b>-63.61%</b>	
<b>FTEs</b>	<b>17.1</b>	<b>19.2</b>	<b>(2.1)</b>	<b>-10.96%</b>	



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RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	2,319,561	2,319,561	-	0.00%	
Penalty Sanctions	115,428	115,428	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 2,434,989</b>	<b>\$ 2,434,989</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>2,434,989</b>	<b>2,434,989</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	740,216	897,570	(157,354)	-17.53%	This program was under-staffed for the full year of 2012.
Payroll Taxes	44,988	70,021	(25,033)	-35.75%	This program was under-staffed for the full year of 2012.
Employee Benefits	61,463	92,219	(30,756)	-33.35%	This program was under-staffed for the full year of 2012.
Savings & Retirement	148,589	127,696	20,893	16.36%	
<b>Total Personnel Expenses</b>	<b>995,256</b>	<b>1,187,506</b>	<b>(192,250)</b>	<b>-16.19%</b>	
<b>Meeting Expenses</b>					
Meetings	8,585	35,000	(26,415)	-75.47%	The utilization of the new MRO facility provided more opportunities to host meetings internally which enabled staff to reduce meeting expenses significantly more than originally expected in the budget by eliminating meeting room costs and audio visual rentals as well as lowering catering costs. Budget assumed quarterly meetings for the Protective Relay Subc, Planning Committee, Operating Committee and the Model Building Subc. In 2012 only two meetings were held for the PRS. On two occasions the committee felt that they did not have sufficient agenda items to warrant a face-to-face meeting. The average cost for member travel reimbursement for this two day meeting was \$10,650 X 2 = \$21,300.
Travel	76,483	96,500	(20,017)	-20.74%	
Conference Calls	3,175	7,500	(4,325)	-57.67%	
<b>Total Meeting Expenses</b>	<b>88,243</b>	<b>139,000</b>	<b>(50,757)</b>	<b>-36.52%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	84,540	124,700	(40,160)	-32.21%	The 2012 development for secure portal periodic data collection came in underbudget by \$27,750 and fewer hours were used on the PTI software which is charged at an hourly rate. PTI software usage was underbudgeted by \$15,000.
Rent & Improvements	-	-	-		
Office Costs	23,596	40,350	(16,754)	-41.52%	Not all the training dollars that were budgeted were used; alternative and less costly training was pursued in this area. In addition, time was not available for all staff to attend training due to work demands.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>108,136</b>	<b>165,050</b>	<b>(56,914)</b>	<b>-34.48%</b>	
<b>Indirect Expenses</b>	<b>859,227</b>	<b>893,391</b>	<b>(34,164)</b>	<b>-3.82%</b>	
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>2,050,862</b>	<b>2,384,947</b>	<b>(334,085)</b>	<b>-14.01%</b>	
<b>Change in Assets (A - B)</b>	<b>384,127</b>	<b>50,042</b>	<b>334,085</b>	<b>667.61%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	171,427	(50,042)	221,469	-442.57%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to this program.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>171,427</b>	<b>(50,042)</b>	<b>221,469</b>	<b>-442.57%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>2,222,289</b>	<b>2,334,905</b>	<b>(112,616)</b>	<b>-4.82%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>(212,700)</b>	<b>(100,084)</b>	<b>(112,616)</b>	<b>112.52%</b>	
<b>FTEs</b>	<b>6.1</b>	<b>8.0</b>	<b>(1.9)</b>	<b>-23.63%</b>	

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TRAINING, EDUCATION and OPERATOR CERTIFICATION	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	171,203	171,203	-	0.00%	
Penalty Sanctions	2,584	2,584	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 173,787</b>	<b>\$ 173,787</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>173,787</b>	<b>173,787</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	60,379	35,852	24,527	68.41%	Higher than anticipated executive staff involvement in the workshops, newsletters and speaker engagements, resulting in increased salary dollars being charged to this program. Application guides and the model controls and procedures developed by stakeholders incurred costs through the applicable committees.
Payroll Taxes	2,874	2,095	779	37.18%	
Employee Benefits	2,636	2,065	571	27.65%	
Savings & Retirement	10,580	6,154	4,426	71.92%	
<b>Total Personnel Expenses</b>	<b>76,469</b>	<b>46,166</b>	<b>30,303</b>	<b>65.64%</b>	
Meetings	15,141	48,500	(33,359)	-68.78%	Two of the four conferences were rolled into one, which was a significant savings. In addition, the Hearing training did not take place in 2012 due to discussions of changing Hearing Procedures and it seemed premature to hold in 2012. Hearing training was held March 13, 2013.
Travel	7,385	38,000	(30,615)	-80.57%	The 2012 budget included \$24,000 for SME member travel reimbursement, which did not take place.
Conference Calls	-	15,000	(15,000)	-100.00%	Although dollars were budgeted for the participants to have the ability to call in on the workshops, it was considered ineffective and therefore was not utilized. The workshops have become more "hands on".
<b>Total Meeting Expenses</b>	<b>22,526</b>	<b>101,500</b>	<b>(78,974)</b>	<b>-77.81%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	5,000	(5,000)	-100.00%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>-</b>	<b>5,000</b>	<b>(5,000)</b>	<b>-100.00%</b>	
<b>Indirect Expenses</b>	<b>32,186</b>	<b>20,001</b>	<b>12,185</b>	<b>60.92%</b>	Total actual indirect costs exceeded budgeted, therefore there were more indirect costs than budgeted allocated to this program.
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>131,181</b>	<b>172,667</b>	<b>(41,486)</b>	<b>-24.03%</b>	
<b>Change in Assets (A - B)</b>	<b>42,606</b>	<b>1,120</b>	<b>41,486</b>	<b>3704.11%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	6,422	(1,120)	7,542	-673.35%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to this program.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>6,422</b>	<b>(1,120)</b>	<b>7,542</b>	<b>-673.35%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>137,603</b>	<b>171,547</b>	<b>(33,944)</b>	<b>-19.79%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>(36,184)</b>	<b>(2,240)</b>	<b>(33,944)</b>	<b>1515.38%</b>	
<b>FTEs</b>	<b>0.23</b>	<b>0.18</b>	<b>0.1</b>	<b>27.78%</b>	

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SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	69,547	69,547	-	0.00%	
Penalty Sanctions	2,584	2,584	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 72,131</b>	<b>\$ 72,131</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>72,131</b>	<b>72,131</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	27,079	30,779	(3,700)	-12.02%	
Payroll Taxes	2,318	2,031	287	14.13%	
Employee Benefits	1,209	2,065	(856)	-41.45%	
Savings & Retirement	5,346	6,135	(789)	-12.86%	
<b>Total Personnel Expenses</b>	<b>35,952</b>	<b>41,010</b>	<b>(5,058)</b>	<b>-12.33%</b>	
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	-	7,000	(7,000)	-100.00%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>-</b>	<b>7,000</b>	<b>(7,000)</b>	<b>-100.00%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	1,430	3,000	(1,570)	-52.33%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	6,817	8,498	(1,681)		
<b>Total Operating Expenses</b>	<b>8,247</b>	<b>11,498</b>	<b>(3,251)</b>	<b>-28.27%</b>	
<b>Indirect Expenses</b>	<b>29,387</b>	<b>20,001</b>	<b>9,386</b>	<b>46.93%</b>	Total actual indirect costs exceeded budgeted, therefore there were more indirect costs than budgeted allocated to this program.
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>73,586</b>	<b>79,509</b>	<b>(5,923)</b>	<b>-7.45%</b>	
<b>Change in Assets (A - B)</b>	<b>(1,455)</b>	<b>(7,378)</b>	<b>5,923</b>	<b>-80.28%</b>	
<b>Fixed Assets</b>					
Depreciation	(6,817)	(8,498)	1,681	-19.78%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ (6,817)</b>	<b>\$ (8,498)</b>	<b>\$ 1,681</b>		
Allocation of Fixed Assets	5,863	(1,120)	6,983	-623.50%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to this program.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(954)</b>	<b>(9,618)</b>	<b>8,664</b>	<b>-90.08%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>72,632</b>	<b>69,891</b>	<b>2,741</b>	<b>3.92%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>501</b>	<b>(2,240)</b>	<b>2,741</b>	<b>-122.38%</b>	
<b>FTEs</b>	<b>0.21</b>	<b>0.18</b>	<b>0.03</b>	<b>16.67%</b>	

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MEMBER FORUMS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	-	-	-		
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	290,404	120,863	169,541	140.28%	Higher participation of the MRO staff on the NERC committees, Task forces, BOT and MRC meetings increased actual salary dollars higher than budgeted.
Payroll Taxes	14,021	7,352	6,669	90.71%	
Employee Benefits	16,393	8,144	8,249	101.29%	
Savings & Retirement	60,419	19,587	40,832	208.46%	
<b>Total Personnel Expenses</b>	<b>381,237</b>	<b>155,946</b>	<b>225,291</b>	<b>144.47%</b>	
<b>Meeting Expenses</b>					
Meetings	(693)	-	(693)		
Travel	144,075	140,000	4,075	2.91%	
Conference Calls	88	-	88		
<b>Total Meeting Expenses</b>	<b>143,470</b>	<b>140,000</b>	<b>3,470</b>	<b>2.48%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Indirect Expenses</b>	<b>(524,707)</b>	<b>(295,946)</b>	<b>(228,761)</b>	<b>77.30%</b>	Actual indirect costs for this program exceeded budgeted and in total there were more indirect costs than budgeted allocated to the direct program areas.
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	-	-	-		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	-	-	-		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTEs</b>	<b>1.5</b>	<b>0.7</b>	<b>0.8</b>	<b>114.08%</b>	

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GENERAL and ADMINISTRATIVE	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	(289,699)	(289,699)	-	0.00%	
Penalty Sanctions	-	-	-	-	
<b>Total ERO Funding</b>	<b>\$ (289,699)</b>	<b>\$ (289,699)</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
<b>Total Funding (A)</b>	<b>(289,699)</b>	<b>(289,699)</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	231,155	253,887	(22,732)	-8.95%	
Payroll Taxes	9,477	14,231	(4,754)	-33.41%	
Employee Benefits	13,296	17,549	(4,253)	-24.23%	
Savings & Retirement	42,230	32,554	9,676	29.72%	
<b>Total Personnel Expenses</b>	<b>296,158</b>	<b>318,221</b>	<b>(22,063)</b>	<b>-6.93%</b>	
<b>Meeting Expenses</b>					
Meetings	24,388	31,554	(7,166)	-22.71%	
Travel	55,098	53,541	1,557	2.91%	
Conference Calls	385	800	(415)	-51.88%	
<b>Total Meeting Expenses</b>	<b>79,871</b>	<b>85,895</b>	<b>(6,024)</b>	<b>-7.01%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	49,371	60,000	(10,629)	-17.72%	Media training for the MRO Communication Crisis Team was budgeted but not used in 2012. It has been rescheduled and budgeted for use in 2013. This was largely due to working on other priorities.
Rent & Improvements	-	-	-	-	
Office Costs	85,145	68,852	16,293	23.66%	MRO had an all-staff unbudgeted 3-day training on Certified Enterprise Risk Manager at a cost of \$30,000. This was partially offset by budgeted dollars in promotional supplies that were not spent.
Professional Services	-	-	-	-	
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
<b>Total Operating Expenses</b>	<b>134,516</b>	<b>128,852</b>	<b>5,664</b>	<b>4.40%</b>	
<b>Indirect Expenses</b>	<b>(510,545)</b>	<b>(532,968)</b>	<b>22,423</b>	<b>-4.21%</b>	
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets (A - B)</b>	<b>(289,699)</b>	<b>(289,699)</b>	<b>-</b>	<b>0.00%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-	-	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
<b>(Inc)Dec in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>289,699</b>	<b>289,699</b>	<b>-</b>	<b>0.00%</b>	
<b>FTEs</b>	<b>1.4</b>	<b>1.5</b>	<b>(0.1)</b>	<b>-7.19%</b>	

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LEGAL and REGULATORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments			-		
Penalty Sanctions			-		
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	-	-	-		
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	158,069	196,526	(38,457)	-19.57%	Higher participation of the MRO staff on the NERC committees, Task forces, BOT and MRC meetings increased actual salary dollars higher than budgeted in the NERC Forums and lower in the legal salaries.
Payroll Taxes	8,780	11,569	(2,789)	-24.11%	
Employee Benefits	1,410	2,638	(1,228)	-46.55%	
Savings & Retirement	25,628	22,443	3,185	14.19%	
<b>Total Personnel Expenses</b>	193,887	233,176	(39,289)	-16.85%	
<b>Meeting Expenses</b>					
Meetings	66	-	66		
Travel	5,919	4,200	1,719	40.93%	
Conference Calls	38	-	38		
<b>Total Meeting Expenses</b>	6,023	4,200	1,823	43.40%	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	5,148	2,595	2,553	98.38%	
Professional Services	26,263	100,000	(73,737)	-73.74%	Greater savings resulting from the general counsel position replacing outside counsel services. Professional services continue to be a challenge to accurately forecast.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	31,411	102,595	(71,184)	-69.38%	
<b>Indirect Expenses</b>	(231,321)	(339,971)	108,650	-31.96%	Actual indirect costs for this program was less than budgeted; however, total indirect costs exceeded budgeted and in total there were more indirect costs than budgeted allocated to the direct program areas.
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	-	-	-		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	0.00	0.00	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	-	-	-		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTEs</b>	1.1	0.7	0.4	49.32%	

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INFORMATION TECHNOLOGY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
ERO Funding					
Assessments					
Penalty Sanctions					
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	-	-	-		
<b>Expenses</b>					
Personnel Expenses					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC.
Salaries	263,554	178,051	85,503	48.02%	MRO staffing did not include a replacement manager in the 2012 budgeting process. A manager was hired October 2011.
Payroll Taxes	19,201	14,134	5,067	35.85%	
Employee Benefits	28,786	24,316	4,470	18.38%	
Savings & Retirement	42,485	19,401	23,084	118.98%	
<b>Total Personnel Expenses</b>	354,026	235,902	118,124	50.07%	
Meeting Expenses					
Meetings	-	-	-		
Travel	2,223	5,000	(2,777)	-55.54%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	2,223	5,000	(2,777)	-55.54%	
Operating Expenses					
Consultants & Contracts	238,285	278,500	(40,215)	-14.44%	Staff turnover resulted in projects either delayed or eliminated where additional analysis and planning had been budgeted in 2012.
Rent & Improvements	-	-	-		
Office Costs	149,686	201,250	(51,564)	-25.62%	MRO is under budget due to savings being realized in the contract computer software maintenance support. For the first three quarters in 2012 MRO relied on internal support to meet these needs as opposed to contracting with third party IT resources.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	490,801	380,000	110,801	29.16%	Budgeted depreciation was estimated based on a timeline prior to incurrence of a number of capital expenditures. The depreciation overage was further exacerbated by the early termination of the current facility lease and the leasehold improvements at the current address.
<b>Total Operating Expenses</b>	878,772	859,750	19,022	2.21%	
Indirect Expenses	(1,235,021)	(1,100,652)	(134,369)	12.21%	Total indirect costs exceeded budgeted, therefore there were more indirect costs than budgeted allocated to the direct program areas.
Other Non-Operating Expenses	-	-	-		
<b>Total Expenses (B)</b>	-	-	-		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	(490,801.00)	(380,000.00)	(110,801)	29.16%	The depreciation overage was caused by the early termination of the current facility lease and the leasehold improvements at the current address.
Computer & Software CapEx	459,291	350,435	108,856	31.06%	A number of 2013 approved budget purchases were accelerated into 2012 primarily in the hardware area: audio visual equipment, spare laptops, and a situation awareness monitor.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	\$ (31,510)	\$ (29,565)	\$ (1,945)		
Allocation of Fixed Assets	31,510	29,565	1,945	6.58%	The allocation of assets in IT was less than budgeted because the depreciation was higher than budgeted. See notes for the Depreciation line item.
<b>Total Inc(Dec) in Fixed Assets ©</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	-	-	-		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTEs</b>	<b>3.0</b>	<b>2.1</b>	<b>0.9</b>	<b>41.51%</b>	

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HUMAN RESOURCES	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -		Human Resources costs are included under the Finance and Accounting program.
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	-	-	-		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	-	-	-		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
<b>Total Personnel Expenses</b>	-	-	-		
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	-	-	-		
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	-	-	-		
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	-	-	-		
<b>Indirect Expenses</b>	-	-	-		
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	-	-	-		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>(Inc)Dec in Fixed Assets</b>	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	-	-	-		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTEs</b>	-	-	-		



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ACCOUNTING and FINANCE	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	-	-	-		
<b>Expenses</b>					
<b>Personnel Expenses</b>					Due to a budgeting error, Personnel Expenses were misallocated among the individual components: Salaries, Payroll Taxes, Employee Benefits, and Savings and Retirement. Actual expenses were correctly recorded in the appropriate line item. Therefore the variance in the 4 line items below is largely due to the erroneous allocation during the budgeting process. This error is also referenced on pages 8-9 of MRO's 2013 Business Plan and Budget filed with FERC. FERC Audit required a significant amount of executive hours in the months of May, June, and July.
Salaries	351,216	252,503	98,713	39.09%	
Payroll Taxes	20,456	20,061	395	1.97%	
Employee Benefits	32,975	25,922	7,053	27.21%	
Savings & Retirement	68,170	34,235	33,935	99.12%	
<b>Total Personnel Expenses</b>	472,817	332,721	140,096	42.11%	
<b>Meeting Expenses</b>					
Meetings	253	-	253		
Travel	1,225	3,000	(1,775)	-59.17%	
Conference Calls	352	-	352		
<b>Total Meeting Expenses</b>	1,830	3,000	(1,170)	-39.00%	
<b>Operating Expenses</b>					
Consultants & Contracts	41,724	19,576	22,148	113.14%	2012 actual new hire costs were higher than budgeted because we had an unexpected number of staff leave which required replacement. 2012 budget had \$0 dollars in hiring costs.
Rent & Improvements	351,209	391,680	(40,471)	-10.33%	Unlike our former lease, the new facility lease includes office cleaning, waste management, utilities, and other building maintenance costs (otherwise referred to as common area maintenance or CAM). This change resulted in an under-budget variance.
Office Costs	66,363	66,100	263	0.40%	
Professional Services	37,505	79,000	(41,495)	-52.53%	2012 Budget increased IT Audit scope but was determined at end of year that it would be more beneficial to move the IT audit to 2013 when more of the new platforms will have been implemented. MRO's actuarial fees have flattened after the initial spike in years 2007 through 2011 when the pension conversion took place.
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	496,801	556,356	(59,555)	-10.70%	
<b>Indirect Expenses</b>	(1,009,481)	(969,561)	(39,920)	4.12%	
<b>Other Non-Operating Expenses</b>	38,033	77,484	(39,451)		MRO staff was highly successful in negotiating lower than budgeted one-time costs for facilities move.
<b>Total Expenses (B)</b>	-	-	-		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	366,395	-	366,395		
Equipment CapEx	29,074	-	29,074		
Leasehold Improvements	336,548	211,000	125,548	59.50%	
<b>(Inc)Dec in Fixed Assets</b>	\$ 732,017	\$ 211,000	\$ 521,017		On March 29, 2012, the MRO Board approved a revised 2012 budget, which included the build-out of a new facility. These costs were anticipated in 2011; however, due to the timing of the lease agreement, the costs were pushed into 2012.
Allocation of Fixed Assets	(732,017)	(211,000)	(521,017)	246.93%	Total actual fixed asset costs exceeded budgeted, therefore there were more asset costs than budgeted allocated to the direct program areas.
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	-	-	-		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTEs</b>	3.3	2.8	0.5	17.75%	

Statement of Activities and Capital Expenditures by Program 2012 Actual		Functions in Delegation Agreement												Non-Statutory Functions		
		Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 600 & 900)	Situation Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
<b>Funding</b>																
<b>ERO Funding</b>																
NERC Assessments	8,349,029	8,349,029	-	8,349,029	454,789	5,623,628	2,319,561	171,203	69,547	-	(289,699)	-	-	-	-	-
Penalty Sanctions	418,499	418,499	-	418,499	22,827	275,076	115,428	2,584	2,584	-	-	-	-	-	-	-
<b>Total NERC Funding</b>	<b>8,767,528</b>	<b>8,767,528</b>	<b>-</b>	<b>8,767,528</b>	<b>477,616</b>	<b>5,898,704</b>	<b>2,434,989</b>	<b>173,787</b>	<b>72,131</b>	<b>-</b>	<b>(289,699)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Funding (A)</b>	<b>8,767,528</b>	<b>8,767,528</b>	<b>-</b>	<b>8,767,528</b>	<b>477,616</b>	<b>5,898,704</b>	<b>2,434,989</b>	<b>173,787</b>	<b>72,131</b>	<b>-</b>	<b>(289,699)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenses</b>																
<b>Personnel Expenses</b>																
Salaries	4,358,349	4,358,349	-	4,358,349	201,515	2,034,762	740,216	60,379	27,079	290,404	231,155	158,069	263,554	-	-	351,216
Payroll Taxes	254,396	254,396	-	254,396	11,170	121,111	44,988	2,874	2,318	14,021	9,477	8,780	19,201	-	-	20,456
Benefits	333,703	333,703	-	333,703	14,385	161,150	61,463	2,636	1,209	16,393	13,296	1,410	28,786	-	-	32,975
Retirement Costs	782,536	782,536	-	782,536	32,443	346,646	148,589	10,580	5,346	60,419	42,230	25,628	42,485	-	-	68,170
<b>Total Personnel Expenses</b>	<b>5,728,984</b>	<b>5,728,984</b>	<b>-</b>	<b>5,728,984</b>	<b>259,513</b>	<b>2,663,669</b>	<b>995,256</b>	<b>76,469</b>	<b>35,952</b>	<b>381,237</b>	<b>296,158</b>	<b>193,887</b>	<b>354,026</b>	<b>-</b>	<b>-</b>	<b>472,817</b>
<b>Meeting Expenses</b>																
Meetings	55,259	55,259	-	55,259	2,535	4,984	8,585	15,141	-	(693)	24,388	66	-	-	-	253
Travel	424,900	424,900	-	424,900	33,206	99,286	76,483	7,385	-	144,075	55,098	5,919	2,223	-	-	1,225
Conference Calls	23,501	23,501	-	23,501	14,839	4,624	3,175	-	-	88	385	38	-	-	-	352
<b>Total Meeting Expenses</b>	<b>503,660</b>	<b>503,660</b>	<b>-</b>	<b>503,660</b>	<b>50,580</b>	<b>108,894</b>	<b>88,243</b>	<b>22,526</b>	<b>-</b>	<b>143,470</b>	<b>79,871</b>	<b>6,023</b>	<b>2,223</b>	<b>-</b>	<b>-</b>	<b>1,830</b>
<b>Operating Expenses</b>																
Consultants & Contracts	507,918	507,918	-	507,918	12,000	81,998	84,540	-	-	-	49,371	-	238,285	-	-	41,724
Office Rent	351,209	351,209	-	351,209	-	-	-	-	-	-	-	-	-	-	-	351,209
Office Cost	434,146	434,146	-	434,146	9,111	93,667	23,596	-	1,430	-	85,145	5,148	149,686	-	-	66,363
Professional Services	63,768	63,768	-	63,768	-	-	-	-	-	-	-	26,263	-	-	-	37,505
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	497,618	497,618	-	497,618	-	-	-	-	6,817	-	-	-	490,801	-	-	-
<b>Total Operating Expenses</b>	<b>1,854,659</b>	<b>1,854,659</b>	<b>-</b>	<b>1,854,659</b>	<b>21,111</b>	<b>175,665</b>	<b>108,136</b>	<b>-</b>	<b>8,247</b>	<b>-</b>	<b>134,516</b>	<b>31,411</b>	<b>878,772</b>	<b>-</b>	<b>-</b>	<b>496,801</b>
<b>Total Direct Expenses</b>	<b>8,087,303</b>	<b>8,087,303</b>	<b>-</b>	<b>8,087,303</b>	<b>331,204</b>	<b>2,948,228</b>	<b>1,191,635</b>	<b>98,995</b>	<b>44,199</b>	<b>524,707</b>	<b>510,545</b>	<b>231,321</b>	<b>1,235,021</b>	<b>-</b>	<b>-</b>	<b>971,448</b>
<b>Indirect Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>202,912</b>	<b>2,387,363</b>	<b>859,227</b>	<b>32,186</b>	<b>29,387</b>	<b>(524,707)</b>	<b>(510,545)</b>	<b>(231,321)</b>	<b>(1,235,021)</b>	<b>-</b>	<b>-</b>	<b>(1,009,481)</b>
<b>Other Non-Operating Expenses</b>	<b>38,033</b>	<b>38,033</b>	<b>-</b>	<b>38,033</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,033</b>
<b>Total Expenses (B)</b>	<b>8,125,336</b>	<b>8,125,336</b>	<b>-</b>	<b>8,125,336</b>	<b>534,116</b>	<b>5,335,591</b>	<b>2,050,862</b>	<b>131,181</b>	<b>73,586</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Change in Assets</b>	<b>642,192</b>	<b>642,192</b>	<b>-</b>	<b>642,192</b>	<b>(56,500)</b>	<b>563,113</b>	<b>384,127</b>	<b>42,606</b>	<b>(1,455)</b>	<b>-</b>	<b>(289,699)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fixed Assets</b>																
Depreciation	(497,618)	(497,618)	-	(497,618)	-	-	-	-	(6,817)	-	-	-	(490,801)	-	-	-
Computer & Software CapEx	459,291	459,291	-	459,291	-	-	-	-	-	-	-	-	459,291	-	-	-
Furniture & Fixtures CapEx	366,395	366,395	-	366,395	-	-	-	-	-	-	-	-	-	-	-	366,395
Equipment CapEx	29,074	29,074	-	29,074	-	-	-	-	-	-	-	-	-	-	-	29,074
Leasehold Improvements	336,548	336,548	-	336,548	-	-	-	-	-	-	-	-	-	-	-	336,548
Allocation of Fixed Assets	-	-	-	-	40,484	476,311	171,427	6,422	5,863	-	-	-	31,510	-	-	(732,017)
<b>Inc(Dec) in Fixed Assets ( C )</b>	<b>693,690</b>	<b>693,690</b>	<b>-</b>	<b>693,690</b>	<b>40,484</b>	<b>476,311</b>	<b>171,427</b>	<b>6,422</b>	<b>(954)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL BUDGET (=B + C)</b>	<b>8,819,026</b>	<b>8,819,026</b>	<b>-</b>	<b>8,819,026</b>	<b>574,600</b>	<b>5,811,903</b>	<b>2,222,289</b>	<b>137,603</b>	<b>72,632</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)</b>	<b>(51,498)</b>	<b>(51,498)</b>	<b>-</b>	<b>(51,498)</b>	<b>(96,984)</b>	<b>86,801</b>	<b>212,700</b>	<b>36,184</b>	<b>(501)</b>	<b>-</b>	<b>(289,699)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FTEs</b>	<b>35.37</b>	<b>35.37</b>	<b>-</b>	<b>35.37</b>	<b>1.45</b>	<b>17.06</b>	<b>6.14</b>	<b>0.23</b>	<b>0.21</b>	<b>1.52</b>	<b>1.42</b>	<b>1.09</b>	<b>3.00</b>	<b>-</b>	<b>-</b>	<b>3.25</b>

# **MIDWEST RELIABILITY ORGANIZATION**

Saint Paul, Minnesota

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and For the Years Ended December 31, 2012 and 2011

# MIDWEST RELIABILITY ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members  
Midwest Reliability Organization  
Saint Paul, Minnesota

***Report on the Financial Statements***

We have audited the accompanying financial statements of Midwest Reliability Organization (the "Organization") which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of operations and members' equity and cash flows for the years then ended, and 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 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 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, 2012 and 2011, and the changes in its operations and members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
March 14, 2013

**MIDWEST RELIABILITY ORGANIZATION**

**STATEMENTS OF FINANCIAL POSITION**

As of December 31, 2012 and 2011

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	<b>ASSETS</b>	
	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,190,832	\$ 3,042,970
Restricted cash	14,002	418,545
Accounts receivable	191,366	-
Prepaid expenses	200,276	130,899
Total Current Assets	<u>3,596,476</u>	<u>3,592,414</u>
<b>PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET</b>	1,234,867	487,495
<b>OTHER ASSETS</b>		
Restricted cash - non-current	104,003	10,000
Security Deposit - non-current	39,858	39,858
Capitalized software costs, net of accumulated amortization of \$276,045 and \$187,642, respectively	<u>113,975</u>	<u>167,659</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,089,179</u>	<u>\$ 4,297,426</u>
	<b>LIABILITIES AND MEMBERS' EQUITY</b>	
<b>CURRENT LIABILITIES</b>		
Accounts payable - trade	\$ 391,426	\$ 300,108
Accrued liabilities	580,367	493,521
Retirement plan contribution	357,800	309,364
Deferred assessments	14,002	418,544
Deferred rent	-	47,744
Total Current Liabilities	<u>1,343,595</u>	<u>1,569,281</u>
<b>OTHER LIABILITIES</b>		
Postretirement medical benefit obligation	347,334	188,064
Deferred assessments - non-current	104,003	10,000
Deferred rent - non-current	121,976	-
Total Liabilities	<u>1,916,908</u>	<u>1,767,345</u>
<b>MEMBERS' EQUITY</b>	<u>3,172,271</u>	<u>2,530,081</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$ 5,089,179</u>	<u>\$ 4,297,426</u>

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

**STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY**

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Assessments	\$ 8,349,029	\$ 8,260,503
Penalty sanctions	<u>418,499</u>	<u>137,017</u>
Total Revenue	<u>8,767,528</u>	<u>8,397,520</u>
<b>EXPENSES</b>		
Personnel expenses		
Salaries	4,358,348	3,981,281
Payroll taxes	254,397	264,751
Employee benefits	333,704	279,647
Retirement benefits	<u>730,571</u>	<u>551,930</u>
Total personnel expenses	5,677,020	5,077,609
Meeting expenses		
Conference calls	23,501	24,692
Meetings	55,278	99,539
Travel	<u>424,881</u>	<u>367,700</u>
Total meeting expenses	503,660	491,931
Operating expenses		
Building rent and facilities	351,209	351,382
Consulting	507,918	718,055
Office costs	969,798	954,561
Professional services	<u>63,768</u>	<u>99,981</u>
Total operating expenses	<u>1,892,693</u>	<u>2,123,979</u>
Total Expenses	<u>8,073,373</u>	<u>7,693,519</u>
<b>POSTRETIREMENT-RELATED CHANGES</b>		
Postretirement medical benefit obligation changes other than net periodic cost	<u>51,965</u>	<u>(18,051)</u>
<b>CHANGE IN MEMBERS' EQUITY</b>	642,190	722,052
MEMBERS' EQUITY - Beginning of Year	<u>2,530,081</u>	<u>1,808,029</u>
<b>MEMBERS' EQUITY - END OF YEAR</b>	<u>\$ 3,172,271</u>	<u>\$ 2,530,081</u>

See accompanying notes to financial statements.

**MIDWEST RELIABILITY ORGANIZATION**

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in members' equity	\$ 642,190	\$ 722,052
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and software amortization	497,618	552,698
Postretirement benefit obligation	159,270	(32,838)
Change in assets and liabilities:		
Accounts receivable	(191,366)	-
Prepaid expenses	(69,377)	177,595
Security deposit	-	(39,858)
Accounts payable - trade	(17,846)	(334,742)
Accrued liabilities	86,846	108,488
Retirement plan contribution	48,436	29,364
Deferred assessments	(310,539)	75,024
Deferred rent	74,232	(55,620)
Change from Operating Activities	919,464	1,202,163
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in restricted cash	310,540	(75,025)
Purchases of property, improvements and equipment and software	(1,082,142)	(262,957)
Change from Investing Activities	(771,602)	(337,982)
 <b>Net Change in Cash and Cash Equivalents</b>	147,862	864,181
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,042,970	2,178,789
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,190,832	\$ 3,042,970
 Supplemental cash flow disclosure		
Equipment and software additions included in accounts payable	\$ 109,164	\$ -

See accompanying notes to financial statements.



## MIDWEST RELIABILITY ORGANIZATION

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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##### *Services*

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

##### *Cash and Cash Equivalents*

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are held by one financial institution, Wells Fargo, in three accounts. Escrowed amounts resulting from penalties assessed and collected in the United States are segregated into a separate account.

##### *Receivables*

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

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

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding \$2,000 are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to 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 \$384,099 and \$276,045 for the years ended December 31, 2012 and 2011, respectively.

##### *Deferred Assessments*

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

**MIDWEST RELIABILITY ORGANIZATION**

**NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2012 and 2011

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

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*Tax Status*

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code. They are also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2012 and 2011. The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2009 and thereafter are open to examination by federal and state authorities.

*Revenue and Assessments*

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

*Use of Estimates*

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

*Subsequent Events*

The Organization has evaluated subsequent events through March 14, 2013, which is the date that the financial statements were approved and available to be issued.

# MIDWEST RELIABILITY ORGANIZATION

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

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### NOTE 2 - NERC TRANSACTIONS

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

To ensure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with a board approved annual operating budget on or before June 30 of each year. Budgeted revenues from NERC were \$8,349,029 and \$8,260,503 for the years ended December 31, 2012 and 2011, respectively, which agree with the amounts received.

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### NOTE 3 - LEASE COMMITMENTS

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On January 1, 2007, the Organization assumed an operating lease for rental of office space located in Roseville, Minnesota. The assumed lease agreement was between Minnesota Industrial Properties Limited Partnership and MAPP COR. Rent expense for this lease was \$308,168 in 2011 and \$45,631 through April 30, 2012. The Organization terminated this lease on November 7, 2011 eliminating all future costs beyond May 1, 2012 in exchange for a payment of \$165,000, which was included in rent expense in 2011.

The Organization executed an operating lease for new office space in St Paul, Minnesota on January 20, 2012 with Behringer Harvard Lawson Commons, LLC. Rent expense on this lease was \$284,557 in 2012.

Future expected minimum lease payments under the new lease as of December 31, 2012 are as follows:

Years Ending December 31	
2013	\$ 52,332
2014	91,507
2015	258,414
2016	266,193
2017	274,216
Thereafter	<u>1,446,082</u>
	<u>\$ 2,388,744</u>

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011

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

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

	<u>2012</u>	<u>2011</u>
Equipment	\$ 1,403,378	\$ 1,137,157
Furniture	421,164	156,538
Leasehold improvements	<u>336,548</u>	<u>629,710</u>
	2,161,090	1,923,405
Less: Accumulated depreciation	<u>(926,223)</u>	<u>(1,435,910)</u>
Net Property, Improvements and Equipment	<u>\$ 1,234,867</u>	<u>\$ 487,495</u>

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**NOTE 5 - LINE OF CREDIT**

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The Organization obtained a revolving line of credit from National Cooperative Service Corporation (NCSC) in February 2008. The line of credit has a credit limit of \$2,000,000 and an interest rate equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization and expires on February 26, 2014. There were no outstanding balances at December 31, 2012 or 2011, respectively.

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011

**NOTE 6 - RETIREMENT PLANS**

*Postretirement Health Plan*

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

	2012	2011
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 662,945	\$ 589,666
Service cost	146,199	117,868
Interest cost	29,632	32,937
Plan changes	-	-
Actuarial loss	44,362	(74,529)
Benefits paid	(2,997)	(2,997)
Benefit obligation at end of year	880,141	662,945
Change in plan assets		
Fair value of plan assets at beginning of year	474,881	368,764
Actual return on plan assets	57,926	2,836
Employer contribution	2,997	106,278
Benefits paid	(2,997)	(2,997)
Fair value of plan assets at end of year	532,807	474,881
Unfunded status recognized as a noncurrent liability	\$ (347,334)	\$ (188,064)
Weighted average assumptions used to calculate the benefit obligation-discount rate	4.12%	4.48%

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

	2012	2011
Components of net periodic benefit cost		
Service cost	\$ 146,199	\$ 117,868
Interest cost	29,632	32,937
Expected return on plan assets	(35,173)	(33,509)
Amortization of prior service cost	(38,601)	(38,601)
Amortization of actuarial loss	8,245	12,796
Net periodic benefit cost	\$ 110,302	\$ 91,491
Weighted-average assumptions used to calculate the net periodic benefit cost		
Discount rate	4.48%	5.60%
Expected return on plan assets	7.00%	8.00%
Rate of compensation increases	N/A	N/A

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

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011

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

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

	2012	2011
Health care cost trend rate assumed for next year	10.6%	11.0%
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

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

	One-Percentage Point	
	Increase	Decrease
Effect on total of service cost and interest cost	\$ 44,772	\$ (34,088)
Effect on postretirement benefit obligation	205,242	(158,375)

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

	2012	2011
Actuarial (gain) loss arising during the year	\$ 13,364	\$ (56,652)
Amortization of prior year service cost	38,601	38,601
	\$ 51,965	\$ (18,051)

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

**MIDWEST RELIABILITY ORGANIZATION**

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2012 and 2011

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

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

	2012	2011
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Identical Assets (Level 1)
Asset category		
Cash equivalents	\$ 11,418	\$ 13,954
Mutual funds-bonds	322,492	235,073
Mutual funds-equities	159,657	225,854
Mutual funds-balanced	39,240	-
	\$ 532,807	\$ 474,881

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

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

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

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2011 are as follows:

Years Ending December 31			
2013		\$	3,221
2014			5,561
2015			7,144
2016			8,490
2017 - 2021			248,207

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 \$58,207 to the plan in 2013.

**MIDWEST RELIABILITY ORGANIZATION**

**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Years Ended December 31, 2012 and 2011

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

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*Defined Contribution Pension Plan*

In 2009, the Organization established a thrift savings plan to replace the terminated multiple-employer plan for the benefit of its employees. The Organization's previous 401(k) plan was converted into the new plan as well as the establishment of a new, non-elective employer contribution plan. In order to participate in the plan, employees must have attained age 20 and have completed one month of service. Employees may contribute up to the IRS limitations for their elective deferral, with a 50% matching contribution from the Organization. For employees to receive the non-elective or employer contribution, they must have worked 1,000 hours during the plan year. The Organization matched \$202,250 and \$186,669 of employee deferrals as of December 31, 2012 and 2011, respectively. In addition, the Organization elected to make an employer contribution in the amount of \$352,412 and \$321,437 for the years ended December 31, 2012 and 2011, respectively.

The Organization also established a 457B plan in 2010. Eligible employees may contribute an elective deferral, with a discretionary matching contribution from the Organization. Employee contributions were \$14,200 and \$12,833, respectively, for the years ended December 31, 2012 and 2011. The Organization matched \$7,400 and \$6,417, respectively, of employee deferrals for the years ended December 31, 2012 and 2011.

The Organization also established a 457F plan in 2011. Employer contribution amounts for employees in excess of IRS contribution limits are deposited to the 457F. The Organization contributed in the amount of \$11,579 and \$17,890, respectively, for the years ended December 31, 2012 and 2011.



**ATTACHMENT 4**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 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 23, 2013

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

Subject: NPCC 2012 True Up Actual vs. Budget Variance Analysis  
True Up Filing Based on Audited 2012 Financial Statements

Dear Michael:

Enclosed is the Northeast Power Coordinating Council, Inc. (NPCC) submittal regarding the 2012 NPCC actual vs. budget variances. NPCC's independent audit performed by Pricewaterhouse Coopers LLP was concluded on May 21, 2013 and forwarded to NERC for its information and provision to FERC.

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

No Regional Entity division assessments were used to fund CS division activities. Allocation between the RE division and CS division represents a 94/6 split for 2012 based upon total corporate FTEs of 33.34 in the RE division and 2.00 in the CS division for the full year. No indirect costs were allocated from the CS division to the RE division and no cross subsidies exist. In addition, NPCC does not budget for interest income and reports such income apportioned based upon its Regional Entity (RE) and Criteria Services (CS) division full time equivalent (FTE) ratio.

Actual total expenses for NPCC's RE division for 2012 were \$12,889,951 which is \$864,254 or 6% under the 2012 operating budget of \$13,754,206. Actual total expenses for NPCC's CS division for 2012 were \$985,073 which is \$18,691 or approximately 2% under the 2012 operating budget of \$1,003,764. In the aggregate, actual total expenses for the NPCC RE and CS divisions were \$13,875,024 which is \$882,945 or nearly 6% under the 2012 total corporate budget of \$14,757,970. Indirect expenses are allocated to the direct statutory programs based on FTE ratio. NPCC did not use operating cash reserves to fund any activities or services in 2012.

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

## **WECC CEA Revenue and Expenses**

(Actual variance of \$243k or 337% over budget at year end)

NPCC conducted two on-site audits of WECC during 2012 (one 693 audit and one CIP audit – each of these audits took place at separate locations which was not NPCC’s expectations when estimates were developed leading to much greater costs). Additionally the budgeted revenue and expenses were based on the average annual expense in a three year audit cycle. Therefore, the actual expenses in 2012 were greater than budgeted due to conducting the two audits in 2012. The total actual expenses related to the WECC audits were trued up with WECC, as per the CEA Agreement.

## **Personnel Expenses**

(Actual variance of \$893k or 11% under budget at year end)

Recruiting knowledge-based professionals continues to be challenging. In 2012 NPCC experienced one vacancy for the full year and two vacancies for a portion of the year. Two open 2012 positions were budgeted to be filled in January, one was not filled until July and one was not filled until August. Despite not being at a full staff complement for much of the year, NPCC leveraged industry expertise, the extensive volunteerism within Northeastern North America, subject matter expert independent contractors, and its dedicated and innovative staff to perform all of its 2012 delegated responsibilities as well as its goals and objectives, including:

- Conducting 42 off-site Operations & Planning (O&P) audits, five on-site O&P audits, three off-site CIP audits, nine on-site CIP audits and 633 individual spot checks involving 128 entities;
- Processing 200 Technical Feasibility Exceptions (TFE) from 29 entities, completing TFE Part B review of 179;
- Closing 166 violations;
- Accepting mitigation plans for 203 violations;
- Examining 51 events of which 11 were category two or higher;
- Processing 30 new entity registrations, 10 entity removals and 20 entity name changes.

NPCC reallocated a staff member from its criteria services division to the regional entity division during 2012 to meet the most pressing needs of the corporation. NPCC expects to continue to face staffing challenges and aging workforce issues but is confident that its dedicated staff will continue to provide all functions and services consistent with the Regional Delegation Agreement.

The at risk compensation component is based upon overall corporate goal attainment, which is reviewed initially by the Management Development and Compensation Committee. Recommendations in the aggregate were brought before and approved by the Board of Directors. The actual total at risk compensation was lower than budgeted, however, it is always possible that actual variance from budget may differ for each individual.

In the benefits area, a significant number of professionals continue to waive health insurance coverage, keeping superior coverage available to them from a prior employer. NPCC continued to budget for its full staff’s health insurance coverage during 2012, but has budgeted for a discounted proportion in 2013. Based upon actuarial review at year end, an \$826k increase in NPCC’s liability related to the defined benefit pension plan was recorded to the balance sheet. Accordingly, this amount was also recorded as a non-operating expense on the statement of activities.

## **Operating Expenses**

(Actual variance of \$699k or 16% under budget at year end)

Operating Expenses were less than budgeted due to several drivers including being under budget due to prudent use of outside counsel, consultants and contractors, as well as timing of Independent Director search

conclusion that required no carryover into 2012. A portion of Independent Director search fees had been budgeted in 2012, however, the search fees were paid in full in 2011.

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

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

Sincerely,

*Jessica Hala*

Jessica Hala  
Manager, Finance and Accounting

JH: jh  
Enclosures

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

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**  
**Total NPCC (RE and CS Divisions)**

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	12,874,642	12,874,643	(0)
Penalty Sanctions	614,000	614,000	0
<b>Total ERO Funding</b>	<b>13,488,642</b>	<b>13,488,642</b>	<b>0</b>
Federal Grants	-	-	-
Non-Statutory Assessments	956,900	956,900	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	56,616	120,000	(63,384)
Interest	20,999	-	20,999
Miscellaneous	314,507	72,000	242,507
<b>Total Funding (A)</b>	<b>14,837,664</b>	<b>14,637,542</b>	<b>200,122</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	5,269,134	5,891,824	(622,690)
Payroll Taxes	341,854	381,337	(39,483)
Employee Benefits	1,120,664	1,436,064	(315,400)
Savings & Retirement	988,630	1,048,569	(59,939)
<b>Total Personnel Expenses</b>	<b>7,720,282</b>	<b>8,757,795</b>	<b>(1,037,513)</b>
<b>Meeting Expenses</b>			
Meetings	175,799	295,500	(119,701)
Travel	660,002	722,000	(61,998)
Conference Calls	51,644	99,134	(47,490)
<b>Total Meeting Expenses</b>	<b>887,445</b>	<b>1,116,634</b>	<b>(229,189)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	1,626,531	1,978,100	(351,569)
Rent & Improvements	678,565	653,531	25,034
Office Costs	439,010	528,480	(89,470)
Professional Services	802,600	1,183,666	(381,066)
Miscellaneous	107,665	147,938	(40,273)
Depreciation	224,697	142,382	82,316
<b>Total Operating Expenses</b>	<b>3,879,068</b>	<b>4,634,096</b>	<b>(755,027)</b>
<b>Indirect Expenses</b>	<b>379,599</b>	<b>247,546</b>	<b>132,052</b>
<b>Other Non-Operating Expenses</b>	<b>1,007,373</b>	<b>1,899</b>	<b>1,005,475</b>
<b>Total Expenses (B)</b>	<b>13,873,767</b>	<b>14,757,970</b>	<b>(884,202)</b>
<b>Change in Assets (A - B)</b>	<b>963,897</b>	<b>(120,428)</b>	<b>1,084,324</b>
<b>Fixed Assets</b>			
Depreciation	(224,697)	(142,382)	(82,316)
Computer & Software CapEx	165,698	-	165,698
Furniture & Fixtures CapEx	-	19,552	(19,552)
Equipment CapEx	74,710	28,383	46,327
Leasehold Improvements	-	19,552	(19,552)
<b>Incr(Dec) in Fixed Assets</b>	<b>15,711</b>	<b>(74,895)</b>	<b>90,606</b>
Allocation of Fixed Assets	(5,735)	31,001	(36,739)
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>9,977</b>	<b>(43,894)</b>	<b>53,870</b>
<b>TOTAL BUDGET (B + C)</b>	<b>13,883,744</b>	<b>14,714,076</b>	<b>(830,331)</b>
<b>Change in Working Capital (A-B-C)</b>	<b>953,920</b>	<b>(76,534)</b>	<b>1,030,454</b>
<b>FTE's</b>	<b>33.42</b>	<b>36.08</b>	<b>(2.66)</b>

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**  
**Criteria Services Division**

NON-STATUTORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	956,900	956,900	-	0.00%
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	1,689	-	1,689	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>958,589</b>	<b>956,900</b>	<b>1,689</b>	<b>0.18%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	279,039	351,216	(72,177)	-20.55%
Payroll Taxes	20,592	24,086	(3,494)	-14.51%
Employee Benefits	68,035	112,083	(44,048)	-39.30%
Savings & Retirement	148,528	154,332	(5,804)	-3.76%
<b>Total Personnel Expenses</b>	<b>516,194</b>	<b>641,717</b>	<b>(125,523)</b>	<b>-19.56%</b>
<b>Meeting Expenses</b>				
Meetings	1,537	9,500	(7,963)	-83.82%
Travel	39,604	40,000	(396)	-0.99%
Conference Calls	2,660	14,300	(11,640)	-81.40%
<b>Total Meeting Expenses</b>	<b>43,801</b>	<b>63,800</b>	<b>(19,999)</b>	<b>-31.35%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	17,946	114,000	(96,054)	-84.26%
Rent & Improvements	44,021	46,564	(2,543)	-5.46%
Office Costs	27,603	37,655	(10,052)	-26.69%
Professional Services	49,099	84,337	(35,238)	-41.78%
Miscellaneous	70,278	5,411	64,867	1198.80%
Depreciation	22,444	10,145	12,299	121.23%
<b>Total Operating Expenses</b>	<b>231,391</b>	<b>298,112</b>	<b>(66,721)</b>	<b>-22.38%</b>
<b>Indirect Expenses</b>				
	-	-	-	
<b>Other Non-Operating Expenses</b>				
	193,687	135	193,552	
<b>Total Expenses (B)</b>	<b>985,073</b>	<b>1,003,764</b>	<b>(18,691)</b>	<b>-1.86%</b>
<b>Change in Assets (A - B)</b>	<b>(26,484)</b>	<b>(46,864)</b>	<b>20,380</b>	<b>-43.49%</b>
<b>Fixed Assets</b>				
Depreciation	(22,444)	(10,145)	(12,299)	121.23%
Computer & Software CapEx	2,271	-	2,271	
Furniture & Fixtures CapEx	-	1,393	(1,393)	-100.00%
Equipment CapEx	3,464	2,022	1,442	71.32%
Leasehold Improvements	-	1,393	(1,393)	-100.00%
<b>Incr(Dec) in Fixed Assets</b>	<b>(16,709)</b>	<b>(5,337)</b>	<b>(11,372)</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(16,709)</b>	<b>(5,337)</b>	<b>(11,372)</b>	<b>213.08%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>968,364</b>	<b>998,427</b>	<b>(30,063)</b>	<b>-3.01%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(9,775)</b>	<b>(41,527)</b>	<b>31,752</b>	<b>-76.46%</b>
<b>FTE's</b>	<b>2.00</b>	<b>2.58</b>	<b>(0.58)</b>	<b>-22.48%</b>

**Northeast Power Coordination Council, Inc.**  
**2012 Statement of Activities Summary**  
**Regional Entity Division**

TOTAL STATUTORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	12,874,642	12,874,643	(0)	0.00%
Penalty Sanctions	614,000	614,000	0	0.00%
<b>Total ERO Funding</b>	<b>13,488,642</b>	<b>13,488,642</b>	<b>0</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	56,616	120,000	(63,384)	-52.82% Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	19,310	-	19,310	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	314,507	72,000	242,507	336.82% WECC CEA revenue greater than budget due to actual expenses greater than budget as a result of O&P and CIP audit both conducted during 2012.
<b>Total Funding (A)</b>	<b>13,879,075</b>	<b>13,680,642</b>	<b>198,433</b>	<b>1.45%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	4,990,095	5,540,608	(550,513)	-9.94% Under budget due to staff vacancies throughout the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	321,262	357,251	(35,989)	-10.07% Under budget due to staff vacancies throughout the year.
Employee Benefits	1,052,629	1,323,981	(271,352)	-20.50% Under budget due to several employees opting out of health insurance coverage, as well as staff vacancies throughout the year.
Savings & Retirement	840,102	894,237	(54,135)	-6.05%
<b>Total Personnel Expenses</b>	<b>7,204,088</b>	<b>8,116,078</b>	<b>(911,990)</b>	<b>-11.24%</b>
<b>Meeting Expenses</b>				
Meetings	174,262	286,000	(111,738)	-39.07% Continued efforts to hold more meetings onsite or via webinars have kept meeting expenses under budget.
Travel	620,398	682,000	(61,602)	-9.03%
Conference Calls	48,984	84,834	(35,850)	-42.26% Continued efforts to hold more meetings onsite or via webinars have kept conference call expenses under budget.
<b>Total Meeting Expenses</b>	<b>843,644</b>	<b>1,052,834</b>	<b>(209,190)</b>	<b>-19.87%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	1,608,585	1,864,100	(255,515)	-13.71% Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	634,544	606,967	27,577	4.54%
Office Costs	411,407	490,825	(79,418)	-16.18% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	753,501	1,099,329	(345,828)	-31.46% Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	37,387	142,527	(105,140)	-73.77% WECC CEA expenses of 72k budgeted under Misc were recorded under the appropriate expense category.
Depreciation	202,253	132,237	70,017	52.95% Depreciation expense was over budget due to unbudgeted capitalization of computer & software development expenses.
<b>Total Operating Expenses</b>	<b>3,647,677</b>	<b>4,335,984</b>	<b>(688,306)</b>	<b>-15.87%</b>
<b>Indirect Expenses</b>				
	379,599	247,546	132,052	53.34%
<b>Other Non-Operating Expenses</b>				
	813,686	1,764	811,923	Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>12,888,694</b>	<b>13,754,206</b>	<b>(865,511)</b>	<b>-6.29%</b>
<b>Change in Assets (A - B)</b>				
	990,381	(73,564)	1,063,944	-1446.29%
<b>Fixed Assets</b>				
Depreciation	(202,253)	(132,237)	(70,017)	52.95% Depreciation expense was over budget due to unbudgeted capitalization of computer & software development expenses.
Computer & Software CapEx	163,427	-	163,427	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	18,159	(18,159)	-100.00%
Equipment CapEx	71,246	26,361	44,885	170.27% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	18,159	(18,159)	-100.00%
<b>Incr(Dec) in Fixed Assets</b>	<b>32,420</b>	<b>(69,558)</b>	<b>101,978</b>	
Allocation of Fixed Assets	(5,735)	31,001	(36,739)	-118.51%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>26,686</b>	<b>(38,557)</b>	<b>65,242</b>	<b>-169.21%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>12,915,380</b>	<b>13,715,649</b>	<b>(800,268)</b>	<b>-5.83%</b>
<b>Change in Working Capital (A-B-C)</b>				
	963,695	(35,007)	998,702	-2852.87%
<b>FTE's</b>	<b>31.42</b>	<b>33.50</b>	<b>(2.08)</b>	<b>-6.21%</b> 2 FTEs budgeted to start in Jan started in July and Aug; 1 open position at year end

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

RELIABILITY STANDARDS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	1,382,869	1,382,869	(0)	0.00%	
Penalty Sanctions	68,222	68,222	-	0.00%	
<b>Total ERO Funding</b>	<b>1,451,091</b>	<b>1,451,091</b>	<b>(0)</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,309	-	1,309		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>1,452,400</b>	<b>1,451,091</b>	<b>1,309</b>	<b>0.09%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	388,756	566,402	(177,646)	-31.36%	Salaries were under budget due to one open position for the full year and at risk compensation component based on corporate goal attainment and individual
Payroll Taxes	23,155	34,677	(11,522)	-33.23%	Under budget due to one open position for the full year.
Employee Benefits	79,164	124,122	(44,958)	-36.22%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage and one open position.
Savings & Retirement	76,125	86,336	(10,211)	-11.83%	Under budget due to one open position for the full year.
<b>Total Personnel Expenses</b>	<b>567,200</b>	<b>811,537</b>	<b>(244,337)</b>	<b>-30.11%</b>	
<b>Meeting Expenses</b>					
Meetings	2,588	13,000	(10,412)	-80.09%	Meeting expenses were under budget due to more meetings held at NPCC offices or via webinar.
Travel	64,295	120,000	(55,705)	-46.42%	Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	2,473	15,100	(12,627)	-83.62%	Conference call expenses were under budget due to more meetings held at NPCC offices or via webinar.
<b>Total Meeting Expenses</b>	<b>69,356</b>	<b>148,100</b>	<b>(78,744)</b>	<b>-53.17%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	19,961	39,000	(19,039)	-48.82%	Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	40,251	54,355	(14,104)	-25.95%	Allocation of overhead less than budgeted due to one open position.
Office Costs	25,739	43,954	(18,215)	-41.44%	Allocation of overhead less than budgeted due to one open position.
Professional Services	46,565	98,447	(51,882)	-52.70%	Allocation of overhead less than budgeted due to one open position and legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	1,860	6,316	(4,456)	-70.55%	
Depreciation	12,446	11,842	604	5.10%	
<b>Total Operating Expenses</b>	<b>146,822</b>	<b>253,914</b>	<b>(107,092)</b>	<b>-42.18%</b>	
<b>Indirect Expenses</b>	<b>177,851</b>	<b>245,555</b>	<b>(67,704)</b>	<b>-27.57%</b>	
<b>Other Non-Operating Expenses</b>	<b>84,203</b>	<b>158</b>	<b>84,045</b>		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>1,045,432</b>	<b>1,459,265</b>	<b>(413,832)</b>	<b>-28.36%</b>	
<b>Change in Assets (A - B)</b>	<b>406,968</b>	<b>(8,173)</b>	<b>415,141</b>	<b>-5079.26%</b>	
<b>Fixed Assets</b>					
Depreciation	(12,446)	(11,842)	(604)	5.10%	
Computer & Software CapEx	3,962	-	3,962		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,626	(1,626)	-100.00%	
Equipment CapEx	4,384	2,361	2,023	85.70%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	1,626	(1,626)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	<b>(4,100)</b>	<b>(6,229)</b>	<b>2,129</b>		
Allocation of Fixed Assets	(1,488)	1,945	(3,433)	-176.49%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(5,588)</b>	<b>(4,284)</b>	<b>(1,304)</b>	<b>30.43%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>1,039,844</b>	<b>1,454,980</b>	<b>(415,136)</b>	<b>-28.53%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>412,556</b>	<b>(3,889)</b>	<b>416,445</b>	<b>-10707.79%</b>	
FTE's	2.00	3.00	(1.00)	-33.33%	1 open position at year end; budgeted for Jan start.



**Northeast Power Coordinating Council, Inc.**  
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WECC CEA Responsibilities	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	314,507	-	314,507	WECC CEA revenue was budgeted under compliance; greater than budget due to actual expenses greater than budget as a result of O&P and CIP audit both conducted during 2012.
<b>Total Funding (A)</b>	<b>314,507</b>	<b>-</b>	<b>314,507</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	85,575	-	85,575	WECC CEA related expenses allocated from Compliance.
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<b>85,575</b>	<b>-</b>	<b>85,575</b>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	24,994	-	24,994	WECC CEA related expenses allocated from Compliance.
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>24,994</b>	<b>-</b>	<b>24,994</b>	
<b>Operating Expenses</b>				
Consultants & Contracts	203,938	-	203,938	WECC CEA related expenses allocated from Compliance.
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	WECC CEA expenses of 72k were budgeted under Compliance; actual expenses are shown here under the appropriate account groupings where expenses were incurred.
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>203,938</b>	<b>-</b>	<b>203,938</b>	
<b>Indirect Expenses</b>	-	-	-	
<b>Other Non-Operating Expenses</b>	-	-	-	
<b>Total Expenses (B)</b>	<b>314,507</b>	<b>-</b>	<b>314,507</b>	
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Fixed Assets</b>				
Depreciation	0	0	0	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>314,507</b>	<b>-</b>	<b>314,507</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>FTE's</b>	<b>-</b>	<b>-</b>	<b>-</b>	

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

**COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION**

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	7,058,449	7,058,449	0	0.00%	
Penalty Sanctions	341,111	341,111	0	0.00%	
<b>Total ERO Funding</b>	<b>7,399,560</b>	<b>7,399,560</b>	<b>1</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	(200)	-	(200)		
Interest	9,818	-	9,818		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	72,000	(72,000)	-100.00%	WECC CEA funds were budgeted under Compliance; actual revenues are shown separately under "WECC CEA." WECC CEA revenue was greater than budget due to actual expenses greater than budget as a result of O&P and CIP audit both conducted during 2012.
<b>Total Funding (A)</b>	<b>7,399,560</b>	<b>7,471,560</b>	<b>(62,381)</b>	<b>-0.83%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	2,273,269	2,420,942	(147,673)	-6.10%	Salaries were under budget due allocation to WECC CEA and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	158,627	157,467	1,160	0.74%	
Employee Benefits	486,344	589,407	(103,063)	-17.49%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage.
Savings & Retirement	327,679	351,874	(24,195)	-6.88%	
<b>Total Personnel Expenses</b>	<b>3,245,919</b>	<b>3,519,690</b>	<b>(273,771)</b>	<b>-7.78%</b>	
<b>Meeting Expenses</b>					
Meetings	13,017	40,000	(26,983)	-67.46%	Meeting expenses were under budget due to more meetings held at NPCC offices or via webinar.
Travel	278,464	314,000	(35,536)	-11.32%	Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	20,389	11,600	8,789	75.77%	
<b>Total Meeting Expenses</b>	<b>311,870</b>	<b>365,600</b>	<b>(53,730)</b>	<b>-14.70%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	1,119,884	1,252,000	(132,116)	-10.55%	Under budget due to allocation to WECC CEA.
Rent & Improvements	312,596	271,776	40,820	15.02%	Allocation of overhead greater than budgeted due to open positions in other programs.
Office Costs	198,359	219,772	(21,413)	-9.74%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	357,327	492,237	(134,910)	-27.41%	Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	17,563	103,579	(86,016)	-83.04%	WECC CEA expenses of 72k were budgeted under Compliance; actual expenses are shown separately under "WECC CEA" under the appropriate expense category.
Depreciation	93,348	59,211	34,137	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	<b>2,099,077</b>	<b>2,398,574</b>	<b>(299,498)</b>	<b>-12.49%</b>	
<b>Indirect Expenses</b>	<b>1,333,883</b>	<b>1,227,774</b>	<b>106,109</b>	<b>8.64%</b>	
<b>Other Non-Operating Expenses</b>	<b>164,837</b>	<b>789</b>	<b>164,048</b>		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>7,155,586</b>	<b>7,512,428</b>	<b>(356,841)</b>	<b>-4.75%</b>	
<b>Change in Assets (A - B)</b>	<b>243,974</b>	<b>(40,868)</b>	<b>294,460</b>	<b>-720.51%</b>	
<b>Fixed Assets</b>					
Depreciation	(93,348)	(59,211)	(34,137)	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	127,803	-	127,803		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	8,132	(8,132)	-100.00%	
Equipment CapEx	32,883	11,803	21,080	178.60%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	8,132	(8,132)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	<b>67,338</b>	<b>(31,144)</b>	<b>98,482</b>		
Allocation of Fixed Assets	(11,158)	9,724	(20,882)	-214.74%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>56,181</b>	<b>(21,420)</b>	<b>77,600</b>	<b>-362.29%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>7,211,767</b>	<b>7,491,008</b>	<b>(279,241)</b>	<b>-3.73%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>187,793</b>	<b>(19,449)</b>	<b>216,860</b>	<b>-1115.04%</b>	
<b>FTE's</b>	<b>15.00</b>	<b>15.00</b>	<b>-</b>	<b>0.00%</b>	

**Northeast Power Coordinating Council, Inc.**  
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RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	2,970,217	2,970,217	(0)	0.00%	
Penalty Sanctions	134,170	134,170		0.00%	
<b>Total ERO Funding</b>	<b>3,104,387</b>	<b>3,104,388</b>	<b>(0)</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	3,207	-	3,207		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>3,107,594</b>	<b>3,104,388</b>	<b>3,207</b>	<b>0.10%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	916,353	1,084,011	(167,658)	-15.47%	Salaries were under budget due to open position first half of the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	56,442	67,409	(10,967)	-16.27%	Under budget due to one open position for the first half of the year.
Employee Benefits	199,685	265,032	(65,347)	-24.66%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage and one open position.
Savings & Retirement	195,947	205,859	(9,912)	-4.81%	
<b>Total Personnel Expenses</b>	<b>1,368,427</b>	<b>1,622,312</b>	<b>(253,885)</b>	<b>-15.65%</b>	
<b>Meeting Expenses</b>					
Meetings	32,132	50,000	(17,868)	-35.74%	Meeting expenses were under budget due to more meetings held at NPCC offices or via webinar.
Travel	170,524	120,000	50,524	42.10%	Travel expenses exceeded budget due to travel associated with Bulk Electric System definition related meetings.
Conference Calls	16,338	30,250	(13,912)	-45.99%	Continued efforts to hold more meetings onsite or via webinars have kept conference call expenses under budget.
<b>Total Meeting Expenses</b>	<b>218,994</b>	<b>200,250</b>	<b>18,744</b>	<b>9.36%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	159,945	392,000	(232,055)	-59.20%	Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	106,516	106,899	(383)	-0.36%	
Office Costs	72,983	86,444	(13,461)	-15.57%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	125,029	193,613	(68,584)	-35.42%	Allocation of overhead less than budgeted due to one open position and legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	6,065	12,421	(6,356)	-51.17%	
Depreciation	36,717	23,289	13,427	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	<b>507,255</b>	<b>814,666</b>	<b>(307,411)</b>	<b>-37.73%</b>	
<b>Indirect Expenses</b>	<b>524,661</b>	<b>482,925</b>	<b>41,736</b>	<b>8.64%</b>	
<b>Other Non-Operating Expenses</b>	<b>255,157</b>	<b>311</b>	<b>254,846</b>		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>2,874,494</b>	<b>3,120,464</b>	<b>(245,971)</b>	<b>-7.88%</b>	
<b>Change in Assets (A - B)</b>	<b>233,101</b>	<b>(16,076)</b>	<b>249,177</b>	<b>-1549.95%</b>	
<b>Fixed Assets</b>					
Depreciation	(36,717)	(23,289)	(13,427)	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	11,407	-	11,407		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	3,198	(3,198)	-100.00%	
Equipment CapEx	12,934	4,642	8,292	178.63%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	3,198	(3,198)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	<b>(12,375)</b>	<b>(12,251)</b>	<b>(124)</b>		
Allocation of Fixed Assets	(4,389)	3,825	(8,214)	-214.74%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(16,764)</b>	<b>(8,426)</b>	<b>(8,338)</b>	<b>98.95%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>2,857,729</b>	<b>3,112,038</b>	<b>(254,308)</b>	<b>-8.17%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>249,865</b>	<b>(7,650)</b>	<b>257,515</b>	<b>-3366.21%</b>	
<b>FTE's</b>	<b>5.32</b>	<b>5.90</b>	<b>(0.58)</b>	<b>-9.83%</b>	1 FTE added; budgeted Jan start, actual Aug start = 0.42

**Northeast Power Coordinating Council, Inc.**  
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TRAINING, EDUCATION and OPERATOR CERTIFICATION	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	78,004	78,004	(0)	0.00%
Penalty Sanctions	2,274	2,274		0.00%
<b>Total ERO Funding</b>	<b>80,278</b>	<b>80,278</b>	<b>(0)</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	56,816	120,000	(63,184)	-52.65% Actual fees charged per person for attending NPCC's standards and compliance workshops were less than originally budgeted.
Interest	66	-	66	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>137,160</b>	<b>200,278</b>	<b>(63,118)</b>	<b>-31.52%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	16,024	17,610	(1,586)	-9.01%
Payroll Taxes	1,122	868	254	29.34%
Employee Benefits	4,943	5,214	(271)	-5.20%
Savings & Retirement	4,328	4,395	(67)	-1.53%
<b>Total Personnel Expenses</b>	<b>26,417</b>	<b>28,086</b>	<b>(1,669)</b>	<b>-5.94%</b>
<b>Meeting Expenses</b>				
Meetings	104,021	152,000	(47,979)	-31.57% Workshop expenses were less than budgeted as a result of lower negotiated rates.
Travel	3,038	3,000	38	1.27%
Conference Calls	138	1,010	(872)	-86.34%
<b>Total Meeting Expenses</b>	<b>107,197</b>	<b>156,010</b>	<b>(48,813)</b>	<b>-31.29%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	598	1,100	(502)	-45.64%
Rent & Improvements	2,013	1,812	201	11.10%
Office Costs	1,314	1,465	(151)	-10.31%
Professional Services	2,327	3,282	(955)	-29.10%
Miscellaneous	1,804	211	1,593	754.98%
Depreciation	622	395	228	57.68%
<b>Total Operating Expenses</b>	<b>8,678</b>	<b>8,265</b>	<b>414</b>	<b>5.01%</b>
<b>Indirect Expenses</b>	<b>8,893</b>	<b>8,185</b>	<b>708</b>	<b>8.64%</b>
<b>Other Non-Operating Expenses</b>	<b>6,218</b>	<b>5</b>	<b>6,213</b>	Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>157,403</b>	<b>200,551</b>	<b>(43,148)</b>	<b>-21.51%</b>
<b>Change in Assets (A - B)</b>	<b>(20,243)</b>	<b>(273)</b>	<b>(19,970)</b>	<b>7324.74%</b>
<b>Fixed Assets</b>				
Depreciation	(622)	(395)	(228)	57.68%
Computer & Software CapEx	1,996	-	1,996	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	54	(54)	-100.00%
Equipment CapEx	219	79	140	177.49% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	54	(54)	-100.00%
<b>Incr(Dec) in Fixed Assets</b>	<b>1,593</b>	<b>(208)</b>	<b>1,801</b>	
Allocation of Fixed Assets	(74)	65	(139)	-214.44%
<b>Total Incr(Dec) in Fixed Assets (C)</b>	<b>1,519</b>	<b>(143)</b>	<b>1,661</b>	<b>-1164.35%</b>
<b>TOTAL BUDGET (B + C)</b>	<b>158,921</b>	<b>200,408</b>	<b>(41,487)</b>	<b>-20.70%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>(21,761)</b>	<b>(130)</b>	<b>(21,631)</b>	<b>16644.70%</b>
<b>FTE's</b>	<b>0.10</b>	<b>0.10</b>	<b>-</b>	<b>0.00%</b>

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

**SITUATION AWARENESS and INFRASTRUCTURE SECURITY**

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	%	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	1,385,103	1,385,103	-	0.00%	
Penalty Sanctions	68,222	68,222	-	0.00%	
<b>Total ERO Funding</b>	<b>1,453,325</b>	<b>1,453,325</b>	<b>-</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,309	-	1,309		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>1,454,634</b>	<b>1,453,325</b>	<b>1,309</b>	<b>0.09%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	464,033	555,844	(91,811)	-16.52%	Salaries were under budget due to at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	26,891	34,356	(7,465)	-21.73%	Under budget due to at risk compensation under budget.
Employee Benefits	58,153	106,002	(47,849)	-45.14%	Employee Benefits expenses were under budget due to several employees opting out of health insurance coverage.
Savings & Retirement	94,775	99,570	(4,795)	-4.82%	
<b>Total Personnel Expenses</b>	<b>643,852</b>	<b>795,772</b>	<b>(151,920)</b>	<b>-19.09%</b>	
<b>Meeting Expenses</b>					
Meetings	15,365	16,000	(635)	-3.97%	
Travel	47,340	70,000	(22,660)	-32.37%	Continued efforts to hold more meetings onsite or via webinars have kept travel expenses under budget.
Conference Calls	2,383	7,100	(4,717)	-66.44%	
<b>Total Meeting Expenses</b>	<b>65,088</b>	<b>93,100</b>	<b>(28,012)</b>	<b>-30.09%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	63,554	112,000	(48,446)	-43.26%	Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	54,577	54,355	222	0.41%	
Office Costs	31,779	43,954	(12,175)	-27.70%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Professional Services	58,369	98,447	(40,078)	-40.71%	Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	3,300	6,316	(3,016)	-47.75%	
Depreciation	18,670	11,842	6,828	57.66%	
<b>Total Operating Expenses</b>	<b>230,249</b>	<b>326,914</b>	<b>(96,666)</b>	<b>-29.57%</b>	
<b>Indirect Expenses</b>	<b>266,777</b>	<b>245,555</b>	<b>21,222</b>	<b>8.64%</b>	
<b>Other Non-Operating Expenses</b>	<b>131,707</b>	<b>158</b>	<b>131,549</b>		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	<b>1,337,672</b>	<b>1,461,499</b>	<b>(123,827)</b>	<b>-8.47%</b>	
<b>Change in Assets (A - B)</b>	<b>116,962</b>	<b>(8,174)</b>	<b>125,136</b>	<b>-1530.95%</b>	
<b>Fixed Assets</b>					
Depreciation	(18,670)	(11,842)	(6,828)	57.66%	
Computer & Software CapEx	5,663	-	5,663		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,626	(1,626)	-100.00%	
Equipment CapEx	6,577	2,361	4,216	178.55%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	1,626	(1,626)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	<b>(6,430)</b>	<b>(6,229)</b>	<b>(201)</b>		
Allocation of Fixed Assets	(2,232)	1,945	(4,177)	-214.73%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(8,662)</b>	<b>(4,284)</b>	<b>(4,378)</b>	<b>102.18%</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>1,329,011</b>	<b>1,457,215</b>	<b>(128,204)</b>	<b>-8.80%</b>	
<b>Change in Working Capital (A-B-C)</b>	<b>125,623</b>	<b>(3,891)</b>	<b>129,513</b>	<b>-3328.78%</b>	
<b>FTE's</b>	<b>3.00</b>	<b>3.00</b>	<b>-</b>	<b>0.00%</b>	

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

GENERAL and ADMINISTRATIVE	2012	2012	2012 Variance	
	Actual	Budget	from Budget	Comments (Explain variances > +/- 10% and >\$10,000)
			Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	(323,076)	(323,075)	(1)	0.00%
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<u>(323,076)</u>	<u>(323,075)</u>	<u>(1)</u>	<u>0.00%</u>
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	1,257	-	1,257	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>(321,819)</u>	<u>(323,075)</u>	<u>1,256</u>	<u>-0.39%</u>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	49,538	41,729	7,809	18.71%
Payroll Taxes	2,318	1,521	797	52.42%
Employee Benefits	4,908	12,764	(7,856)	-61.55%
Savings & Retirement	28,531	10,070	18,461	183.32% Participation was greater than budgeted.
<b>Total Personnel Expenses</b>	<u>85,295</u>	<u>66,084</u>	<u>19,211</u>	<u>29.07%</u>
<b>Meeting Expenses</b>				
Meetings	81,324	2,000	79,324	3966.24% Annual meeting expenses were budgeted across all programs but actual costs were recorded under G&A; will be budgeted under G&A going forward.
Travel	46,249	15,000	31,249	208.33% Some travel expenses budgeted under Human Resources program were incurred under the G&A program.
Conference Calls	4,652	2,100	2,552	121.52%
<b>Total Meeting Expenses</b>	<u>132,225</u>	<u>19,100</u>	<u>113,125</u>	<u>592.28%</u>
<b>Operating Expenses</b>				
Consultants & Contracts	11,483	24,000	(12,517)	-52.15% Under budget as a result of judicious use of contractor and consultant services to complement staff functions.
Rent & Improvements	45,496	34,969	10,527	30.11% Operating expenses for 2010 and 2011 were billed by landlord and paid in 2012.
Office Costs	26,962	28,278	(1,316)	-4.65%
Professional Services	44,975	63,334	(18,359)	-28.99% Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	10,443	4,063	6,380	157.03%
Depreciation	11,949	7,618	4,330	56.84% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	<u>151,308</u>	<u>162,262</u>	<u>(10,954)</u>	<u>-6.75%</u>
<b>Indirect Expenses</b>	<u>(379,600)</u>	<u>(247,548)</u>	<u>(132,051)</u>	<u>53.34%</u>
<b>Other Non-Operating Expenses</b>	<u>12,029</u>	<u>102</u>	<u>11,927</u>	<u>Increase in NPCC's pension liability based on actuarial review at year end.</u>
<b>Total Expenses (B)</b>	<u>1,257</u>	<u>-</u>	<u>1,257</u>	
<b>Change in Assets (A - B)</b>	<u>(323,076)</u>	<u>(323,075)</u>	<u>(1)</u>	<u>0.00%</u>
<b>Fixed Assets</b>				
Depreciation	(11,949)	(7,618)	(4,330)	56.84% Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	2,005	-	2,005	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,046	(1,046)	-100.00%
Equipment CapEx	4,209	1,519	2,690	177.09% Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	1,046	(1,046)	-100.00%
<b>Incr(Dec) in Fixed Assets</b>	<u>(5,734)</u>	<u>(4,007)</u>	<u>(1,727)</u>	
Allocation of Fixed Assets	5,734	4,007	1,727	43.09%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>TOTAL BUDGET (B + C)</b>	<u>1,257</u>	<u>-</u>	<u>1,257</u>	
<b>Change in Working Capital (A-B-C)</b>	<u>(323,076)</u>	<u>(323,075)</u>	<u>(1)</u>	<u>0.00%</u>
<b>FTE's</b>	<u>1.92</u>	<u>1.92</u>	<u>-</u>	<u>0.00%</u>

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

MEMBER FORUMS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	-	-	-		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	327	-	327		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	327	-	327		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	50,464	44,627	5,837	13.08%	
Payroll Taxes	3,958	2,745	1,213	44.17%	
Employee Benefits	18,475	16,995	1,480	8.71%	
Savings & Retirement	11,042	10,842	200	1.84%	
<b>Total Personnel Expenses</b>	83,939	75,209	8,730	11.61%	
<b>Meeting Expenses</b>					
Meetings	242	2,000	(1,758)	-87.90%	
Travel	1,918	5,000	(3,082)	-61.64%	
Conference Calls	489	225	264	117.33%	
<b>Total Meeting Expenses</b>	2,649	7,225	(4,576)	-63.34%	
<b>Operating Expenses</b>					
Consultants & Contracts	3,032	6,000	(2,968)	-49.47%	
Rent & Improvements	10,063	9,059	1,004	11.08%	
Office Costs	6,132	7,326	(1,194)	-16.30%	
Professional Services	11,597	16,408	(4,811)	-29.32%	
Miscellaneous	461	1,053	(592)	-56.20%	
Depreciation	3,112	1,974	1,138	57.66%	
<b>Total Operating Expenses</b>	34,397	41,819	(7,423)	-17.75%	
<b>Indirect Expenses</b>	(135,541)	(124,279)	(11,261)	9.06%	
<b>Other Non-Operating Expenses</b>	14,883	26	14,857		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	327	-	327		
<b>Change in Assets (A - B)</b>	-	-	0		
<b>Fixed Assets</b>					
Depreciation	(3,112)	(1,974)	(1,138)	57.66%	
Computer & Software CapEx	990	-	990		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	271	(271)	-100.00%	
Equipment CapEx	1,096	393	703	178.90%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	271	(271)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	(1,025)	(1,039)	13		
Allocation of Fixed Assets	1,025	1,039	(13)	-1.30%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	0		
<b>TOTAL BUDGET (B + C)</b>	327	-	327		
<b>Change in Working Capital (A-B-C)</b>	-	-	0		
<b>FTE's</b>	0.50	0.50	-	0.00%	

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

LEGAL and REGULATORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	114,729	161,621	(46,892)	-29.01%	Salaries were under budget due to open position first half of the year and at risk compensation component based on corporate goal attainment and individual performance.
Payroll Taxes	4,505	11,003	(6,498)	-59.06%	Under budget due to one open position for the first half of the year.
Employee Benefits	10,797	27,438	(16,641)	-60.65%	Under budget due to one open position for the first half of the year.
Savings & Retirement	7,435	10,218	(2,783)	-27.24%	
<b>Total Personnel Expenses</b>	<b>137,466</b>	<b>210,281</b>	<b>(72,815)</b>	<b>-34.63%</b>	
<b>Meeting Expenses</b>					
Meetings	67	2,000	(1,933)	-96.65%	
Travel	6,232	5,000	1,232	24.64%	
Conference Calls	226	2,100	(1,874)	-89.24%	
<b>Total Meeting Expenses</b>	<b>6,525</b>	<b>9,100</b>	<b>(2,575)</b>	<b>-28.30%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	1,956	14,000	(12,044)	-86.03%	Allocation of overhead less than budgeted due to open position.
Rent & Improvements	7,902	18,118	(10,216)	-56.39%	Allocation of overhead less than budgeted due to open position.
Office Costs	5,007	14,652	(9,645)	-65.83%	
Professional Services	18,252	32,816	(14,564)	-44.38%	Under budget as a result of judicious use of outside counsel.
Miscellaneous	722	2,105	(1,383)	-65.71%	
Depreciation	6,223	3,947	2,276	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	<b>40,062</b>	<b>85,639</b>	<b>(45,577)</b>	<b>-53.22%</b>	
<b>Indirect Expenses</b>	<b>(190,271)</b>	<b>(305,073)</b>	<b>114,802</b>	<b>-37.63%</b>	
<b>Other Non-Operating Expenses</b>	<b>6,218</b>	<b>53</b>	<b>6,165</b>		
<b>Total Expenses (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Assets (A - B)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Fixed Assets</b>					
Depreciation	(6,223)	(3,947)	(2,276)	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	1,701	-	1,701		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	542	(542)	-100.00%	
Equipment CapEx	2,192	787	1,405	178.55%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	542	(542)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	<b>(2,330)</b>	<b>(2,076)</b>	<b>(253)</b>		
Allocation of Fixed Assets	2,330	2,076	253	12.20%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>TOTAL BUDGET (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Working Capital (A-B-C)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>FTE's</b>	<b>0.50</b>	<b>1.00</b>	<b>(0.50)</b>	<b>-50.00%</b>	1 FTE added; budgeted Jan start, actual July start = 0.5



**Northeast Power Coordinating Council, Inc.**  
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INFORMATION TECHNOLOGY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	-	-	-		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	1,964	-	1,964		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	1,964	-	1,964		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	429,397	469,716	(40,319)	-8.58%	
Payroll Taxes	28,968	32,518	(3,550)	-10.92%	
Employee Benefits	126,809	119,066	7,743	6.50%	
Savings & Retirement	79,692	81,810	(2,118)	-2.59%	
<b>Total Personnel Expenses</b>	664,866	703,110	(38,244)	-5.44%	
<b>Meeting Expenses</b>					
Meetings	5,872	6,000	(128)	-2.13%	
Travel	19,429	25,000	(5,571)	-22.28%	
Conference Calls	4,387	10,100	(5,713)	-56.56%	
<b>Total Meeting Expenses</b>	29,688	41,100	(11,412)	-27.77%	
<b>Operating Expenses</b>					
Consultants & Contracts	20,056	24,000	(3,944)	-16.43%	
Rent & Improvements	60,376	54,355	6,021	11.08%	
Office Costs	45,274	43,955	1,319	3.00%	
Professional Services	69,545	98,447	(28,902)	-29.36%	Legal fees were less than budget due to judicious use of outside counsel.
Miscellaneous	3,726	6,316	(2,590)	-41.01%	
Depreciation	18,670	11,842	6,827	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	217,647	238,915	(21,268)	-8.90%	
<b>Indirect Expenses</b>	(1,016,458)	(983,283)	(33,175)	3.37%	
<b>Other Non-Operating Expenses</b>	106,221	158	106,063		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	1,964	-	1,964		
<b>Change in Assets (A - B)</b>	-	-	-		
<b>Fixed Assets</b>					
Depreciation	(18,670)	(11,842)	(6,827)	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	5,943	-	5,943		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	1,626	(1,626)	-100.00%	
Equipment CapEx	6,577	2,361	4,216	178.55%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Leasehold Improvements	-	1,626	(1,626)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	(6,150)	(6,229)	79		
Allocation of Fixed Assets	6,150	6,229	(79)	-1.26%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-		
<b>TOTAL BUDGET (B + C)</b>	1,964	-	1,964		
<b>Change in Working Capital (A-B-C)</b>	-	-	-		
<b>FTE's</b>	3.00	3.00	-	0.00%	

**Northeast Power Coordinating Council, Inc.**  
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HUMAN RESOURCES	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	-	-	-	
Federal Grants	-	-	-	
Non-Statutory Assessments	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	655	-	655	Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	655	-	655	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	119,027	116,008	3,019	2.60%
Payroll Taxes	8,691	8,542	149	1.74%
Employee Benefits	41,322	38,428	2,894	7.53%
Savings & Retirement	27,520	27,459	61	0.22%
<b>Total Personnel Expenses</b>	196,560	190,438	6,122	3.21%
<b>Meeting Expenses</b>				
Meetings	484	4,000	(3,516)	-87.90%
Travel	1,648	15,000	(13,352)	-89.01%
				Majority of travel expenses budgeted under Human Resources program were incurred under the G&A program.
Conference Calls	1,181	1,250	(69)	-5.51%
<b>Total Meeting Expenses</b>	3,313	20,250	(16,937)	-83.64%
<b>Operating Expenses</b>				
Consultants & Contracts	6,065	12,000	(5,935)	-49.46%
Rent & Improvements	20,125	18,118	2,007	11.08%
Office Costs	12,445	14,652	(2,207)	-15.06%
Professional Services	23,215	32,816	(9,601)	-29.26%
Miscellaneous	923	2,105	(1,182)	-56.16%
Depreciation	6,223	3,947	2,276	57.65%
				Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	68,996	83,639	(14,642)	-17.51%
<b>Indirect Expenses</b>	(306,340)	(294,379)	(11,961)	4.06%
<b>Other Non-Operating Expenses</b>	38,126	53	38,073	Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	655	-	655	
<b>Change in Assets (A - B)</b>	-	-	0	
<b>Fixed Assets</b>				
Depreciation	(6,223)	(3,947)	(2,276)	57.65%
				Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	1,981	-	1,981	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	542	(542)	-100.00%
				Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Equipment CapEx	2,192	787	1,405	178.55%
Leasehold Improvements	-	542	(542)	-100.00%
<b>Incr(Dec) in Fixed Assets</b>	(2,050)	(2,076)	26	
Allocation of Fixed Assets	2,050	2,076	(26)	-1.26%
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	0	
<b>TOTAL BUDGET (B + C)</b>	655	-	655	
<b>Change in Working Capital (A-B-C)</b>	-	-	0	
<b>FTE's</b>	1.00	1.00	-	0.00%

**Northeast Power Coordinating Council, Inc.**  
**2012 Statement of Activities Summary**

ACCOUNTING and FINANCE	2012	2012	2012 Variance		
	Actual	Budget	from Budget		
			Over(Under)		Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	-	-	-		
Federal Grants	-	-	-		
Non-Statutory Assessments	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	655	-	655		Interest income, while not budgeted, was allocated by FTE ratio.
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	655	-	655		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	132,468	103,828	28,640	27.58%	Salaries were over budget due to unanticipated staffing change during 2011, after completion of 2012 budget (increased the required experience level of the position.)
Payroll Taxes	8,903	7,665	1,238	16.15%	
Employee Benefits	26,937	32,276	(5,339)	-16.54%	
Savings & Retirement	15,559	15,874	(315)	-1.99%	
<b>Total Personnel Expenses</b>	183,867	159,643	24,224	15.17%	
<b>Meeting Expenses</b>					
Meetings	474	1,000	(526)	-52.60%	
Travel	2,516	5,000	(2,484)	-49.68%	
Conference Calls	980	6,099	(5,119)	-83.93%	
<b>Total Meeting Expenses</b>	3,970	12,099	(8,129)	-67.19%	
<b>Operating Expenses</b>					
Consultants & Contracts	9,596	12,000	(2,404)	-20.03%	
Rent & Improvements	20,125	18,118	2,007	11.08%	
Office Costs	12,375	14,652	(2,277)	-15.54%	
Professional Services	41,275	32,816	8,459	25.78%	
Miscellaneous	963	2,105	(1,142)	-54.26%	
Depreciation	6,223	3,947	2,276	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
<b>Total Operating Expenses</b>	90,557	83,639	6,919	8.27%	
<b>Indirect Expenses</b>	(283,855)	(255,433)	(28,422)	11.13%	
<b>Other Non-Operating Expenses</b>	6,116	53	6,063		Increase in NPCC's pension liability based on actuarial review at year end.
<b>Total Expenses (B)</b>	655	-	655		
<b>Change in Assets (A - B)</b>	-	-	(0)		
<b>Fixed Assets</b>					
Depreciation	(6,223)	(3,947)	(2,276)	57.65%	Depreciation expense was over budget due to unbudgeted capitalization of computer & software expenses.
Computer & Software CapEx	1,981	-	1,981		Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Furniture & Fixtures CapEx	-	542	(542)	-100.00%	Computer expenses budgeted within office costs were capitalized in accordance with NPCC capitalization policies and GAAP guidelines.
Equipment CapEx	2,192	787	1,405	178.55%	
Leasehold Improvements	-	542	(542)	-100.00%	
<b>Incr(Dec) in Fixed Assets</b>	(2,050)	(2,076)	26		
Allocation of Fixed Assets	2,050	2,076	(26)	-1.26%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	0		
<b>TOTAL BUDGET (B + C)</b>	655	-	655		
<b>Change in Working Capital (A-B-C)</b>	-	-	(0)		
<b>FTE's</b>	1.00	1.00	-	0.00%	

NPCC  
Penalty Sanctions

Date Invoiced	Date Received	Amount	Year to Recognize for Business Plan & Budget			
			2011	2012	2013	2014
12/14/2009	12/17/2009	\$ 10,000.00	\$ 10,000.00			
12/14/2009	12/17/2009	10,000.00	10,000.00			
12/14/2009	12/17/2009	10,000.00	10,000.00			
12/14/2009	12/17/2009	10,000.00	10,000.00			
3/8/2010	3/19/2010	250,000.00	250,000.00			
4/12/2010	4/20/2010	5,000.00	5,000.00			
6/1/2010	6/9/2010	13,500.00	13,500.00			
8/9/2010	8/26/2010	40,000.00		40,000.00		
11/1/2010	11/30/2010	5,000.00		5,000.00		
12/9/2010	12/21/2010	450,000.00		450,000.00		
12/9/2010	12/21/2010	7,500.00		7,500.00		
Subtotal - 2010		<u>\$ 811,000.00</u>				
3/28/2011	4/7/2011	\$ 30,000.00		30,000.00		
3/28/2011	4/12/2011	10,000.00		10,000.00		
4/7/2011	4/21/2011	2,500.00		2,500.00		
4/7/2011	4/15/2011	5,000.00		5,000.00		
4/7/2011	4/18/2011	7,500.00		7,500.00		
5/17/2011	5/26/2011	2,500.00		2,500.00		
5/17/2011	5/31/2011	35,000.00		35,000.00		
6/14/2011	6/20/2011	4,000.00		4,000.00		
6/2/2011	6/10/2011	2,500.00		2,500.00		
6/2/2011	6/13/2011	2,500.00		2,500.00		
6/2/2011	6/30/2011	7,500.00		7,500.00		
6/2/2011	6/30/2011	2,500.00		2,500.00		
6/27/2011	7/13/2011	15,000.00			15,000.00	
7/27/2011	8/10/2011	3,500.00			3,500.00	
7/27/2011	8/10/2011	5,000.00			5,000.00	
7/27/2011	8/10/2011	5,000.00			5,000.00	
7/27/2011	9/6/2011	15,000.00			15,000.00	
8/18/2011	9/13/2011	80,000.00			80,000.00	
9/6/2011	9/23/2011	2,500.00			2,500.00	
9/9/2011	9/19/2011	5,000.00			5,000.00	
9/6/2011	9/23/2011	50,000.00			50,000.00	
9/14/2011	9/26/2011	4,000.00			4,000.00	
9/9/2011	9/30/2011	7,500.00			7,500.00	
9/6/2011	10/3/2011	5,000.00			5,000.00	
10/4/2011	10/12/2011	6,000.00			6,000.00	
10/4/2011	10/14/2011	3,500.00			3,500.00	
10/4/2011	10/17/2011	5,000.00			5,000.00	
Subtotal - 2011		<u>\$ 323,500.00</u>				
2/22/2012	3/8/2012	\$ 15,000.00			15,000.00	
2/22/2012	3/8/2012	5,000.00			5,000.00	
2/23/2012	3/12/2012	17,500.00			17,500.00	
2/22/2012	3/21/2012	25,000.00			25,000.00	
4/3/2012	5/1/2012	5,000.00			5,000.00	
4/2/2012	5/1/2012	3,800.00			3,800.00	
4/3/2012	5/2/2012	4,000.00			4,000.00	
5/10/2012	6/5/2012	10,000.00			10,000.00	
6/22/2012	7/3/2012	8,000.00				8,000.00
6/22/2012	7/18/2012	25,000.00				25,000.00
9/5/2012	10/2/2012	15,000.00				15,000.00
12/4/2012	1/3/2013	30,000.00				30,000.00
12/18/2012	1/10/2013	40,000.00				40,000.00
Subtotal - 2012		<u>\$ 203,300.00</u>				
		<u>\$ 1,337,800.00</u>	<u>\$ 308,500.00</u>	<u>\$ 614,000.00</u>	<u>\$ 297,300.00</u>	<u>\$ 118,000.00</u>

NPCC 2012 Penalties Reconciliation	1/1/2012	12/31/2012	Change in 2012
Total Cumulative Penalties - GAAP/PWC Audit	\$ 1,134,500.00	\$ 1,337,800.00	\$ 203,300.00
Total Cumulative Penalties - True Up Report/BP&B	308,500.00	922,500.00	614,000.00
<b>Difference<sup>1</sup></b>	<b>\$ 826,000.00</b>	<b>\$ 415,300.00</b>	<b>\$ (410,700.00)</b>

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

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

**Financial Statements  
December 31, 2012 and 2011**

**Northeast Power Coordinating Council, Inc.**  
**Index**  
**December 31, 2012 and 2011**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Northeast Power Coordinating Council, Inc. (the "Company"), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statement of activities and statement of cash flows for the years then ended.

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

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

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

May 21, 2013

**Northeast Power Coordinating Council, Inc.**  
**Statements of Financial Position**  
**December 31, 2012 and 2011**

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	2012	2011
<b>Assets</b>		
Cash	\$ 6,724,986	\$ 5,264,257
Restricted cash	649,950	1,337,795
Investments	2,210,894	2,210,864
Prepaid expenses	271,074	205,725
Other assets	335,714	68,076
Equipment and leasehold improvements, less accumulated depreciation and amortization of \$800,389 and \$563,742, respectively	<u>1,274,059</u>	<u>1,264,083</u>
Total assets	<u>\$ 11,466,677</u>	<u>\$ 10,350,800</u>
<b>Liabilities and Net Assets</b>		
Accrued expenses and other liabilities	\$ 1,287,040	\$ 1,196,905
Accrued liability for pension	3,676,153	2,656,750
Deferred revenue	235,313	465,523
Deferred rent	<u>767,901</u>	<u>761,477</u>
Total liabilities	<u>5,966,407</u>	<u>5,080,655</u>
Net assets		
Unrestricted net assets	<u>5,500,270</u>	<u>5,270,145</u>
Total net assets	<u>5,500,270</u>	<u>5,270,145</u>
Total liabilities and net assets	<u>\$ 11,466,677</u>	<u>\$ 10,350,800</u>

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



**Northeast Power Coordinating Council, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Assessments	\$ 956,900	\$ 349,600
Regional entity ERO funding	12,551,567	12,652,610
Penalty sanctions	203,300	323,500
Workshops	56,616	67,200
Interest income	22,255	22,993
Miscellaneous Income	314,507	-
Total revenue	<u>14,105,145</u>	<u>13,415,903</u>
<b>Operating expenses</b>		
Salaries and employee benefits	7,722,983	6,726,974
Administrative and consultant fees	1,944,962	1,858,234
Professional fees	527,170	645,823
Meetings and travel	963,372	1,257,475
Telephone and telecommunications	227,042	221,694
Office supplies and expense	257,696	164,986
Equipment leases	107,307	106,354
Rent expense	654,281	628,383
Insurance expense	34,768	27,743
Miscellaneous	118,107	39,116
Depreciation and amortization	236,647	200,612
Total operating expenses	<u>12,794,335</u>	<u>11,877,394</u>
Change in net assets before nonoperating expenses	1,310,810	1,538,509
<b>Nonoperating expenses</b>		
Pension change other than net periodic pension cost	<u>1,080,685</u>	<u>821,223</u>
Increase in net assets	230,125	717,286
<b>Net assets</b>		
Beginning of year	<u>5,270,145</u>	<u>4,552,859</u>
End of year	<u>\$ 5,500,270</u>	<u>\$ 5,270,145</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, 2012 and 2011**

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	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 230,125	\$ 717,286
Depreciation and amortization	236,647	200,612
Increase in prepaid expenses	(65,349)	(25,342)
Increase in other assets	(267,638)	(42,820)
Increase in accrued expenses and other liabilities	90,135	270,175
Increase in accrued liability for pension	1,019,403	572,092
Increase (decrease) in deferred revenue	(230,210)	465,523
Increase in deferred rent	6,424	6,391
Net cash provided by operating activities	<u>1,019,537</u>	<u>2,163,917</u>
<b>Cash flows from investing activities</b>		
Purchases of equipment and leasehold improvements	(246,623)	(198,948)
Purchases of investments	(30)	(34)
Restricted cash	687,845	(19,712)
Net cash provided by (used for) investing activities	<u>441,192</u>	<u>(218,694)</u>
Net increase in cash	1,460,729	1,945,223
<b>Cash and cash equivalents</b>		
Beginning of year	<u>5,264,257</u>	<u>3,319,034</u>
End of year	<u>\$ 6,724,986</u>	<u>\$ 5,264,257</u>

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

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

## **Notes to Financial Statements**

### **December 31, 2012 and 2011**

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#### **1. Background**

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

The Company is primarily funded through the NERC based on the regional entity division annual business plan and budget submitted to and approved by the FERC and Canadian provincial regulatory and/or governmental authorities. The Company's criteria services division is funded by regional independent system operators or balancing authority areas and operates on assessments to and funded from these entities based upon a "Net Energy for Load" formula.

#### **2. Summary of Significant Accounting Policies**

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

For the years ended December 31, 2012 and 2011, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

##### **Cash**

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

##### **Restricted Cash**

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

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

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

# Northeast Power Coordinating Council, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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### Revenue Recognition

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

### Rent Expense

The Company's office lease which commenced in 2009 contains predetermined increases and decreases in the rentals payable during the lease term. Rent expense is recognized on a straight-line basis over the lease term. The difference between the rent expense charged to operations during the year and the amount payable under the lease during that year is recorded as "Deferred rent" on the Statements of Financial Position. Deferred rent also includes the landlord's contribution toward the cost of leasehold improvements, which is being amortized over the lease term. The unamortized balance of the landlord's contribution at December 31, 2012 is approximately \$408,000.

### Income Taxes

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

### Use of Estimates

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

## 3. Investments

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

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

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

At December 31, 2012 and 2011, the Company owned 2,210,894 and 2,210,864 units of \$1 par value per unit, respectively. In 2012 and 2011, the funds earned average yields of 0%. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis.

**4. Equipment and Leasehold Improvements**

Equipment and leasehold improvements at December 31, 2012 and 2011 consists of the following:

	<b>Depreciable Life</b>	<b>2012</b>	<b>2011</b>
Furniture	10 years	\$ 201,518	\$ 201,518
Computer equipment	3 years	435,769	356,849
Website	3 years	232,000	232,000
Software	3 years	230,470	16,767
Leasehold improvements	15 years (see note 2)	974,691	974,691
		<u>2,074,448</u>	<u>1,781,825</u>
Less: Accumulated depreciation and amortization		<u>(800,389)</u>	<u>(563,742)</u>
		1,274,059	1,218,083
Assets not yet in service		-	46,000
		<u>\$ 1,274,059</u>	<u>\$ 1,264,083</u>

In 2012 and 2011, depreciation and amortization expense totaled \$236,647 and \$200,612, respectively.

**5. Pension Plan**

The Company has a trustee, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. The Company's plan contributions were \$600,000 for each of the years 2012 and 2011.

The following tables provide information with respect to the defined benefit plan as of and for the years ended December 31, 2012 and 2011:

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

	2012	2011
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 276,757	\$ 246,339
Interest cost	461,524	453,237
Expected return on plan assets	(492,785)	(480,344)
Amortization of prior service cost	20,532	20,532
Recognized actuarial loss	<u>272,690</u>	<u>111,104</u>
Net periodic benefit cost	<u>\$ 538,718</u>	<u>\$ 350,868</u>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 8,957,466	\$ 8,062,852
Service cost	276,757	246,339
Interest cost	461,524	453,237
Actuarial loss	1,686,218	297,030
Benefits paid	<u>(101,992)</u>	<u>(101,992)</u>
Benefit obligation at end of year	<u>11,279,973</u>	<u>8,957,466</u>
<b>Change in fair value of plan assets</b>		
Fair value of plan assets at beginning of year	6,300,716	5,978,193
Actual return on plan assets	805,096	(175,485)
Company contribution	600,000	600,000
Benefits paid	<u>(101,992)</u>	<u>(101,992)</u>
Fair value of plan assets at end of year	<u>7,603,820</u>	<u>6,300,716</u>
Funded status at end of year	<u>\$ (3,676,153)</u>	<u>\$ (2,656,750)</u>
<b>Amounts recognized in unrestricted net assets include</b>		
Loss	\$ (4,072,994)	\$ (2,971,777)
Prior service cost	<u>\$ (180,683)</u>	<u>\$ (201,215)</u>
	<u>\$ (4,253,677)</u>	<u>\$ (3,172,992)</u>
<b>Changes in unrestricted assets recognized in nonoperating expenses</b>		
Net (gain)/loss	\$ 1,373,907	\$ 952,859
Prior service cost	-	-
Amortization of prior service cost	(20,532)	(20,532)
Amortization of net gain/(loss)	<u>(272,690)</u>	<u>(111,104)</u>
	<u>\$ 1,080,685</u>	<u>\$ 821,223</u>
<b>Amounts of unrestricted net assets expected to be recognized in net periodic benefit cost in 2013</b>		
Amortization of loss	\$ 170,000	

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

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

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

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

The accumulated benefit obligation at December 31, 2012 and 2011 was \$8,487,636 and \$6,714,082, respectively.

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

The Company's defined benefit plan weighted average asset allocation at December 31, 2012 and 2011 by asset category is as follows:

	<b>Allocation Percentage</b>	
	<b>2012</b>	<b>2011</b>
Equity securities	71.1 %	68.2 %
Debt securities	28.2 %	29.6 %
Cash	0.7 %	2.2 %
	<b>100.0 %</b>	<b>100.0 %</b>

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

Investments in equity and debt securities are valued using market prices in active markets (level 1). Their valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. There were no securities for which the fair value was based on other observable or unobservable inputs. At December 31, 2012, the plan assets consisted of \$61,131 of cash and cash equivalents, \$2,581,601 of domestic equities, \$1,138,913 of international equities, \$2,143,583 of corporate bonds, \$995,970 of specific strategy funds, \$327,980 of commodity funds and \$354,642 of public real estate investment trust investments.

At December 31, 2012, the Company's target allocation percentages for plan assets were approximately 46% equity securities, 29% debt securities and 25% other securities. The targets may be adjusted periodically to reflect current market conditions and trends as well as inflation levels, interest rates and trends thereof.

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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Expected employer contribution for the year ended December 31, 2013 is \$700,000.

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

2013	\$	110,500
2014		226,261
2015		336,249
2016		365,850
2017		357,827
2018-2022		2,243,240

**6. Savings and Supplemental Plans**

The Company maintains a 401(k) plan for which all employees are immediately eligible upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of compensation. Additionally, for those employees joining the Company after February 6, 2007, and upon completion of a full calendar year of service, such employees become eligible for a discretionary contribution to be considered annually by the Board of Directors. The discretionary contribution for 2012 and 2011 was, respectively, 8% and 6% of base compensation and totaled \$189,956 for 2012 and \$116,028 for 2011. Company contributions to the 401(k) plan were \$174,392 and \$150,040 for 2012 and 2011, respectively. During 2010, the Company adopted a supplemental plan for employees who were not eligible to receive the same percentage level of retirement benefits as other employees under the 401(k) plan due to IRS compensation limits. The Company contributed \$23,000 and \$21,100 to this supplemental plan for 2012 and 2011, respectively.

**7. Leases**

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. NPCC executed office and equipment leases with effective rental dates starting in 2009 coordinated with its relocation of offices within New York City. NPCC's office lease provides for additional rent based on increases in real estate taxes and operating expenses over base amounts. The office lease expires on April 30, 2024 and includes an option to renew for five years. The office lease provides for security in the form of a collateralized letter of credit in the amount of \$500,000 at lease inception and reduced to \$300,000 at December 31, 2012, and reduced amounts in future years. NPCC executed computer and equipment leases effective March, 2009 with expiration dates through November, 2014. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for office facilities and equipment totaled \$761,588 and \$734,737 for 2012 and 2011, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2012 are as follows:



**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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	Office Space	Other Leases	Total
<b>Year ending December 31</b>			
2013	\$ 612,357	\$ 130,869	\$ 743,226
2014	652,380	129,064	781,444
2015	672,392	88,637	761,029
2016	672,392	20,142	692,534
2017	672,392	-	672,392
Thereafter	4,498,483	-	4,498,483
	<u>\$ 7,780,396</u>	<u>\$ 368,712</u>	<u>\$ 8,149,108</u>

**8. Functional Expenses**

During 2012 and 2011 salaries and employee benefits consist of the following:

	2012	2011
President, COO and technical staff	\$ 5,128,701	\$ 4,574,651
Administrative support	169,254	163,015
Payroll taxes, insurance, pension and educational assistance	<u>2,425,028</u>	<u>1,989,308</u>
Total salaries and employee benefits	<u>\$ 7,722,983</u>	<u>\$ 6,726,974</u>

**9. Other Expenses**

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$2,472,132 and \$2,504,057 in 2012 and 2011, respectively, and consist of the following:

	2012	2011
Consultants	\$ 1,485,916	\$ 1,161,365
Accounting, legal and other services	964,903	1,337,592
Pension administration	<u>21,313</u>	<u>5,100</u>
Total administrative, consultant and professional fees	<u>\$ 2,472,132</u>	<u>\$ 2,504,057</u>

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

**10. Related Party Transactions**

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

# Northeast Power Coordinating Council, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

June 18, 2007, the U.S. FERC granted NERC the legal authority to enforce reliability standards with all U.S. users, owners, and operators of the bulk power system, and made compliance with those standards mandatory and enforceable. NERC relies on the diverse and collective expertise of industry participants to improve the reliability of the bulk power system. These entities account for virtually all the electricity supplied in the United States, Canada, and a portion of Baja California Norte, Mexico. NERC is subject to audit by the U.S. FERC and governmental and/or regulatory authorities in Canada. NERC funded the Regional Entities based upon Business Plans and Budgets submitted to and approved by FERC in the U.S. and Canadian regulatory and/or governmental authorities.

NPCC's criteria services division was fully funded by regional independent system operator or balancing authority areas and operated on assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2012 and 2011, total assessments billed amounted to \$956,900 and \$349,600, respectively.

Description	2012		2011	
	Percent	Total Share	Percent	Total Share
Hydro-Quebec TransEnergie	28.27%	\$ 270,543	28.62%	\$ 100,056
Independent Electricity System Operator	22.11%	211,520	21.98%	76,849
ISO-New England, Inc.	20.52%	196,362	20.14%	70,414
New Brunswick System Operator	2.12%	20,242	2.17%	7,588
New York Independent System Operator	25.08%	240,034	25.24%	88,234
Nova Scotia Power Inc.	1.90%	18,199	1.85%	6,459
Total assessments	100.00%	\$ 956,900	100.00%	\$ 349,600

### 11. Contingencies

The Company's regional entity division is being audited by FERC. At this time, it is not possible to evaluate the likelihood of an unfavorable outcome, although it is management's opinion that any monetary impact would be immaterial to its financial position and activities.

The Company is under audit by the NYS Department of Labor for compliance with the Unemployment Insurance Law of the state of New York. At this time, it is not possible to evaluate the likelihood of an unfavorable outcome or the range of probable loss if there were to be an unfavorable outcome.

The Company is under audit by the NYS Department of Taxation and Finance for employee withholding tax compliance. At this time, it is not possible to evaluate the likelihood of an unfavorable outcome or the range of probable loss if there were to be an unfavorable outcome.

### 12. Subsequent Events

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. There were no borrowings against the line of credit as of May 21, 2013, the date the financial statements were available to be issued.

**Northeast Power Coordinating Council, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the Statement of Financial Position through May 21, 2013, the date the financial statements were available to be issued.

**ATTACHMENT 5**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**RELIABILITYFIRST CORPORATION**



320 SPRINGSIDE DRIVE, SUITE 300, AKRON, OH 44333  
TELEPHONE: (330) 456-2488 FACSIMILE: (330) 456-3648

May 28, 2013

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

**Subject: ReliabilityFirst's 2012 True-up Filing**

Mr. Michael Walker:

As requested, ReliabilityFirst Corporation (ReliabilityFirst) is providing NERC the end of year audited 2012 True-up Filing. Significant variances are explained below, while more detailed variances are provided in the attached Statement of Activities, Fixed Assets and Change in Working Capital document presented by program area.

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

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

**Summary**

For the year ending December 31, 2012, ReliabilityFirst Corporation was \$642K (4%) under budget. In addition to completing all intended objectives, ReliabilityFirst completed these major accomplishments:

- Provided guidance and education to registered entities to meet compliance obligations through a better understanding of the NERC Reliability Standards by conducting 17 assist visits.
- Reviewed company misoperation data and determined performance metrics for each company. Conducted six site visits to review the metrics and discuss possible recommendations for improvement.
- Incorporated a risk based analysis (i.e. a probability type of "waterfall" chart) into the summer and winter assessments of demand and resources.
- Performed an analysis on the value of Under-Frequency Load Shedding (UFLS) to Grid Reliability and quantified the impact of deviation from UFLS schedules.
- Performed a quality analysis of power flow models to support NERC and ERAG quality improvement and model validation efforts for power flow base cases.
- Developed and implemented a quantitative method for assessing risks posed by violations of Reliability Standards. This process will help to ensure that violations are treated consistently and will improve Entities' ability to prioritize mitigating activities.

## Expenses

- **Personnel Expenses**

- **Payroll Taxes:** \$50K (9%) over budget  
Payroll Taxes were over budget due to a change in accounting of payroll taxes associated with incentive compensation. In prior years, payroll taxes were recorded in the year the incentive compensation payment was made. In 2012, payroll taxes were recorded in the year in which the incentive compensation was earned. Due to the accounting change, 2012 payroll taxes reflect both the payroll taxes relating to the 2011 incentive compensation paid in 2012 and the 2012 incentive compensation that was paid in January 2013.
- **Employee Benefits:** \$173K (13%) under budget  
Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase.
- **Savings & Retirement Costs:** \$258K (18%) under budget  
Savings & Retirement Costs were under budget due to the difficulties in hiring personnel. In addition, the budget amount is calculated based on the maximum company 401(k) contribution, without taking into consideration the Internal Revenue Service limits and employees who do not take full advantage of the company match.

- **Meeting Expenses**

- **Travel:** \$29K (4%) over budget  
Travel expense was over budget due to additional travel expenses incurred as a result of additional unanticipated projects initiated during the year.
- **Conference Calls:** \$26K (253%) over budget  
Conference Calls expense was over budget due to the replacement of the current in-house conferencing system with an external conferencing service.

- **Operating Expenses**

- **Contracts & Consultants:** \$84K (16%) over budget  
Contracts & Consultants were over budget as a result of hiring consultants to assist with establishing a strategic focus for the future of the company and improving various company processes.
- **Office Rent:** \$134K (25%) under budget  
Rent was under budget as a result of the delay in securing an offsite disaster recovery site.
- **Office Costs:** \$162K (21%) over budget  
Office Costs were over budget as a result of variances in Telephone, Computer Software, and Computer Service & Maintenance. Telephone was over budget due to the procurement of an additional circuit to support a new telephone system. Computer Software was over budget due to procuring software licensing for various servers in the company's production environment. Computer Service & Maintenance was over budget due to unanticipated agreements that were purchased to maintain the current phone system, instead of purchasing a new phone system. In addition, extended warranties were purchased on current computer hardware to extend their useful life and postpone replacement.

- **Professional Services:** \$53K (11%) under budget  
Professional Services expense was under budget due to the use of in-house counsel versus more costly outside legal support for Compliance matters.
- **Proceeds/Loss on Disposal of Asset:** \$21K  
The variance in Proceeds/Loss on Disposal of Assets was due to the loss on disposal of computer equipment that was retired earlier than expected.
- **Depreciation:** \$67K (13%) under budget  
Depreciation expense directly correlates to Fixed Assets and with fixed asset purchases being under budget, there was less depreciation expense incurred in the year.

### **Fixed Assets**

- **Computer Hardware & Software:** \$202K (41%) under budget  
Computer Hardware & Software was under budget due to the decision to upgrade the current phone system, instead of purchasing a new phone system. Also, as a result of the delay in securing an offsite disaster recovery site, no equipment was purchased to support the site.

### **Cash Reserves**

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

### **Statutory Programs**

ReliabilityFirst performed only statutory activities in 2012.

### **Cost Allocation**

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

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

For more information, please contact me at 330.456.2488 or [jill.lewton@rfirst.org](mailto:jill.lewton@rfirst.org)

Sincerely,

*Jill S. Lewton*

Jill S. Lewton  
Controller

Statement of Activities, Fixed Assets and Change in Working Capital

Summary

01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance
<b>Funding</b>			
ERO Funding			
ERO Assessments	\$ 13,534,272	\$ 13,534,272	\$ -
Penalty Sanctions	792,100	792,100	-
Total ERO Funding	\$ 14,326,372	\$ 14,326,372	\$ -
Other Funding			
Membership Fees	\$ 250	\$ -	\$ 250
Investment Income	51,880	60,000	(8,120)
Miscellaneous	-	-	-
Total Other Funding	\$ 52,130	\$ 60,000	\$ (7,870)
<b>Total Funding</b>	<b>\$ 14,378,502</b>	<b>\$ 14,386,372</b>	<b>\$ (7,870)</b>
<b>Expenses</b>			
<b>Direct Expenses</b>			
Personnel Expenses			
Salaries	\$ 9,455,511	\$ 9,637,622	\$ (182,111)
Payroll Taxes	631,122	581,453	49,669
Employee Benefits	1,110,784	1,283,552	(172,768)
Savings & Retirement	1,213,322	1,471,658	(258,336)
Total Personnel Expenses	\$ 12,410,739	\$ 12,974,285	\$ (563,546)
Meeting Expenses			
Meetings	\$ 138,889	\$ 144,630	\$ (5,741)
Travel	715,491	686,950	28,541
Conference Calls	35,893	10,176	25,717
Total Meeting Expenses	\$ 890,273	\$ 841,756	\$ 48,517
Operating Expenses			
Consultants & Contracts	\$ 598,456	\$ 514,100	\$ 84,356
Office Rent	396,974	531,460	(134,486)
Office Costs	934,139	772,146	161,993
Professional Services	447,009	500,432	(53,423)
Miscellaneous	22,946	27,317	(4,371)
Proceeds/Loss on Disposal of Assets	21,171	-	21,171
Depreciation	440,645	506,822	(66,177)
Total Operating Expenses	\$ 2,861,340	\$ 2,852,277	\$ 9,063
<b>Total Direct Expenses</b>	<b>\$ 16,162,352</b>	<b>\$ 16,668,318</b>	<b>\$ (505,966)</b>
Indirect Expenses	\$ -	\$ 2	\$ (2)
Other Non-Operating Expenses	\$ -	\$ -	\$ -
<b>Total Expenses</b>	<b>\$ 16,162,352</b>	<b>\$ 16,668,320</b>	<b>\$ (505,968)</b>
<b>Net Change in Assets</b>	<b>\$ (1,783,850)</b>	<b>\$ (2,281,948)</b>	<b>\$ 498,098</b>
<b>Fixed Assets</b>			
Depreciation	\$ (440,645)	\$ (506,822)	\$ 66,177
Computer & Software CapEx	292,994	495,000	(202,006)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (147,651)</b>	<b>\$ (11,822)</b>	<b>\$ (135,829)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (147,651)</b>	<b>\$ (11,822)</b>	<b>\$ (135,829)</b>
<b>Total Budget</b>	<b>\$ 16,014,701</b>	<b>\$ 16,656,498</b>	<b>\$ (641,797)</b>
<b>Change in Working Capital</b>	<b>\$ (1,636,199)</b>	<b>\$ (2,270,126)</b>	<b>\$ 633,927</b>
<b>FTEs</b>	<b>65.46</b>	<b>73.00</b>	<b>-7.54</b>
- All amounts are based on audited financials			
- All amounts are in whole dollars			
- All functions are Statutory			



	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ 346,257	\$ 346,257	\$ -	0%	
Penalty Sanctions	13,970	13,970	-	0%	
Total ERO Funding	\$ 360,227	\$ 360,227	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ 360,227</b>	<b>\$ 360,227</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 202,280	\$ 191,229	\$ 11,051	6%	Salaries were over budget due to the additional salary expense required to retain experienced and qualified staff.
Payroll Taxes	12,109	9,191	2,918	32%	
Employee Benefits	20,887	22,725	(1,838)	-8%	Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase.
Savings & Retirement	26,683	26,744	(61)	0%	
Total Personnel Expenses	\$ 261,959	\$ 249,889	\$ 12,070	5%	
Meeting Expenses					
Meetings	\$ -	\$ 4,000	\$ (4,000)	-100%	Meeting expense was under budget due to the indefinite suspension of regional standards projects by the ReliabilityFirst Board of Directors.
Travel	19,214	11,000	8,214	75%	Travel expense was over budget due to additional travel expenses incurred as a result of additional unanticipated projects initiated during the year.
Conference Calls	75	540	(465)	-86%	
Total Meeting Expenses	\$ 19,289	\$ 15,540	\$ 3,749	24%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	2,514	2,654	(140)	-5%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 2,514	\$ 2,654	\$ (140)	-5%	
<b>Total Direct Expenses</b>	<b>\$ 283,762</b>	<b>\$ 268,083</b>	<b>\$ 15,679</b>	<b>6%</b>	
Indirect Expenses	\$ 106,611	\$ 87,837	\$ 18,774	21%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 390,373</b>	<b>\$ 355,920</b>	<b>\$ 34,453</b>	<b>10%</b>	
<b>Net Change in Assets</b>	<b>\$ (30,146)</b>	<b>\$ 4,307</b>	<b>\$ (34,453)</b>	<b>-800%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	\$ (715)	\$ 4,307	\$ (5,022)	-117%	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. As a result, the decrease is due to lower fixed asset expenditures being allocated.
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (715)</b>	<b>\$ 4,307</b>	<b>\$ (5,022)</b>	<b>-117%</b>	
<b>Total Budget</b>	<b>\$ 389,658</b>	<b>\$ 360,227</b>	<b>\$ 29,431</b>	<b>8%</b>	
<b>Change in Working Capital</b>	<b>\$ (29,431)</b>	<b>\$ -</b>	<b>\$ (29,431)</b>		
<b>FTEs</b>	<b>1.00</b>	<b>1.00</b>	<b>0.00</b>	<b>0%</b>	

Statement of Activities, Fixed Assets and Change in Working Capital  
Compliance  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ 11,757,457	\$ 11,757,457	\$ -	0%	
Penalty Sanctions	593,726	593,726	-	0%	
<b>Total ERO Funding</b>	<b>\$ 12,351,183</b>	<b>\$ 12,351,183</b>	<b>\$ -</b>	<b>0%</b>	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
<b>Total Other Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Funding</b>	<b>\$ 12,351,183</b>	<b>\$ 12,351,183</b>	<b>\$ -</b>		
<b>Expenses</b>					
Direct Expenses					
Personnel Expenses					
Salaries	\$ 4,864,354	\$ 5,324,601	\$ (460,247)	-9%	Salaries were under budget due to the difficulties in hiring qualified personnel.
Payroll Taxes	349,122	340,753	8,369	2%	Payroll Taxes were over budget due to a change in accounting of payroll taxes associated with incentive compensation. In prior years, payroll taxes were recorded in the year the incentive compensation payment was made. In 2012, payroll taxes were recorded in the year in which the incentive compensation was earned. Due to the accounting change, 2012 payroll taxes reflect both the payroll taxes relating to the 2011 incentive compensation paid in 2012 and the 2012 incentive compensation that was paid in January 2013.
Employee Benefits	665,552	778,763	(113,211)	-15%	Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase.
Savings & Retirement	662,667	821,185	(158,518)	-19%	Savings & Retirement costs were under budget due to the difficulties in hiring qualified personnel.
<b>Total Personnel Expenses</b>	<b>\$ 6,541,695</b>	<b>\$ 7,265,302</b>	<b>\$ (723,607)</b>	<b>-10%</b>	
Meeting Expenses					
Meetings	\$ 4,722	\$ 10,110	\$ (5,388)	-53%	
Travel	469,686	466,000	3,686	1%	
Conference Calls	4,551	5,400	(849)	-16%	
<b>Total Meeting Expenses</b>	<b>\$ 478,959</b>	<b>\$ 481,510</b>	<b>\$ (2,551)</b>	<b>-1%</b>	
Operating Expenses					
Consultants & Contracts	\$ 465,337	\$ 380,000	\$ 85,337	22%	Contracts & Consultants expense was over budget as a result of the use of contractors to help support the performance of compliance audits due to the program area operating below budgeted staffing levels. In addition, consultants were hired to assist with establishing a strategic focus for the future of the company and improving various company processes.
Office Rent	-	-	-		
Office Costs	226,294	228,905	(2,611)	-1%	
Professional Services	22,439	72,000	(49,561)	-69%	Professional Services expense was under budget due to the use of in-house counsel versus more costly outside legal support for Compliance matters.
Miscellaneous	1,220	7,367	(6,147)	-83%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	223,524	255,115	(31,591)	-12%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the 2011 fixed asset purchases being under budget, there was less depreciation expense recorded this year.
<b>Total Operating Expenses</b>	<b>\$ 938,814</b>	<b>\$ 943,387</b>	<b>\$ (4,573)</b>	<b>0%</b>	
<b>Total Direct Expenses</b>	<b>\$ 7,959,468</b>	<b>\$ 8,690,199</b>	<b>\$ (730,731)</b>	<b>-8%</b>	
Indirect Expenses	\$ 3,878,495	\$ 3,733,052	\$ 145,443	4%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 11,837,963</b>	<b>\$ 12,423,251</b>	<b>\$ (585,288)</b>	<b>-5%</b>	
<b>Net Change in Assets</b>	<b>\$ 513,220</b>	<b>\$ (72,068)</b>	<b>\$ 585,288</b>	<b>-812%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ (223,524)	\$ (255,115)	\$ 31,591	-12%	Depreciation expense directly correlates to current and prior year fixed asset activities. As a result of the 2011 fixed asset purchases being under budget, there was less depreciation expense recorded this year.
Computer & Software CapEx	111,726	-	111,726		Computer & Software CapEx was over budget due to the purchases of an audit management system that is expected to provide efficiencies and improve processes; and a mathematical solution that will support the migration to a more quantitative decision making model for predicting grid reliability.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (111,798)</b>	<b>\$ (255,115)</b>	<b>\$ 143,317</b>	<b>-56%</b>	
Allocation of Fixed Assets	\$ (25,996)	\$ 183,045	\$ (209,041)	-114%	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. As a result, the decrease is due to lower fixed asset expenditures being allocated.
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (137,794)</b>	<b>\$ (72,070)</b>	<b>\$ (65,724)</b>	<b>91%</b>	
<b>Total Budget</b>	<b>\$ 11,700,169</b>	<b>\$ 12,351,181</b>	<b>\$ (651,012)</b>	<b>-5%</b>	
<b>Change in Working Capital</b>	<b>\$ 651,014</b>	<b>\$ 2</b>	<b>\$ 651,012</b>	<b>32550584%</b>	
<b>FTEs</b>	<b>36.38</b>	<b>42.50</b>	<b>-6.12</b>	<b>-14%</b>	

Statement of Activities, Fixed Assets and Change in Working Capital  
 Reliability Assessment  
 01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ 2,641,005	\$ 2,641,005	\$ -	0%	
Penalty Sanctions	132,715	132,715	-	0%	
<b>Total ERO Funding</b>	<b>\$ 2,773,720</b>	<b>\$ 2,773,720</b>	<b>\$ -</b>	<b>0%</b>	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
<b>Total Other Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Funding</b>	<b>\$ 2,773,720</b>	<b>\$ 2,773,720</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 1,220,240	\$ 1,262,840	\$ (42,600)	-3%	Salaries were under budget due to the difficulties in hiring qualified personnel.
Payroll Taxes	83,346	76,914	6,432	8%	Payroll Taxes were over budget due to a change in accounting of payroll taxes associated with incentive compensation. In prior years, payroll taxes were recorded in the year the incentive compensation payment was made. In 2012, payroll taxes were recorded in the year in which the incentive compensation was earned. Due to the accounting change, 2012 payroll taxes reflect both the payroll taxes relating to the 2011 incentive compensation paid in 2012 and the 2012 incentive compensation that was paid in January 2013.
Employee Benefits	111,461	144,124	(32,663)	-23%	Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase.
Savings & Retirement	171,091	198,595	(27,504)	-14%	Savings & Retirement costs were under budget as a result of not taking into consideration the Internal Revenue Service limits when calculating the 401(k) budget amount along with, the difficulties in hiring qualified personnel.
<b>Total Personnel Expenses</b>	<b>\$ 1,586,138</b>	<b>\$ 1,682,473</b>	<b>\$ (96,335)</b>	<b>-6%</b>	
Meeting Expenses					
Meetings	\$ 21,947	\$ 21,500	\$ 447	2%	
Travel	90,214	75,000	15,214	20%	Travel expense was over budget due to additional travel expenses incurred as a result of additional unanticipated projects initiated during the year.
Conference Calls	1,830	3,120	(1,290)	-41%	
<b>Total Meeting Expenses</b>	<b>\$ 113,991</b>	<b>\$ 99,620</b>	<b>\$ 14,371</b>	<b>14%</b>	
Operating Expenses					
Consultants & Contracts	\$ 59,124	\$ 60,000	\$ (876)	-1%	
Office Rent	-	-	-		
Office Costs	54,128	56,214	(2,086)	-4%	
Professional Services	-	-	-		
Miscellaneous	375	50	325	650%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ 113,627</b>	<b>\$ 116,264</b>	<b>\$ (2,637)</b>	<b>-2%</b>	
<b>Total Direct Expenses</b>	<b>\$ 1,813,756</b>	<b>\$ 1,898,357</b>	<b>\$ (84,601)</b>	<b>-4%</b>	
Indirect Expenses	\$ 906,190	\$ 834,447	\$ 71,743	9%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 2,719,946</b>	<b>\$ 2,732,804</b>	<b>\$ (12,858)</b>	<b>0%</b>	
<b>Net Change in Assets</b>	<b>\$ 53,774</b>	<b>\$ 40,916</b>	<b>\$ 12,858</b>	<b>31%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	\$ (6,074)	\$ 40,916	\$ (46,990)	-115%	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. As a result, the decrease is due to lower fixed asset expenditures being allocated.
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (6,074)</b>	<b>\$ 40,916</b>	<b>\$ (46,990)</b>	<b>-115%</b>	
<b>Total Budget</b>	<b>\$ 2,713,873</b>	<b>\$ 2,773,720</b>	<b>\$ (59,847)</b>	<b>-2%</b>	
<b>Change in Working Capital</b>	<b>\$ 59,847</b>	<b>\$ -</b>	<b>\$ 59,847</b>		
<b>FTEs</b>	<b>8.50</b>	<b>9.50</b>	<b>-1.00</b>	<b>-11%</b>	



Statement of Activities, Fixed Assets and Change in Working Capital  
 Training & Education  
 01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ 830,628	\$ 830,628	\$ -	0%	
Penalty Sanctions	43,307	43,307	-	0%	
Total ERO Funding	\$ 873,935	\$ 873,935	\$ -	0%	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ 873,935</b>	<b>\$ 873,935</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 401,640	\$ 394,083	\$ 7,557	2%	
Payroll Taxes	29,842	26,461	3,381	13%	
Employee Benefits	53,703	52,821	882	2%	
Savings & Retirement	57,556	61,925	(4,369)	-7%	Savings & Retirement costs were under budget as a result of not taking into consideration the Internal Revenue Service limits when calculating the 401(k) budget amount.
Total Personnel Expenses	\$ 542,741	\$ 535,290	\$ 7,451	1%	
Meeting Expenses					
Meetings	\$ 46,004	\$ 50,000	\$ (3,996)	-8%	
Travel	2,738	3,000	(262)	-9%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 48,742	\$ 53,000	\$ (4,258)	-8%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Direct Expenses</b>	<b>\$ 591,483</b>	<b>\$ 588,290</b>	<b>\$ 3,193</b>	1%	
Indirect Expenses	\$ 330,493	\$ 272,293	\$ 58,200	21%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 921,976</b>	<b>\$ 860,583</b>	<b>\$ 61,393</b>	7%	
<b>Net Change in Assets</b>	<b>\$ (48,041)</b>	<b>\$ 13,352</b>	<b>\$ (61,393)</b>	-460%	
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	\$ (2,215)	\$ 13,352	\$ (15,567)	-117%	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. As a result, the decrease is due to lower fixed asset expenditures being allocated.
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (2,215)</b>	<b>\$ 13,352</b>	<b>\$ (15,567)</b>	-117%	
<b>Total Budget</b>	<b>\$ 919,761</b>	<b>\$ 873,935</b>	<b>\$ 45,826</b>	5%	
<b>Change in Working Capital</b>	<b>\$ (45,826)</b>	<b>\$ -</b>	<b>\$ (45,826)</b>		
<b>FTEs</b>	<b>3.10</b>	<b>3.10</b>	<b>0.00</b>	0%	

Statement of Activities, Fixed Assets and Change in Working Capital  
 Situation Awareness  
 01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ 229,053	\$ 229,053	\$ -	0%	
Penalty Sanctions	8,382	8,382	-	0%	
<b>Total ERO Funding</b>	<b>\$ 237,435</b>	<b>\$ 237,435</b>	<b>\$ -</b>	<b>0%</b>	
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
<b>Total Other Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Funding</b>	<b>\$ 237,435</b>	<b>\$ 237,435</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 119,921	\$ 116,241	\$ 3,680	3%	
Payroll Taxes	9,031	5,786	3,245	56%	
Employee Benefits	4,719	7,393	(2,674)	-36%	
Savings & Retirement	14,105	18,381	(4,276)	-23%	Savings & Retirement costs were under budget as a result of not taking into consideration the Internal Revenue Service limits when calculating the 401(k) budget amount.
<b>Total Personnel Expenses</b>	<b>\$ 147,776</b>	<b>\$ 147,801</b>	<b>\$ (25)</b>	<b>0%</b>	
Meeting Expenses					
Meetings	\$ 4,477	\$ 1,000	\$ 3,477	348%	
Travel	19,449	30,000	(10,551)	-35%	Travel expense was under budget as a result of the Situation Awareness for FERC, NERC, and the Regional Entities (SAFNR) project being completed sooner than expected.
Conference Calls	77	144	(67)	-47%	
<b>Total Meeting Expenses</b>	<b>\$ 24,003</b>	<b>\$ 31,144</b>	<b>\$ (7,141)</b>	<b>-23%</b>	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	2,945	2,364	581	25%	
Professional Services	-	-	-		
Miscellaneous	848	840	8	1%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	425	911	(486)	-53%	
<b>Total Operating Expenses</b>	<b>\$ 4,218</b>	<b>\$ 4,115</b>	<b>\$ 103</b>	<b>3%</b>	
<b>Total Direct Expenses</b>	<b>\$ 175,997</b>	<b>\$ 183,060</b>	<b>\$ (7,063)</b>	<b>-4%</b>	
Indirect Expenses	\$ 63,966	\$ 52,702	\$ 11,264	21%	Indirect Expenses are expenses related to the Administrative Services programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 239,964</b>	<b>\$ 235,762</b>	<b>\$ 4,202</b>	<b>2%</b>	
<b>Net Change in Assets</b>	<b>\$ (2,529)</b>	<b>\$ 1,673</b>	<b>\$ (4,202)</b>	<b>-251%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ (425)	\$ (911)	\$ 486	-53%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (425)</b>	<b>\$ (911)</b>	<b>\$ 486</b>	<b>-53%</b>	
Allocation of Fixed Assets	\$ (429)	\$ 2,584	\$ (3,013)	-117%	
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ (854)</b>	<b>\$ 1,673</b>	<b>\$ (2,527)</b>	<b>-151%</b>	
<b>Total Budget</b>	<b>\$ 239,110</b>	<b>\$ 237,435</b>	<b>\$ 1,675</b>	<b>1%</b>	
<b>Change in Working Capital</b>	<b>\$ (1,675)</b>	<b>\$ -</b>	<b>\$ (1,675)</b>		
<b>FTEs</b>	<b>0.60</b>	<b>0.60</b>	<b>0.00</b>	<b>0%</b>	



Statement of Activities, Fixed Assets and Change in Working Capital  
Member Forums  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		The ReliabilityFirst technical committees and subcommittees continue to work exclusively on reliability assessment and performance analysis activities, and therefore, the allocated budget and associated costs, were included within the Reliability Assessment and Performance Analysis Program.
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
Total Personnel Expenses	\$ -	\$ -	\$ -		
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		
Travel	-	-	-		
Conference Calls	-	-	-		
Total Meeting Expenses	\$ -	\$ -	\$ -		
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Direct Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Indirect Expenses	\$ -	\$ -	\$ -		
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Net Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	\$ -	\$ -	\$ -		
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>		

Statement of Activities, Fixed Assets and Change in Working Capital  
 General & Administrative  
 01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ (2,270,128)	\$ (2,270,128)	\$ -	0%	
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ (2,270,128)</b>	<b>\$ (2,270,128)</b>	<b>\$ -</b>	<b>0%</b>	
Other Funding					
Membership Fees	\$ 250	\$ -	\$ 250		
Investment Income	51,880	60,000	(8,120)	-14%	
Miscellaneous	-	-	-		
<b>Total Other Funding</b>	<b>\$ 52,130</b>	<b>\$ 60,000</b>	<b>\$ (7,870)</b>	<b>-13%</b>	
<b>Total Funding</b>	<b>\$ (2,217,998)</b>	<b>\$ (2,210,128)</b>	<b>\$ (7,870)</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 1,283,618	\$ 1,069,758	\$ 213,860	20%	Salaries were over budget due to the additional salary expense required to compensate for the retirement benefits lost as a result of the Internal Revenue Service limits for 2011 and 2012.
Payroll Taxes	52,293	36,901	15,392	42%	Payroll Taxes were over budget due to a change in accounting of payroll taxes associated with incentive compensation. In prior years, payroll taxes were recorded in the year the incentive compensation payment was made. In 2012, payroll taxes were recorded in the year in which the incentive compensation was earned. Due to the accounting change, 2012 payroll taxes reflect both the payroll taxes relating to the 2011 incentive compensation paid in 2012 and the 2012 incentive compensation that was paid in January 2013.
Employee Benefits	61,454	74,186	(12,732)	-17%	Employee Benefits were under budget as a result of variances in Medical and Education Reimbursement Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase. Education Reimbursement Benefits were under budget due to staff not taking advantage of education opportunities.
Savings & Retirement	79,279	147,338	(68,059)	-46%	Savings & Retirement costs were under budget as a result of not taking into consideration the Internal Revenue Service limits when calculating the 401(k) budget amount.
<b>Total Personnel Expenses</b>	<b>\$ 1,476,644</b>	<b>\$ 1,328,183</b>	<b>\$ 148,461</b>	<b>11%</b>	
Meeting Expenses					
Meetings	\$ 56,397	\$ 57,200	\$ (803)	-1%	
Travel	62,559	62,750	(191)	0%	
Conference Calls	384	972	(588)	-60%	
<b>Total Meeting Expenses</b>	<b>\$ 119,340</b>	<b>\$ 120,922</b>	<b>\$ (1,582)</b>	<b>-1%</b>	
Operating Expenses					
Consultants & Contracts	\$ 59,285	\$ 15,000	\$ 44,285	295%	Contracts & Consultants were over budget as a result of hiring consultants to assist with establishing a strategic focus for the future of the company and improving various company processes.
Office Rent	396,974	411,460	(14,486)	-4%	
Office Costs	46,714	31,950	14,764	46%	Office costs were over budget as a result of variances in Office Supplies. Office supplies were over budget as a result of recording items to the office supplies account that were budgeted in the miscellaneous account.
Professional Services	321,308	324,961	(3,653)	-1%	
Miscellaneous	10,208	17,810	(7,602)	-43%	Miscellaneous expense was under budget due to recording items to the office supplies account that were budgeted in the miscellaneous account.
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	45,672	46,315	(643)	-1%	
<b>Total Operating Expenses</b>	<b>\$ 880,161</b>	<b>\$ 847,496</b>	<b>\$ 32,665</b>	<b>4%</b>	
<b>Total Direct Expenses</b>	<b>\$ 2,476,145</b>	<b>\$ 2,296,601</b>	<b>\$ 179,544</b>	<b>8%</b>	
Indirect Expenses	\$ (2,424,015)	\$ (2,236,601)	\$ (187,414)	8%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher General & Administrative expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ 52,130</b>	<b>\$ 60,000</b>	<b>\$ (7,870)</b>	<b>-13%</b>	
<b>Net Change in Assets</b>	<b>\$ (2,270,128)</b>	<b>\$ (2,270,128)</b>	<b>\$ 0</b>	<b>0%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ (45,672)	\$ (46,315)	\$ 643	-1%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (45,672)</b>	<b>\$ (46,315)</b>	<b>\$ 643</b>	<b>-1%</b>	
Allocation of Fixed Assets	\$ 45,672	\$ 46,315	\$ (643)	-1%	
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ 52,130</b>	<b>\$ 60,000</b>	<b>\$ (7,870)</b>	<b>-13%</b>	
<b>Change in Working Capital</b>	<b>\$ (2,270,128)</b>	<b>\$ (2,270,128)</b>	<b>\$ 0</b>	<b>0%</b>	
<b>FTEs</b>	<b>4.38</b>	<b>4.30</b>	<b>0.08</b>	<b>2%</b>	

Statement of Activities, Fixed Assets and Change in Working Capital  
 Legal & Regulatory Affairs  
 01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 371,782	\$ 329,791	\$ 41,991	13%	Salaries were over budget due to filling an open position with two .50 FTEs from the Compliance Program. These FTEs are at a higher compensation level than the budgeted position.
Payroll Taxes	22,263	18,449	3,814	21%	
Employee Benefits	15,038	11,799	3,239	27%	
Savings & Retirement	53,096	52,038	1,058	2%	
Total Personnel Expenses	\$ 462,179	\$ 412,077	\$ 50,102	12%	
Meeting Expenses					
Meetings	\$ 227	\$ -	\$ 227		
Travel	31,947	12,000	19,947	166%	Travel expense was over budget due to more travel required of our general counsel than anticipated.
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 32,174	\$ 12,000	\$ 20,174	168%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -		
Office Rent	-	-	-		
Office Costs	10,145	3,760	6,385	170%	
Professional Services	27,766	12,000	15,766	131%	Professional Services expense was over budget as a result of a variance in Legal Fees. Legal Fees were over budget due to the handling and supporting of specialized corporate legal matters by outside counsel.
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	-	-	-		
Total Operating Expenses	\$ 37,911	\$ 15,760	\$ 22,151	141%	
<b>Total Direct Expenses</b>	<b>\$ 532,264</b>	<b>\$ 439,837</b>	<b>\$ 92,427</b>	21%	
Indirect Expenses	\$ (532,264)	\$ (439,837)	\$ (92,427)	21%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher Legal & Regulatory expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Net Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ -	\$ -		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	\$ -	\$ -	\$ -		
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	<b>2.00</b>	<b>2.00</b>	<b>0.00</b>	0%	



	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
<b>Other Funding</b>					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 599,465	\$ 606,267	\$ (6,802)	-1%	
Payroll Taxes	41,266	42,189	(923)	-2%	
Employee Benefits	96,411	130,927	(34,516)	-26%	Employee Benefits were under budget as a result of a variance in Medical Benefits. Medical Benefits were under budget due to negotiating a 0% increase in medical premiums, which was less than the budgeted 12% increase.
Savings & Retirement	87,895	92,059	(4,164)	-5%	
Total Personnel Expenses	\$ 825,037	\$ 871,442	\$ (46,405)	-5%	
<b>Meeting Expenses</b>					
Meetings	\$ 1,109	\$ 720	\$ 389	54%	
Travel	6,577	11,000	(4,423)	-40%	
Conference Calls	28,976	-	28,976		Conference Calls expense was over budget due to the replacement of the current in-house conferencing system with an external conferencing service.
Total Meeting Expenses	\$ 36,662	\$ 11,720	\$ 24,942	213%	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 9,515	\$ 48,500	\$ (38,985)	-80%	Consultants & Contracts were under budget due to the postponement of several projects.
Office Rent	-	120,000	(120,000)	-100%	Rent was under budget as a result of the delay in securing an offsite disaster recovery site.
Office Costs	581,740	437,443	144,297	33%	Office Costs were over budget as a result of variances in Telephone, Computer Software, and Computer Service & Maintenance. Telephone was over budget due to the procurement of an additional circuit that was needed to support a new telephone system. Computer Software was over budget due to procuring software licensing for various servers in the company's production environment. Computer Service & Maintenance was over budget due to unanticipated agreements that were purchased to maintain the current phone system, rather than purchasing a new phone system. In addition, extended warranties were purchased on current computer hardware to extend their useful life and postpone replacement.
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Proceeds/Loss on Disposal of Assets	21,171	-	21,171		The variance in Proceeds/Loss on Disposal of Assets was due to the loss on disposal of computer equipment that was retired earlier than expected.
Depreciation	165,735	198,991	(33,256)	-17%	Depreciation expense directly correlates to Fixed Assets and with fixed asset purchases being under budget, there was less depreciation expense recorded this year.
Total Operating Expenses	\$ 778,161	\$ 804,934	\$ (26,773)	-3%	
<b>Total Direct Expenses</b>	<b>\$ 1,639,860</b>	<b>\$ 1,688,096</b>	<b>\$ (48,236)</b>	<b>-3%</b>	
Indirect Expenses	\$ (1,639,860)	\$ (1,688,096)	\$ 48,236	-3%	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>		
<b>Net Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>Fixed Assets</b>					
Depreciation	\$ (165,735)	\$ (198,991)	\$ 33,256	-17%	Depreciation expense directly correlates to Fixed Assets and with fixed asset purchases being under budget, there was less depreciation expense recorded this year.
Computer & Software CapEx	181,268	495,000	(313,732)	-63%	Computer & Software CapEx was under budget due to the decision to upgrade the current phone system, instead of purchasing a new phone system. Also, as a result of the delay in securing an offsite disaster recovery site, no equipment was purchased to support the site.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ 15,533</b>	<b>\$ 296,009</b>	<b>\$ (280,476)</b>	<b>-95%</b>	
Allocation of Fixed Assets	\$ (15,533)	\$ (296,009)	\$ 280,476	-95%	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. As a result, the decrease is due to lower Information Technology fixed asset expenditures being allocated.
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>FTEs</b>	<b>5.50</b>	<b>6.00</b>	<b>-0.50</b>	<b>-8%</b>	

Statement of Activities, Fixed Assets and Change in Working Capital  
Human Resources  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 196,143	\$ 194,803	\$ 1,340	1%	
Payroll Taxes	16,193	14,622	1,571	11%	
Employee Benefits	49,682	31,879	17,803	56%	Employee Benefits were over budget as a result of variances in Medical and Education Reimbursement Benefits. Medical Benefits were over budget due to the participation in a company health and wellness program. Education Reimbursement Benefits were over budget due to the company sponsored public speaking training that was provided for the staff.
Savings & Retirement	29,755	30,440	(685)	-2%	
Total Personnel Expenses	\$ 291,773	\$ 271,744	\$ 20,029	7%	
Meeting Expenses					
Meetings	\$ 3,792	\$ 100	\$ 3,692	3692%	Meeting expense was over budget due to the costs associated with hosting a public speaking training for the staff.
Travel	6,228	9,000	(2,772)	-31%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 10,020	\$ 9,100	\$ 920	10%	
Operating Expenses					
Consultants & Contracts	\$ 5,195	\$ 600	\$ 4,595	766%	Consultants & Contracts were over budget due to an organizational assessment project and a compensation study that were not budgeted.
Office Rent	-	-	-		
Office Costs	4,956	4,230	726	17%	
Professional Services	37,854	45,671	(7,817)	-17%	
Miscellaneous	10,295	1,150	9,145	795%	Miscellaneous expense was over budget due to unbudgeted recruiting and employee wellness expenses.
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	799	1,000	(201)	-20%	
Total Operating Expenses	\$ 59,099	\$ 52,651	\$ 6,448	12%	
<b>Total Direct Expenses</b>	<b>\$ 360,892</b>	<b>\$ 333,495</b>	<b>\$ 27,397</b>	<b>8%</b>	
Indirect Expenses	\$ (360,892)	\$ (333,495)	\$ (27,397)	8%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher Human Resource expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Net Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	\$ (799)	\$ (1,000)	\$ 201	-20%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (799)</b>	<b>\$ (1,000)</b>	<b>\$ 201</b>	<b>-20%</b>	
Allocation of Fixed Assets	\$ 799	\$ 1,000	\$ (201)	-20%	
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	<b>2.00</b>	<b>2.00</b>	<b>0.00</b>	<b>0%</b>	

Statement of Activities, Fixed Assets and Change in Working Capital  
Finance & Accounting  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance	%	Explanation of Variances
<b>Funding</b>					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
Total ERO Funding	\$ -	\$ -	\$ -		
Other Funding					
Membership Fees	\$ -	\$ -	\$ -		
Investment Income	-	-	-		
Miscellaneous	-	-	-		
Total Other Funding	\$ -	\$ -	\$ -		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Direct Expenses</b>					
Personnel Expenses					
Salaries	\$ 196,068	\$ 148,009	\$ 48,059	32%	Salaries were over budget due to an error in the budget amount.
Payroll Taxes	15,657	10,187	5,470	54%	
Employee Benefits	31,877	28,935	2,942	10%	
Savings & Retirement	31,195	22,953	8,242	36%	
Total Personnel Expenses	\$ 274,797	\$ 210,084	\$ 64,713	31%	
Meeting Expenses					
Meetings	\$ 214	\$ -	\$ 214		
Travel	6,879	7,200	(321)	-4%	
Conference Calls	-	-	-		
Total Meeting Expenses	\$ 7,093	\$ 7,200	\$ (107)	-1%	
Operating Expenses					
Consultants & Contracts	\$ -	\$ 10,000	\$ (10,000)	-100%	Contracts & Consultants were under budget as a result of the postponement of the implementation of an automated expense management system.
Office Rent	-	-	-		
Office Costs	4,703	4,626	77	2%	
Professional Services	37,642	45,800	(8,158)	-18%	Professional Services were under budget as a result of a variance in Accounting and Auditing Fees, which were under budget due to the expenses associated with the year end financial audit being less than expected.
Miscellaneous	-	100	(100)	-100%	
Proceeds/Loss on Disposal of Assets	-	-	-		
Depreciation	4,490	4,490	0	0%	
Total Operating Expenses	\$ 46,835	\$ 65,016	\$ (18,181)	-28%	
<b>Total Direct Expenses</b>	<b>\$ 328,725</b>	<b>\$ 282,300</b>	<b>\$ 46,425</b>	16%	
Indirect Expenses	\$ (328,725)	\$ (282,300)	\$ (46,425)	16%	Indirect Expenses are expenses related to the Administrative Services Programs that have been allocated proportionately based on FTE count to the direct programs. As a result, the increase is due to higher Finance & Accounting expenditures being allocated.
Other Non-Operating Expenses	\$ -	\$ -	\$ -		
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>		
<b>Net Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>Fixed Assets</b>					
Depreciation	\$ (4,490)	\$ (4,490)	\$ (0)	0%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Increase/(Decrease) Fixed Assets</b>	<b>\$ (4,490)</b>	<b>\$ (4,490)</b>	<b>\$ (0)</b>	0%	
Allocation of Fixed Assets	\$ 4,490	\$ 4,490	\$ 0	0%	
<b>Increase/(Decrease) Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>FTEs</b>	<b>2.00</b>	<b>2.00</b>	<b>0.00</b>	0%	

# **Reliability*First* Corporation**

Financial Report  
December 31, 2012

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## Independent Auditor's Report

To the Board of Directors  
ReliabilityFirst Corporation  
Akron, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of ReliabilityFirst Corporation which comprise the statements of financial position as of December 31, 2012 and 2011, 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 of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McGladrey LLP*

Chicago, Illinois  
March 7, 2013

ReliabilityFirst Corporation

Statements of Financial Position  
December 31, 2012 and 2011

	2012	2011
<b>Assets</b>		
Current Assets		
Cash	\$ 3,334,556	\$ 4,448,310
Investments	5,171,574	4,701,194
Accounts receivable	891,634	456,385
Prepaid expenses	203,305	246,552
<b>Total current assets</b>	<b>9,601,069</b>	<b>9,852,441</b>
Fixed assets		
Furniture and equipment	124,711	124,711
Leasehold improvements	308,814	308,814
Computer software and hardware	2,305,326	2,118,774
	2,738,851	2,552,299
Less accumulated depreciation and amortization	1,600,979	1,239,864
	1,137,872	1,312,435
<b>Total assets</b>	<b>\$ 10,738,941</b>	<b>\$ 11,164,876</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 87,637	\$ 100,851
Accrued expenses (current portion)	3,455,302	3,015,427
<b>Total current liabilities</b>	<b>3,542,939</b>	<b>3,116,278</b>
Accrued Expenses (net of current portion)	316,269	176,345
Net Assets		
Unrestricted:		
Undesignated	1,916,800	3,700,653
Designated for reserve fund	1,000,000	1,000,000
Temporarily restricted	3,962,933	3,171,600
<b>Total net assets</b>	<b>6,879,733</b>	<b>7,872,253</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,738,941</b>	<b>\$ 11,164,876</b>

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Activities  
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Revenues:		
Quarterly assessments	\$ 13,534,272	\$ 12,803,844
Investment income	51,880	164,259
Penalty sanctions released from restriction	792,100	878,900
Miscellaneous	250	263
	<u>14,378,502</u>	<u>13,847,266</u>
Expenses:		
Program:		
Standards	283,762	259,932
Compliance	7,735,947	7,352,164
Assessment	1,813,756	1,885,292
Training and education	591,483	588,490
Situational awareness	175,572	275,688
General and administrative	2,430,473	2,143,225
Legal and regulatory	532,264	336,928
Information technology	1,452,954	1,304,118
Human resources	360,093	297,146
Finance	324,235	328,702
	<u>15,700,539</u>	<u>14,771,685</u>
General:		
Depreciation and amortization	440,645	434,052
Loss on disposal of assets	21,171	24,681
	<u>461,816</u>	<u>458,733</u>
	<u>16,162,355</u>	<u>15,230,418</u>
<b>(Decrease) in unrestricted net assets</b>	<u><b>(1,783,853)</b></u>	<u><b>(1,383,152)</b></u>
Temporarily Restricted Net Assets		
Penalty sanctions	1,583,433	2,860,600
Penalty sanctions released from restriction	(792,100)	(878,900)
<b>Increase in temporarily restricted net assets</b>	<u><b>791,333</b></u>	<u><b>1,981,700</b></u>
<b>(Decrease) increase in total net assets</b>	<u><b>(992,520)</b></u>	<u><b>598,548</b></u>
Net assets at beginning of year	<u>7,872,253</u>	<u>7,273,705</u>
Net assets at end of year	<u><u><b>\$ 6,879,733</b></u></u>	<u><u><b>\$ 7,872,253</b></u></u>

See Notes to Financial Statements.



**ReliabilityFirst Corporation**

**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ (992,520)	\$ 598,548
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	440,645	434,052
Loss on disposal of equipment	21,171	24,681
Unrealized loss (gain) on investments	39,996	(48,891)
Realized loss on investments	11,061	-
Changes in assets and liabilities:		
Accounts receivable	(435,249)	(382,138)
Prepaid expenses	43,247	36,766
Accounts payable	(13,214)	53,252
Accrued expenses	579,799	608,420
<b>Net cash (used in) provided by operating activities</b>	<b>(305,064)</b>	<b>1,324,690</b>
Cash Flows from Investing Activities		
Purchase of investments	(2,021,437)	(115,368)
Sale of investments	1,500,000	-
Additions to fixed assets	(292,993)	(294,189)
Proceeds from sale of fixed assets	5,740	-
<b>Net cash used in investing activities</b>	<b>(808,690)</b>	<b>(409,557)</b>
<b>Net (decrease) increase in cash</b>	<b>(1,113,754)</b>	<b>915,133</b>
Cash at beginning of year	4,448,310	3,533,177
Cash at end of year	<b>\$ 3,334,556</b>	<b>\$ 4,448,310</b>

See Notes to Financial Statements.

## ReliabilityFirst Corporation

### Notes to Financial Statements

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

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

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

The following is a summary of the Corporation's significant accounting policies which conform to accounting principles generally accepted in the United States of America:

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

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

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

**Accounts receivable:** Accounts receivable are carried at actual billed amounts. There was no allowance for doubtful accounts recorded in 2012 or 2011.

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

The Corporation invests in fixed income mutual funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**Fixed assets:** Fixed assets are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives (generally 3 to 7 years) of the depreciable assets. Amortization for the leasehold improvements is computed on the lesser of the useful life or the lease term.

**ReliabilityFirst Corporation**

**Notes to Financial Statements**

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

**Income taxes:** The Corporation is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any.

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

The Corporation files forms 990 in the U.S. federal jurisdiction and the State of Ohio. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2009.

**Net assets:** Of the unrestricted net asset balance, \$1,000,000 has been designated by the Board of Directors for its reserve fund at December 31, 2012 and 2011.

Temporarily restricted net assets result from the receipt of penalty sanctions which are restricted until budgeted as described above in the Corporation's revenue recognition policy. Temporary restricted net assets at December 31, 2012 and 2011, were \$3,962,933 and \$3,171,600, respectively.

**Subsequent events:** The Corporation has evaluated subsequent events for potential recognition and/or disclosure through March 7, 2013, the date the financial statements were available to be issued.

**Note 2. Investments**

The Corporation maintains an investment portfolio which consists of fixed income securities. The fair values of the investments at December 31, 2012 and 2011, were \$5,171,574 and \$4,701,194, respectively. The composition of investment income is as follows at December 31:

	2012	2011
Interest/dividends	\$ 102,937	\$ 115,368
Realized loss	(11,061)	-
Unrealized gain (loss)	(39,996)	48,891
	<u>\$ 51,880</u>	<u>\$ 164,259</u>

**Note 3. Fair Value**

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

- Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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

The Corporation assesses the levels at each measurement date, and transfers between levels are recognized on the date of the actual of the 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, 2012 and 2011, there were no such transfers.

As of December 31, 2012 and 2011, the Corporation's investments are fixed income class A mutual funds, which are classified as Level 1.

**Note 4. Line of Credit**

The Corporation has a \$1,000,000 line of credit due on August 11, 2013. The line is collateralized by substantially all assets of the Corporation and interest is charged at LIBOR plus 2.75 percent. The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2012 or 2011. The Corporation intends to renew the line when it becomes due on August 11, 2013.

**ReliabilityFirst Corporation**

**Notes to Financial Statements**

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**Note 5. Operating Leases**

The Corporation leases its office and additional storage space from unrelated third parties. The leases expire in December 2019 and June 2017, respectively. Rental expense for operating leases amounted to \$346,873 for the years ended December 31, 2012 and 2011. The future minimum lease payments as of December 31, 2012, on a straight-line basis are as follows:

2013	\$	346,873
2014		346,873
2015		346,873
2016		346,873
2017		345,094
Thereafter		686,631
		<u>\$ 2,419,217</u>

Of the above amount, \$104,650 and \$91,912 has been accrued at December 31, 2012 and 2011, respectively.

**Note 6. Employee Retirement Plan**

The Corporation has a salary deferral plan under Section 401(k) of the Internal Revenue Code. All employees are eligible for 100 percent match of their first 6 percent of voluntary salary deferral savings and the 3 percent Safe Harbor provision of the Plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the Plan (7 percent in 2012 and 2011). Therefore, under this Plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2012 and 2011. The Corporation's contributions to the Plan for 2012 and 2011 were approximately \$1,213,000 and \$1,107,000, respectively.



**Independent Auditor's Report on the Supplementary Information**

To the Board of Directors of  
ReliabilityFirst Corporation  
Akron, Ohio

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

*McGladrey LLP*

Chicago, Illinois  
March 7, 2013







**ATTACHMENT 6**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**SERC RELIABILITY CORPORATION**



SERC Reliability Corporation  
2815 Coliseum Centre Drive | Suite 500  
Charlotte, NC 28217  
704.357.7372 | Fax 704.357.7914 | [www.serc1.org](http://www.serc1.org)

May 24, 2013

Mike Walker  
Chief Financial Officer  
North American Electric Reliability Corporation

### **SERC 2012 Budget vs. Actual Variance Analysis**

Enclosed is SERC's response to your request for information on variances between the 2012 SERC budget and year-end financials.

Overall, SERC under ran 2012 budgeted revenues by \$33,391 and under spent its 2012 budgeted expenses of \$15,537,397 by \$2,294,167. The net impact was a \$2,355,910 positive variance on SERC's cash position for the year.

During 2012, SERC completed all of the audits scheduled pursuant to its 2012 CMEP Annual Implementation Plan. SERC completed 311 determinations including dismissals; 228 mitigation plans were reviewed and accepted; and 188 mitigation plans were validated. All assessments and studies for the year were completed.

There are several mitigating circumstances, as explained below:

- During 2012, total personnel costs were lower than budget due to several factors. SERC was not fully staffed during 2012 by 5 FTEs. Additionally, when preparing the budget, SERC budgeted payroll taxes based on historical data, which ended up being higher than the actual rate charged, causing an under run.
- Due to the strains on the economy, SERC has emphasized the use of conference calls and Webex capabilities to reduce the number of face to face meetings, which reduced travel and meeting costs. Additionally, SERC has emphasized the need to only send required staff to meetings and placed a high focus on efficient travel.
- Costs for various projects were significantly lower than budgeted due to timing, and only minimal portal development projects were required causing the under run in Consultants and Contracts.
- SERC budgeted one-time costs for the purchase of office furniture and equipment to furnish the new office space. These items were purchased in 2011, causing the under run in Office Costs.

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



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

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

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

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

Yours truly,

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

Jennifer Kelly

cc: R. Scott Henry

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012

Total Statutory	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	14,845,275	14,845,275	-
Penalty Sanctions	434,500	434,500	-
<b>Total ERO Funding</b>	<b>\$ 15,279,775</b>	<b>\$ 15,279,775</b>	<b>\$ -</b>
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	226,574	264,670	(38,096)
Interest	7,665	10,000	(2,335)
Miscellaneous	113,822	40,000	73,822
<b>Total Funding (A)</b>	<b>\$ 15,627,836</b>	<b>\$ 15,594,445</b>	<b>\$ 33,391</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	8,003,504	8,908,407	(904,903)
Payroll Taxes	561,010	801,758	(240,748)
Employee Benefits	665,615	895,883	(230,268)
Savings & Retirement	1,060,293	1,207,456	(147,163)
<b>Total Personnel Expenses</b>	<b>10,290,422</b>	<b>11,813,504</b>	<b>(1,523,082)</b>
<b>Meeting Expenses</b>			
Meetings	341,082	402,078	(60,996)
Travel	581,263	616,591	(35,328)
Conference Calls	42,622	96,000	(53,378)
<b>Total Meeting Expenses</b>	<b>964,967</b>	<b>1,114,669</b>	<b>(149,702)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	899,931	1,159,275	(259,344)
Rent & Improvements	404,835	444,722	(39,887)
Office Costs	402,242	682,875	(280,633)
Professional Services	143,214	89,400	53,814
Miscellaneous	8,170	-	8,170
Depreciation	129,449	232,952	(103,503)
<b>Total Operating Expenses</b>	<b>1,987,841</b>	<b>2,609,224</b>	<b>(621,383)</b>
<b>Indirect Expenses</b>	-	-	(0)
<b>Other Non-Operating Expenses</b>	-	-	-
<b>Total Expenses (B)</b>	<b>13,243,230</b>	<b>15,537,397</b>	<b>(2,294,167)</b>
<b>Change in Assets (A - B)</b>	<b>2,384,606</b>	<b>57,048</b>	<b>2,327,558</b>
<b>Fixed Assets</b>			
Depreciation	(129,449)	(232,952)	103,503
Computer & Software CapEx	158,145	290,000	(131,855)
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>(28,696)</b>	<b>(57,048)</b>	<b>28,352</b>
Allocation of Fixed Assets	-	-	-
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(28,696)</b>	<b>(57,048)</b>	<b>28,352</b>
<b>TOTAL BUDGET (B - C)</b>	<b>13,271,926</b>	<b>15,594,445</b>	<b>(2,322,519)</b>
<b>Change in Working Capital (A-B+C)</b>	<b>2,355,910</b>	<b>-</b>	<b>2,355,910</b>
<b>FTE's</b>	<b>68.70</b>	<b>73.70</b>	<b>(5.00)</b>

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012  
Per Audit

RELIABILITY STANDARDS			2012 Variance		
	2012	2012	from Budget		
Funding	Actual	Budget	Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>ERO Funding</b>					
Assessments	510,346	510,346	-	0.00%	
Penalty Sanctions	14,094	14,094	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 524,440</b>	<b>\$ 524,440</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>524,440</b>	<b>524,440</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	259,658	258,039	1,619	0.63%	
Payroll Taxes	16,079	23,224	(7,145)	-30.77%	
Employee Benefits	20,639	26,719	(6,080)	-22.76%	
Savings & Retirement	49,784	34,787	14,997	43.11%	SERC budgeted based on historical employee contributions. SERC changed the 401k match effective January 2012. Due to this, employees increased their contribution, causing an increase in SERC's matching component.
<b>Total Personnel Expenses</b>	<b>346,160</b>	<b>342,769</b>	<b>3,391</b>	<b>0.99%</b>	
<b>Meeting Expenses</b>					
Meetings	492	3,960	(3,468)	-87.58%	
Travel	8,777	19,124	(10,347)	-54.10%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. By doing this, travel costs have decreased.
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>9,269</b>	<b>23,084</b>	<b>(13,815)</b>	<b>-59.85%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	405	-	405		
Professional Services	140	-	140		
Miscellaneous	222	-	222		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>767</b>	<b>-</b>	<b>767</b>		
<b>Indirect Expenses</b>	<b>153,425</b>	<b>156,834</b>	<b>(3,409)</b>	<b>-2.17%</b>	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2012 based on the number of FTEs in those programs
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>509,621</b>	<b>522,687</b>	<b>(13,066)</b>	<b>-2.50%</b>	
<b>Change in Assets (A - B)</b>	<b>14,819</b>	<b>1,753</b>	<b>13,066</b>	<b>745.35%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Allocation of Fixed Assets	(948)	(1,753)	805	-45.92%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(948)</b>	<b>(1,753)</b>	<b>805</b>	<b>-45.92%</b>	
<b>TOTAL BUDGET (B - C)</b>	<b>510,569</b>	<b>524,440</b>	<b>(13,871)</b>	<b>-2.64%</b>	
<b>Change in Working Capital (A-B+C)</b>	<b>13,871</b>	<b>-</b>	<b>13,871</b>		
<b>FTE's</b>	<b>1.75</b>	<b>1.75</b>	<b>-</b>	<b>0.00%</b>	

**SERC Reliability Corporation**  
**Statement of Activities**  
**From 1/1/2012 through 12/31/2012**  
**Per Audit**

**COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION**

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	10,639,545	10,639,545	-	0.00%	
Penalty Sanctions	318,124	318,124	-	0.00%	
<b>Total ERO Funding</b>	<u>\$ 10,957,669</u>	<u>\$ 10,957,669</u>	<u>\$ -</u>	<u>0.00%</u>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	6,896	-	6,896		
<b>Total Funding (A)</b>	<u>10,964,565</u>	<u>10,957,669</u>	<u>6,896</u>	<u>0.06%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	3,894,651	4,903,643	(1,008,992)	-20.58%	SERC budgeted 42.0 FTE's in the Compliance program during 2012. SERC finished 2012 with 37 FTEs, a difference of 5 FTEs, causing SERC to be under budget. SERC used contractors to assist in completing the work.
Payroll Taxes	298,761	443,758	(144,997)	-32.67%	As noted above in Salaries Expense, decrease in payroll taxes is due to not being fully staffed. Additionally, for 2012, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	197,370	519,619	(322,249)	-62.02%	As noted above in Salaries Expense, there was less participation in benefits due to not being fully staffed.
Savings & Retirement	612,132	676,627	(64,495)	-9.53%	
<b>Total Personnel Expenses</b>	<u>5,002,914</u>	<u>6,543,647</u>	<u>(1,540,733)</u>	<u>-23.55%</u>	
<b>Meeting Expenses</b>					
Meetings	22,384	18,950	3,434	18.12%	
Travel	382,228	396,887	(14,659)	-3.69%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<u>404,612</u>	<u>415,837</u>	<u>(11,225)</u>	<u>-2.70%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	106,795	162,500	(55,705)	-34.28%	SERC is under budget due to contractor delays on various compliance projects and did not incur significant costs related to contractor support. As an offset, SERC did use contractors to support compliance due to not being fully staffed.
Rent & Improvements	-	-	-		
Office Costs	11,845	12,600	(755)	-5.99%	
Professional Services	22,421	20,000	2,421	12.11%	
Miscellaneous	640	-	640		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<u>141,701</u>	<u>195,100</u>	<u>(53,399)</u>	<u>-27.37%</u>	
<b>Indirect Expenses</b>	<u>3,232,586</u>	<u>3,761,013</u>	<u>(528,427)</u>	<u>-14.05%</u>	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2012 based on the number of FTEs in those programs
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Total Expenses (B)</b>	<u>8,781,813</u>	<u>10,915,597</u>	<u>(2,133,784)</u>	<u>-19.55%</u>	
<b>Change in Assets (A - B)</b>	<u>2,182,752</u>	<u>42,072</u>	<u>2,140,680</u>	<u>5088.14%</u>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	(20,053)	(42,072)	22,019	-52.34%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>(20,053)</u>	<u>(42,072)</u>	<u>22,019</u>	<u>-52.34%</u>	
<b>TOTAL BUDGET (B - C)</b>	<u>8,801,866</u>	<u>10,957,669</u>	<u>(2,155,803)</u>	<u>-19.67%</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>2,162,699</u>	<u>-</u>	<u>2,162,699</u>		
<b>FTE's</b>	<u>37.00</u>	<u>42.00</u>	<u>(5.00)</u>	<u>-11.90%</u>	

**SERC Reliability Corporation**  
**Statement of Activities**  
**From 1/1/2012 through 12/31/2012**  
**Per Audit**

COMPLIANCE ENFORCEMENT ACTIVITY			2012 Variance from Budget		
	2012 Actual	2012 Budget	Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	103,708	40,000	63,708	159.27%	The income recorded in Miscellaneous represents the cross regional monitoring activities for FRCC and SPP. The audited regional entity reimburses for actual costs incurred. The variance is due to the costs associated with auditing and enforcement activities for FRCC, which was not budgeted to be audited in 2012. Due to timing, the audits of FRCC were performed in 2012, rather than in 2011, resulting in higher actual revenue.
<b>Total Funding (A)</b>	<u>103,708</u>	<u>40,000</u>	<u>63,708</u>	<u>159.27%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	77,560	27,000	50,560	187.26%	Amount represents the total personnel expenses related to the cross regional monitoring activities for FRCC. Due to timing, the audits of FRCC were performed in 2012, rather than in 2011 causing an over run.
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
<b>Total Personnel Expenses</b>	<u>77,560</u>	<u>27,000</u>	<u>50,560</u>	<u>187.26%</u>	
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	17,190	10,000	7,190	71.90%	Amount represents the travel expenses related to the cross regional monitoring activities for FRCC. Due to timing, the audits of FRCC were performed in 2012, rather than in 2011 causing an over run.
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<u>17,190</u>	<u>10,000</u>	<u>7,190</u>	<u>71.90%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Rent & Improvements	-	-	-		
Office Costs	-	-	-		
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Indirect Expenses</b>	<u>11,246</u>	<u>3,000</u>	<u>8,246</u>	<u>274.87%</u>	
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Total Expenses (B)</b>	<u>105,997</u>	<u>40,000</u>	<u>65,997</u>	<u>164.99%</u>	
<b>Change in Assets (A - B)</b>	<u>(2,288)</u>	<u>-</u>	<u>(2,288)</u>		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>TOTAL BUDGET (B - C)</b>	<u>105,997</u>	<u>40,000</u>	<u>65,997</u>	<u>164.99%</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>(2,288)</u>	<u>-</u>	<u>(2,288)</u>		
<b>FTE's</b>	-	-	-		

**SERC Reliability Corporation**  
**Statement of Activities**  
From 1/1/2012 through 12/31/2012  
Per Audit

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS			2012 Variance		
	2012	2012	from Budget		
	Actual	Budget	Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	1,581,890	1,581,890	-	0.00%	
Penalty Sanctions	45,906	45,906	-	0.00%	
<b>Total ERO Funding</b>	<u>\$ 1,627,796</u>	<u>\$ 1,627,796</u>	<u>\$ -</u>	<u>0.00%</u>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<u>1,627,796</u>	<u>1,627,796</u>	<u>-</u>	<u>0.00%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	514,647	549,063	(34,416)	-6.27%	
Payroll Taxes	42,766	49,416	(6,650)	-13.46%	
Employee Benefits	108,875	81,865	27,010	32.99%	SERC budgeted based on historical enrollment figures. More employees have elected to participate in SERC's benefits than budgeted, causing the overage.
Savings & Retirement	96,200	76,546	19,654	25.68%	SERC budgeted based on historical employee contributions. SERC changed the 401k match effective January 2012. Due to this, employees increased their contribution, causing an increase in SERC's matching component.
<b>Total Personnel Expenses</b>	<u>762,488</u>	<u>756,890</u>	<u>5,598</u>	<u>0.74%</u>	
<b>Meeting Expenses</b>					
Meetings	17,728	32,275	(14,547)	-45.07%	A greater emphasis on the use of technology by hosting WebEx meetings, as well as utilizing member facilities, has lowered meeting costs.
Travel	23,111	32,311	(9,200)	-28.47%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<u>40,839</u>	<u>64,586</u>	<u>(23,747)</u>	<u>-36.77%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	149,994	231,800	(81,806)	-35.29%	Software development for Assessments did not get started until late 2012 and was not completed during 2012, causing SERC to be under budget. Additionally, SERC used a consultant to perform the resource adequacy study at a cost less than the budget. During development of the budget, the full scope of the project was unknown.
Rent & Improvements	-	-	-		
Office Costs	3,262	57,980	(54,718)	-94.37%	SERC did not incur costs associated with the purchase of computer equipment to perform power system simulation electric studies.
Professional Services	220	-	220		
Miscellaneous	859	-	859		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<u>154,335</u>	<u>289,780</u>	<u>(135,445)</u>	<u>-46.74%</u>	
<b>Indirect Expenses</b>	<u>587,397</u>	<u>510,830</u>	<u>76,567</u>	<u>14.99%</u>	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2012 based on the number of FTEs in those programs. Due to the increase in FTEs in the RAPA program area, the indirect expenses increased over budget.
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Total Expenses (B)</b>	<u>1,545,059</u>	<u>1,622,086</u>	<u>(77,027)</u>	<u>-4.75%</u>	
<b>Change in Assets (A - B)</b>	<u>82,737</u>	<u>5,710</u>	<u>77,027</u>	<u>1348.98%</u>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	(3,631)	(5,710)	2,079	-36.41%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>(3,631)</u>	<u>(5,710)</u>	<u>2,079</u>	<u>-36.41%</u>	
<b>TOTAL BUDGET (B - C)</b>	<u>1,548,690</u>	<u>1,627,796</u>	<u>(79,106)</u>	<u>-4.86%</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>79,106</u>	<u>-</u>	<u>79,106</u>		
<b>FTE's</b>	<u>6.70</u>	<u>5.70</u>	<u>1.00</u>	<u>17.54%</u>	



**SERC Reliability Corporation**  
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**Per Audit**

TRAINING, EDUCATION and OPERATOR CERTIFICATION	2012 Variance from Budget				Comments (Explain variances > +/- 10% and <\$10,000)
	2012 Actual	2012 Budget	Over(Under)		
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	570,332	570,332	-	0.00%	
Penalty Sanctions	14,094	14,094	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 584,426</b>	<b>\$ 584,426</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	226,574	264,670	(38,096)	-14.39%	The attendance at the Joint Committee meetings was lower than budgeted. The Spring Joint meeting was held in the Charlotte office rather than off-site. Due to this, a reduced fee was charged.
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>811,000</b>	<b>849,096</b>	<b>(38,096)</b>	<b>-4.49%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	249,185	246,421	2,764	1.12%	
Payroll Taxes	15,936	22,178	(6,242)	-28.15%	
Employee Benefits	22,991	21,388	1,603	7.49%	
Savings & Retirement	47,117	33,160	13,957	42.09%	SERC budgeted based on historical employee contributions. SERC changed the 401k match effective January 2012. Due to this, employees increased their contribution, causing an increase in SERC's matching component.
<b>Total Personnel Expenses</b>	<b>335,229</b>	<b>323,147</b>	<b>12,082</b>	<b>3.74%</b>	
<b>Meeting Expenses</b>					
Meetings	224,556	276,610	(52,054)	-18.82%	SERC continues to work with the same hotels, which provides cost savings on larger meetings. Additionally, as noted in the workshop fee revenue, the Spring Joint meeting was held in the Charlotte office at a significantly reduced cost. This meeting was budgeted to be held off-site, causing additional under runs. Finally, a greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs.
Travel	9,341	20,352	(11,011)	-54.10%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. By doing this, travel costs have decreased.
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>233,897</b>	<b>296,962</b>	<b>(63,065)</b>	<b>-21.24%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	65,338	70,400	(5,062)	-7.19%	
Rent & Improvements	-	-	-		
Office Costs	7,602	-	7,602		
Professional Services	609	-	609		
Miscellaneous	706	-	706		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>74,255</b>	<b>70,400</b>	<b>3,855</b>	<b>5.48%</b>	
<b>Indirect Expenses</b>	<b>153,425</b>	<b>156,834</b>	<b>(3,409)</b>	<b>-2.17%</b>	
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>796,806</b>	<b>847,343</b>	<b>(50,537)</b>	<b>-5.96%</b>	
<b>Change in Assets (A - B)</b>	<b>14,194</b>	<b>1,753</b>	<b>12,441</b>	<b>709.70%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Allocation of Fixed Assets	(948)	(1,753)	805	-45.92%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(948)</b>	<b>(1,753)</b>	<b>805</b>	<b>-45.92%</b>	
<b>TOTAL BUDGET (B - C)</b>	<b>797,754</b>	<b>849,096</b>	<b>(51,342)</b>	<b>-6.05%</b>	
<b>Change in Working Capital (A-B+C)</b>	<b>13,246</b>	<b>-</b>	<b>13,246</b>		
<b>FTE's</b>	<b>1.75</b>	<b>1.75</b>	<b>-</b>	<b>0.00%</b>	

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SITUATION AWARENESS and INFRASTRUCTURE SECURITY (Includes Critical Infrastructure Protection)			2012 Variance from Budget		Comments (Explain variances > +/- 10% and <\$10,000)
Funding	2012 Actual	2012 Budget	Over(Under)		
<b>ERO Funding</b>					
Assessments	1,543,162	1,543,162	-	0.00%	
Penalty Sanctions	42,282	42,282	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 1,585,444</b>	<b>\$ 1,585,444</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<b>1,585,444</b>	<b>1,585,444</b>	<b>-</b>	<b>0.00%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	720,321	719,673	648	0.09%	
Payroll Taxes	52,689	64,771	(12,082)	-18.65%	For 2012, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	77,453	82,896	(5,443)	-6.57%	
Savings & Retirement	89,506	77,737	11,769	15.14%	SERC budgeted based on historical employee contributions. SERC changed the 401k match effective January 2012. Due to this, employees increased their contribution, causing an increase in SERC's matching component.
<b>Total Personnel Expenses</b>	<b>939,969</b>	<b>945,077</b>	<b>(5,108)</b>	<b>-0.54%</b>	
<b>Meeting Expenses</b>					
Meetings	236	19,125	(18,889)	-98.77%	A greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs.
Travel	48,673	45,171	3,502	7.75%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>48,909</b>	<b>64,296</b>	<b>(15,387)</b>	<b>-23.93%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	10,189	55,000	(44,811)	-81.47%	SERC did not incur significant contract costs related to event analysis technical expertise, GIS Software and inter7 hotline enhancements, causing SERC to be under budget.
Rent & Improvements	-	-	-		
Office Costs	258	-	258		
Professional Services	109	-	109		
Miscellaneous	392	-	392		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>10,948</b>	<b>55,000</b>	<b>(44,052)</b>	<b>-80.09%</b>	
<b>Indirect Expenses</b>	<b>504,109</b>	<b>515,311</b>	<b>(11,202)</b>	<b>-2.17%</b>	
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Expenses (B)</b>	<b>1,503,935</b>	<b>1,579,684</b>	<b>(75,749)</b>	<b>-4.80%</b>	
<b>Change in Assets (A - B)</b>	<b>81,509</b>	<b>5,760</b>	<b>75,749</b>	<b>1315.09%</b>	
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>		
Allocation of Fixed Assets	(3,116)	(5,760)	2,644	-45.90%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>(3,116)</b>	<b>(5,760)</b>	<b>2,644</b>	<b>-45.90%</b>	
<b>TOTAL BUDGET (B - C)</b>	<b>1,507,051</b>	<b>1,585,444</b>	<b>(78,393)</b>	<b>-4.94%</b>	
<b>Change in Working Capital (A-B+C)</b>	<b>78,393</b>	<b>-</b>	<b>78,393</b>		
<b>FTE's</b>	<b>5.75</b>	<b>5.75</b>	<b>-</b>	<b>0.00%</b>	

SERC Reliability Corporation  
Statement of Activities  
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MEMBER FORUMS	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	370,535	426,271	(55,736)	-13.08%	SERC is under budget due to a change in staffing levels throughout 2012.
Payroll Taxes	24,029	38,364	(14,335)	-37.37%	As noted above in Salaries Expense, decrease in payroll taxes is due to a change in staffing. Additionally, for 2012, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	23,290	29,413	(6,123)	-20.82%	
Savings & Retirement	82,545	58,513	24,032	41.07%	SERC budgeted based on historical employee contributions. SERC changed the 401k match effective January 2012. Due to this, employees increased their contribution, causing an increase in SERC's matching component.
<b>Total Personnel Expenses</b>	<u>500,399</u>	<u>552,561</u>	<u>(52,162)</u>	<u>-9.44%</u>	
<b>Meeting Expenses</b>					
Meetings	7,390	34,008	(26,618)	-78.27%	A greater emphasis on the use of technology by hosting WebEx meetings has lowered meeting costs.
Travel	29,150	41,283	(12,133)	-29.39%	SERC continues to emphasize the use of technology by hosting meetings using WebEx. By doing this, travel costs have decreased. SERC has emphasized the need to only send required staff to meetings and placed a high focus on efficient travel, thereby reducing costs.
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<u>36,540</u>	<u>75,291</u>	<u>(38,751)</u>	<u>-51.47%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	6,326	9,375	(3,049)	-32.52%	
Rent & Improvements	-	-	-		
Office Costs	1,223	1,560	(337)	-21.60%	
Professional Services	109	-	109		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<u>7,658</u>	<u>10,935</u>	<u>(3,277)</u>	<u>-29.97%</u>	
<b>Indirect Expenses</b>	(544,597)	(638,787)	94,190	-14.75%	Expenses related to indirect programs have been allocated proportionately to the direct programs for 2012 based on the number of FTEs in those programs
<b>Other Non-Operating Expenses</b>	-	-	-		
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Change in Assets (A - B)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Change in Working Capital (A-B+C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>FTE's</b>	<u>2.75</u>	<u>2.75</u>	<u>-</u>	<u>0.00%</u>	

**SERC Reliability Corporation**  
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**GENERAL and ADMINISTRATIVE**

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	-	-	-		
Miscellaneous	3,218	-	3,218		
<b>Total Funding (A)</b>	<u>3,218</u>	<u>-</u>	<u>3,218</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,916,947	1,778,297	138,650	7.80%	
Payroll Taxes	110,750	160,047	(49,297)	-30.80%	For 2012, the tax rate budgeted was based on historical data, which ended up being higher than the actual rate charged, causing the under run.
Employee Benefits	214,997	133,983	81,014	60.47%	SERC budgeted based on historical enrollment figures. More employees elected to participate in SERC's benefits than budgeted, causing the overage.
Savings & Retirement	83,009	250,086	(167,077)	-66.81%	Positions were vacated during the year and not refilled immediately or at all, and therefore not eligible for 401k benefits, causing the under run. Additionally, SERC budgeted based on historical employee contribution figures. The actual employee contributions were less, causing SERC's contribution to be less.
<b>Total Personnel Expenses</b>	<u>2,325,703</u>	<u>2,322,413</u>	<u>3,290</u>	<u>0.14%</u>	
<b>Meeting Expenses</b>					
Meetings	68,296	17,150	51,146	298.23%	The over run in meetings expenses is due to actual meeting spaces charged more than anticipated in the budget, as well as additional in-house meetings.
Travel	62,793	51,463	11,330	22.02%	There were more off-site meetings attended than budgeted.
Conference Calls	42,622	96,000	(53,378)	-55.60%	The 2012 budget was increased to cover the anticipated use by the increase in staffing. SERC continued to use more cost effective methods, which reduced the actual expense.
<b>Total Meeting Expenses</b>	<u>173,711</u>	<u>164,613</u>	<u>9,098</u>	<u>5.53%</u>	
<b>Operating Expenses</b>					
Consultants & Contracts	105,521	-	105,521		SERC engaged a management consulting firm to support SERC's corporate initiative for leadership training and engaged external auditors to perform a review of SERC's auditing function. Both were unbudgeted, but deemed necessary.
Rent & Improvements	404,835	444,722	(39,887)	-8.97%	
Office Costs	295,184	307,210	(12,026)	-3.91%	
Professional Services	40,532	15,000	25,532	170.21%	The variance is comprised of various unbudgeted items, including a property tax bill, temporary employment agency fees and an increase in our general liability insurances.
Miscellaneous	5,236	-	5,236		
Depreciation	129,449	232,952	(103,503)	-44.43%	Due to the actual cost of the assets and the timing of when the assets were placed into service, depreciation expense and capital expenditures were lower than the budget, causing the under run.
<b>Total Operating Expenses</b>	<u>980,757</u>	<u>999,884</u>	<u>(19,127)</u>	<u>-1.91%</u>	
<b>Indirect Expenses</b>	<u>(3,480,171)</u>	<u>(3,486,910)</u>	<u>6,739</u>	<u>-0.19%</u>	
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Change in Assets (A - B)</b>	<u>3,218</u>	<u>-</u>	<u>3,218</u>		
<b>Fixed Assets</b>					
Depreciation	(129,449)	(232,952)	103,503	-44.43%	Due to the actual cost of the assets and the timing of when the assets were placed into service, depreciation expense is higher than budget, causing the over run.
Computer & Software CapEx	158,145	290,000	(131,855)	-45.47%	Costs for various projects were significantly higher than budgeted due to the actual expense was not split when it was budgeted to be split among three regions. Additionally, as SERC incurred the full cost, the item was capitalized as the total cost was over SERC's capitalization policy.
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>(28,696)</u>	<u>(57,048)</u>	<u>28,352</u>		
Allocation of Fixed Assets	28,696	57,048	(28,352)	-49.70%	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Change in Working Capital (A-B+C)</b>	<u>3,218</u>	<u>-</u>	<u>3,218</u>		
<b>FTE's</b>	<b>13.00</b>	<b>14.00</b>	<b>(1.00)</b>	<b>-7.14%</b>	

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012  
Per Audit

LEGAL and REGULATORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	125	-	125	
Professional Services	49,680	25,000	24,680	98.72% During 2012, SERC incurred additional legal fees associated with work to incorporate in North Carolina, its primary place of business, and to insure it maintained its non-profit tax status.
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<u>49,805</u>	<u>25,000</u>	<u>24,805</u>	<u>99.22%</u>
<b>Indirect Expenses</b>	<u>(49,805)</u>	<u>(25,000)</u>	<u>(24,805)</u>	<u>99.22%</u>
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Assets (A - B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>FTE's</b>	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012  
Per Audit

INFORMATION TECHNOLOGY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Operating Expenses</b>				
Consultants & Contracts	454,722	630,200	(175,478) -27.84%	Actual costs for hosting and maintaining SERC's servers are lower than budgeted. Additionally, Participation in the OATI schedule checkout tool was lower than planned in 2011. SERC budgeted for 22 balancing authorities for the entire year. During 2012, 20 balancing authorities had joined. Finally, SERC did not incur significant costs related to various IT projects, causing an under run.
Rent & Improvements	-	-	-	
Office Costs	71,816	295,525	(223,709) -75.70%	The budget included funds the purchase of office furniture and equipment to furnish the new office space and for the purchase of computers and equipment for existing staff replacements and for the budgeted new positions. The majority of these items were purchased in 2011, causing an under run in 2012. SERC did not incur costs associated with the purchase of computer equipment to perform power system simulation electric studies, causing an under run. Finally, SERC negotiated better rates on the telephone and internet service, causing an under run.
Professional Services	-	-	-	
Miscellaneous	65	-	65	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<u>526,603</u>	<u>925,725</u>	<u>(399,122) -43.11%</u>	
<b>Indirect Expenses</b>	<u>(526,603)</u>	<u>(925,725)</u>	<u>399,122 -43.11%</u>	
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Assets (A - B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>FTE's</b>	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012  
Per Audit

HUMAN RESOURCES	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	50	-	50	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<u>50</u>	<u>-</u>	<u>50</u>	
<b>Indirect Expenses</b>	<u>(50)</u>	<u>-</u>	<u>(50)</u>	
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Expenses (B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Assets (A - B)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>FTE's</b>	<u>-</u>	<u>-</u>	<u>-</u>	

SERC Reliability Corporation  
Statement of Activities  
From 1/1/2012 through 12/31/2012  
Per Audit

ACCOUNTING and FINANCE	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)		Comments (Explain variances > +/- 10% and <\$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	-	-	-		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Federal Grants	-	-	-		
Membership Fees	-	-	-		
Testing	-	-	-		
Services & Software	-	-	-		
Workshop Fees	-	-	-		
Interest	7,665	10,000	(2,335)	-23.35%	
Miscellaneous	-	-	-		
<b>Total Funding (A)</b>	<u>7,665</u>	<u>10,000</u>	<u>(2,335)</u>	<u>-23.35%</u>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	-	-	-		
Payroll Taxes	-	-	-		
Employee Benefits	-	-	-		
Savings & Retirement	-	-	-		
<b>Total Personnel Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	-	-	-		
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Operating Expenses</b>					
Consultants & Contracts	1,046	-	1,046		
Rent & Improvements	-	-	-		
Office Costs	10,522	8,000	2,522	31.53%	
Professional Services	29,394	29,400	(6)	-0.02%	
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<u>40,962</u>	<u>37,400</u>	<u>3,562</u>	<u>9.52%</u>	
<b>Indirect Expenses</b>	<u>(40,962)</u>	<u>(27,400)</u>	<u>(13,562)</u>	<u>49.50%</u>	
<b>Other Non-Operating Expenses</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>Total Expenses (B)</b>	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>	
<b>Change in Assets (A - B)</b>	<u>7,665</u>	<u>-</u>	<u>7,665</u>		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Incr(Dec) in Fixed Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>		
Allocation of Fixed Assets	-	-	-		
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<u>-</u>	<u>-</u>	<u>-</u>		
<b>TOTAL BUDGET (B - C)</b>	<u>-</u>	<u>10,000</u>	<u>(10,000)</u>	<u>-100.00%</u>	
<b>Change in Working Capital (A-B+C)</b>	<u>7,665</u>	<u>-</u>	<u>7,665</u>		
<b>FTE's</b>	-	-	-		





# **SERC RELIABILITY CORPORATION**

## **FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

*As of and for the Years Ended December 31, 2012  
and 2011*

*And Report of Independent Auditor*

**SERC RELIABILITY CORPORATION**

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## **Report of Independent Auditor**

To the Board of Directors  
SERC Reliability Corporation  
Charlotte, North Carolina

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

We have audited the accompanying financial statements of SERC Reliability Corporation (the "Corporation"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SERC Reliability Corporation as of December 31, 2012 and 2011, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Supplemental Schedules**

Our audits were conducted for the purpose of forming an opinion on the financial statements as whole. The supplemental schedules on pages 10 through 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and the certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects to the financial statement as a whole.

*Cherry Bekacit LLP*

Charlotte, North Carolina  
April 22, 2013

**SERC RELIABILITY CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

*DECEMBER 31, 2012 AND 2011*

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 7,192,908	\$ 3,847,805
Accounts receivable	18,487	47,962
Prepaid expenses and other current assets	127,403	123,301
Total current assets	<u>7,338,798</u>	<u>4,019,068</u>
Property and equipment, net	<u>324,812</u>	<u>307,434</u>
<b>Total Assets</b>	<u><u>\$ 7,663,610</u></u>	<u><u>\$ 4,326,502</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 465,519	\$ 211,796
Accrued salaries and related benefits	1,981,820	1,363,320
Deferred revenue	556,606	476,327
Total current liabilities	<u>3,003,945</u>	<u>2,051,443</u>
Net assets		
Unrestricted and undesignated	3,473,073	1,088,467
Unrestricted and designated operating reserve	1,186,592	1,186,592
<b>Total Net Assets</b>	<u>4,659,665</u>	<u>2,275,059</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 7,663,610</u></u>	<u><u>\$ 4,326,502</u></u>

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

**SERC RELIABILITY CORPORATION**  
**STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Funding		
Member assessments	\$ 14,845,275	\$ 10,671,508
Penalty sanctions	434,500	919,000
Workshops	226,574	260,365
Interest	7,665	8,105
Miscellaneous	113,822	37,333
Total funding	<u>15,627,836</u>	<u>11,896,311</u>
Expenses		
Personnel expenses:		
Salaries	8,003,504	6,838,779
Payroll taxes	561,010	485,897
Employee benefits	665,615	684,606
Savings and retirement	1,060,293	589,666
Total personnel expenses	<u>10,290,422</u>	<u>8,598,948</u>
Meeting expenses:		
Meetings	341,082	332,060
Travel	581,263	503,586
Conference calls	42,622	51,125
Total meeting expenses	<u>964,967</u>	<u>886,771</u>
Operating expenses:		
Contracts and consultants	899,931	882,724
Rent and improvements	404,835	317,309
Office costs	402,242	484,849
Professional services	143,214	103,689
Depreciation	129,449	127,655
Miscellaneous	8,170	5,631
Total operating expenses	<u>1,987,841</u>	<u>1,921,857</u>
Total expenses	<u>13,243,230</u>	<u>11,407,576</u>
Change in net assets	2,384,606	488,735
Net assets		
Beginning of year	<u>2,275,059</u>	<u>1,786,324</u>
End of year	<u>\$ 4,659,665</u>	<u>\$ 2,275,059</u>

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

**SERC RELIABILITY CORPORATION**  
**STATEMENTS OF CASH FLOWS**

*YEARS ENDED DECEMBER 31, 2012 AND 2011*

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,384,606	\$ 488,735
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	129,449	127,655
Changes in operating assets and liabilities:		
Accounts receivable	29,475	15,123
Prepaid expenses and other current assets	(4,102)	(27,375)
Accounts payable	253,723	53,831
Accrued salaries and related benefits	618,500	273,245
Deferred revenue	80,279	(780,395)
Net cash provided by operating activities	<u>3,491,930</u>	<u>150,819</u>
<b>Cash flows from investing activities</b>		
Additions to property and equipment	<u>(146,827)</u>	<u>(158,145)</u>
Net increase (decrease) in cash and cash equivalents	3,345,103	(7,326)
Cash and cash equivalents		
Beginning of year	<u>3,847,805</u>	<u>3,855,131</u>
End of year	<u>\$ 7,192,908</u>	<u>\$ 3,847,805</u>

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

# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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### **Note 1—Organization and nature of operations**

SERC Reliability Corporation (the “Corporation”) is a non-profit corporation which qualifies as a Regional Reliability Organization under the Energy Policy Act of 2005. The Corporation’s mission is to promote the reliability of the electricity supply for the southeastern United States. The activities of the Corporation are directed by its Board of Directors. The Corporation’s members are electricity suppliers, brokers and consumers from various ownership segments of the electricity supply industry, investor-owned rural electric cooperatives, municipal utilities, independent power producers, power marketers and customers. These entities account for virtually all the electricity supplied in the southeastern United States.

### **Note 2—Summary of significant accounting policies**

*Accounting Principles* - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Corporation is required to report information regarding its financial position and activities according to three classes of net assets- unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Corporation had only unrestricted net assets as of December 31, 2012 and 2011, including unrestricted net assets that have been designated by the Board of Directors as an operating reserve.

*Management Estimates* - The preparation of financial statements in conformity with GAAP requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

*Accounts Receivable* - Accounts receivable arise primarily from amounts billed to members. Management’s determination of the need for an allowance for doubtful accounts is based on evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. Any amounts considered to be uncollectible are written off at the time of such determination. At December 31, 2012 and 2011, management has determined that an allowance for doubtful accounts is not necessary.

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

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



# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

### Note 2—Summary of significant accounting policies (continued)

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

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

Management has evaluated the effect of the Financial Accounting Standards Board (“FASB”) guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Corporation’s policy is to record a liability for any tax position taken that is beneficial to the Corporation, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions at December 31, 2012 or 2011 and, accordingly, no liability has been accrued. The Corporation is no longer subject to tax examinations for years prior to 2009.

### Note 3—Property and equipment

Property and equipment included the following at December 31:

	2012	2011
Leasehold improvements	\$ 53,099	\$ 53,099
Computer equipment	177,411	160,593
Software	468,360	338,352
	<u>698,870</u>	<u>552,044</u>
Less: Accumulated depreciation	(374,058)	(244,610)
Property and equipment, net	<u>\$ 324,812</u>	<u>\$ 307,434</u>

Depreciation expense was \$129,449 and \$127,655 for the years ended December 2012 and 2011, respectively.

### Note 4—Leases

The Corporation leases its current office facilities under three non-cancelable operating leases which expire in 2015 and provide for monthly payments ranging from approximately \$32,000 to \$35,000. As leases expire, it can be expected that in the normal course of business certain leases will be renewed or replaced.

Total rent expense for the years ended December 31, 2012 and 2011, was \$404,835 and \$317,309, respectively.

# SERC RELIABILITY CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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### Note 4—Leases (continued)

Future minimum payments on all operating leases are as follows:

<u>Year ending December 31,</u>		
2013		401,135
2014		410,667
2015		34,905
	Total	<u>\$ 846,707</u>

### Note 5—Line of credit

The Corporation has a \$1,000,000 bank line of credit at an interest rate of prime plus 0.9%, limited to a 5.0% floor, (5.0% at December 31, 2012) which shall be payable in full on demand. The line is secured by the assets of the Corporation. The Corporation had no outstanding balance at December 31, 2012 and 2011.

### Note 6—Benefit plans

*401(k) plan* - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation makes an annual contribution to the plan equal to 3% of each eligible employee's compensation. In addition, the plan provides that the Corporation may make additional discretionary matching and profit-sharing contributions. During the years ended December 31, 2012 and 2011, contribution expense related to the plan totaled \$1,029,192 and \$562,163, respectively.

*Deferred compensation plan* - The Corporation established a deferred compensation plan in accordance with Internal Revenue Code Section 457 for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. During the years ended December 31, 2012 and 2011, contribution expense related to the plan totaled \$21,876 and \$12,325, respectively. The asset and liability for deferred compensation of \$61,063 and \$39,187 at December 31, 2012 and 2011, respectively, is included in prepaid expenses and other current assets and accrued salaries and related benefits.

### Note 7—Concentrations of credit risk and uncertainties

The Corporation places its cash and cash equivalents on deposit with a North Carolina financial institution. The Federal Deposit Insurance Company ("FDIC") covers \$250,000 for substantially all depository accounts. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transactions accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. The Corporation from time to time may have balances in excess of the FDIC insured limits. The Corporation had funds in banks in excess of the federally insured limited of \$6,960,203 and \$4,197,733 at December 31, 2012 and 2011, respectively.

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

**SERC RELIABILITY CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**

*DECEMBER 31, 2012 AND 2011*

**Note 8—Functional expenses**

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

	<u>2012</u>	<u>2011</u>
Program expenses:		
Reliability standards	\$ 356,196	\$ 303,961
Compliance enforcement	5,643,977	4,570,044
Reliability assessment	957,662	887,638
Training and education	643,381	525,680
Situation awareness	999,826	867,843
	<u>8,601,042</u>	<u>7,155,166</u>
Committee and member forums	<u>544,597</u>	<u>587,025</u>
General and administrative expenses:		
General and administrative	3,480,171	2,940,632
Legal and regulatory	49,805	32,900
Information technology	526,603	640,151
Human resources	50	15,277
Accounting and finance	40,962	36,425
	<u>4,097,591</u>	<u>3,665,385</u>
Total	<u>\$ 13,243,230</u>	<u>\$ 11,407,576</u>

**Note 9—Subsequent events**

Management has evaluated subsequent events through April 22, 2013, the date the financial statements were issued.

## **ACCOMPANYING INFORMATION**

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2012

	<u>2012 YTD</u> <u>Actual</u>	<u>2012 YTD</u> <u>Budget</u>	<u>2012 YTD</u> <u>Variance</u>
<b>Funding</b>			
Member assessments	\$ 14,845,275	\$ 14,845,275	\$ -
Penalty sanctions	434,500	434,500	-
Workshops	226,574	264,670	(38,096)
Interest	7,665	10,000	(2,335)
Miscellaneous	113,822	40,000	73,822
Total funding	<u>15,627,836</u>	<u>15,594,445</u>	<u>33,391</u>
<b>Expenses</b>			
Personnel expenses:			
Salaries	8,003,504	8,908,407	(904,903)
Payroll taxes	561,010	801,758	(240,748)
Employee benefits	665,615	895,883	(230,268)
Savings and retirement	1,060,293	1,207,456	(147,163)
Total personnel expenses	<u>10,290,422</u>	<u>11,813,504</u>	<u>(1,523,082)</u>
Meeting expenses:			
Meetings	341,082	402,078	(60,996)
Travel	581,263	616,591	(35,328)
Conference calls	42,622	96,000	(53,378)
Total meeting expenses	<u>964,967</u>	<u>1,114,669</u>	<u>(149,702)</u>
Operating expenses:			
Contracts and consultants	899,931	1,159,275	(259,344)
Rent and improvements	404,835	444,722	(39,887)
Office costs	402,242	682,875	(280,633)
Professional services	143,214	89,400	53,814
Depreciation	129,449	232,952	(103,503)
Miscellaneous	8,170	-	8,170
Total operating expenses	<u>1,987,841</u>	<u>2,609,224</u>	<u>(621,383)</u>
Total expenses	<u>13,243,230</u>	<u>15,537,397</u>	<u>(2,294,167)</u>
Change in net assets	<u>\$ 2,384,606</u>	<u>\$ 57,048</u>	<u>\$ 2,327,558</u>

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS**

DECEMBER 31, 2011

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

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS BY FUNCTION**

YEAR ENDED DECEMBER 31, 2012

	300	400	800	900	1000	1100	2000	2200	2300	2400	2500	2012 YTD	2012 YTD	2012 YTD
	RELIAB	COMP ENFORCE/	RELIAB	TRAINING	SIT	COMMITTEE &	GENERAL	LEGAL &		HUMAN	ACCOUNTING	Actual	Budget	Variance
	STD DEV	ORG REG & CERT	ASSES	& EDUC	AWARE	MBR FORUMS	ADMIN	REGULATORY	IT	RESOURCES	& FINANCE			
<b>Funding</b>														
Member assessments	\$ 510,346	\$ 10,639,545	\$ 1,581,890	\$ 570,332	\$ 1,543,162	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,845,275	\$ 14,845,275	\$ -
Penalty sanctions	14,094	318,124	45,906	14,094	42,282	-	-	-	-	-	-	434,500	434,500	-
Workshops	-	-	-	226,574	-	-	-	-	-	-	-	226,574	264,670	(38,096)
Interest	-	-	-	-	-	-	-	-	-	-	7,665	7,665	10,000	(2,335)
Miscellaneous	-	110,604	-	-	-	-	3,218	-	-	-	-	113,822	40,000	73,822
<b>Total funding</b>	<b>524,440</b>	<b>11,068,273</b>	<b>1,627,796</b>	<b>811,000</b>	<b>1,585,444</b>	<b>-</b>	<b>3,218</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,665</b>	<b>15,627,836</b>	<b>15,594,445</b>	<b>33,391</b>
<b>Expenses</b>														
<b>Personnel expenses:</b>														
Salaries	259,658	3,972,211	514,647	249,185	720,321	370,535	1,916,947	-	-	-	-	8,003,504	8,908,407	(904,903)
Payroll taxes	16,079	298,761	42,766	15,936	52,689	24,029	110,750	-	-	-	-	561,010	801,758	(240,748)
Employee benefits	20,639	197,370	108,875	22,991	77,453	23,290	214,997	-	-	-	-	665,615	895,883	(230,268)
Savings and retirement	49,784	612,132	96,200	47,117	89,506	82,545	83,009	-	-	-	-	1,060,293	1,207,456	(147,163)
<b>Total personnel expenses</b>	<b>346,160</b>	<b>5,080,474</b>	<b>762,488</b>	<b>335,229</b>	<b>939,969</b>	<b>500,399</b>	<b>2,325,703</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,290,422</b>	<b>11,813,504</b>	<b>(1,523,082)</b>
<b>Meeting expenses:</b>														
Meetings	492	22,384	17,728	224,556	236	7,390	68,296	-	-	-	-	341,082	402,078	(60,996)
Travel	8,777	399,418	23,111	9,341	48,673	29,150	62,793	-	-	-	-	581,263	616,591	(35,328)
Conference calls	-	-	-	-	-	-	42,622	-	-	-	-	42,622	96,000	(53,378)
<b>Total meeting expenses</b>	<b>9,269</b>	<b>421,802</b>	<b>40,839</b>	<b>233,897</b>	<b>48,909</b>	<b>36,540</b>	<b>173,711</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>964,967</b>	<b>1,114,669</b>	<b>(149,702)</b>
<b>Operating expenses:</b>														
Contracts and consultants	-	106,795	149,994	65,338	10,189	6,326	105,521	-	454,722	-	1,046	899,931	1,159,275	(259,344)
Rent and improvements	-	-	-	-	-	-	404,835	-	-	-	-	404,835	444,722	(39,887)
Office costs	405	11,845	3,262	7,602	258	1,223	295,184	125	71,816	-	10,522	402,242	682,875	(280,633)
Professional services	140	22,421	220	609	109	109	40,532	49,680	-	-	29,394	143,214	89,400	53,814
Depreciation	-	-	-	-	-	-	129,449	-	-	-	-	129,449	232,952	(103,503)
Miscellaneous	222	640	859	706	392	-	5,236	-	65	50	-	8,170	-	8,170
<b>Total operating expenses</b>	<b>767</b>	<b>141,701</b>	<b>154,335</b>	<b>74,255</b>	<b>10,948</b>	<b>7,658</b>	<b>980,757</b>	<b>49,805</b>	<b>526,603</b>	<b>50</b>	<b>40,962</b>	<b>1,987,841</b>	<b>2,609,224</b>	<b>(621,383)</b>
<b>Total expenses</b>	<b>356,196</b>	<b>5,643,977</b>	<b>957,662</b>	<b>643,381</b>	<b>999,826</b>	<b>544,597</b>	<b>3,480,171</b>	<b>49,805</b>	<b>526,603</b>	<b>50</b>	<b>40,962</b>	<b>13,243,230</b>	<b>15,537,397</b>	<b>(2,294,167)</b>
<b>Change in net assets</b>	<b>\$ 168,244</b>	<b>\$ 5,424,296</b>	<b>\$ 670,134</b>	<b>\$ 167,619</b>	<b>\$ 585,618</b>	<b>\$ (544,597)</b>	<b>\$ (3,476,953)</b>	<b>\$ (49,805)</b>	<b>\$ (526,603)</b>	<b>\$ (50)</b>	<b>\$ (33,297)</b>	<b>\$ 2,384,606</b>	<b>\$ 57,048</b>	<b>\$ 2,327,558</b>

**SERC RELIABILITY CORPORATION**  
**STATUTORY FINANCIAL STATEMENTS BY FUNCTION**

YEAR ENDED DECEMBER 31, 2011

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



**ATTACHMENT 7**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**FOR**

**SOUTHWEST POWER POOL REGIONAL ENTITY**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**SOUTHWEST POWER POOL, INC.**



Ronald W. Ciesiel  
SPP RE General Manager

Southwest Power Pool Regional Entity  
16101 St. Vincent Way, Ste 103  
Little Rock, AR 72223  
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April 22, 2013

*Via Electronic Mail*

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

Subject: Southwest Power Pool Regional Entity 2012 Actual Cost-to-Budget Comparison

Dear Mr. Walker and Ms. Turpen,

Attached is the Southwest Power Pool, Inc.'s (SPP, Inc.) submission of the SPP Regional Entity's (SPP RE) 2012 Actual Cost-to-Budget Comparison (2012 True Up Filing). For 2012, the SPP RE received approximately \$10 million in statutory funds and incurred approximately \$9.6 million in statutory expense (compared to \$11.4 million budget).

The \$1 thousand funding variance results from interest earned on the cash balance. The SPP RE performs only statutory activities, and therefore no statutory funding was used for non-statutory activities. The net impact on SPP RE's cash position for the year was an \$502 thousand positive variance (compared to the budgeted \$1.4 million negative variance).

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

### **Aggregate Expense Variances**

- **Personnel Expenses** (Actual - \$573K or 13% below budget) – Personnel expenses were less than budget primarily due to the timing of hiring additional RE direct staff to fill open budgeted positions. Four positions (Compliance Executive Director, Manager of Finance & Process Improvement, System Events & Reliability Assessment Engineer, and Enforcement Law Clerk) were unfilled as of December 31, 2012. In addition to these unfilled positions, under spend in budgeted personnel expenses also results from a delay in filling the budgeted Compliance Engineer position (the position was not filled until October 2012) and the partial pay for a compliance engineer that was called to active duty in mid-February 2012. There was also less than expected activity required by shared staff to complete the required activities for the proposed UFLS regional standard. The variances in employee benefits and savings and retirement costs are also due to the differences between the ratios used to develop the budget and the resulting actual ratios. In preparing the budget, a per person cost

is assumed for employee benefits, including healthcare, dental and life insurance premiums. The actual cost incurred in 2012 was \$733 per month, per person. This exceeded the assumed cost of \$587 per month, person.

- **Travel and Meeting Expenses** (Actual - \$279K or 39% under budget) –Travel expenses were less than expected primarily due to the unfilled budgeted staff positions and lower than expected travel costs.
- **Other Operating Expenses** (Actual - \$777K or 44% under budget) – Other operating expenses trailed the budget primarily due to the elimination of consulting activity related to enforcement caseload reduction initiative and delayed implementation of the BES exception process. SPP RE was able to achieve its targeted 12-month caseload in 2011, and the activity on the BES exception process is expected to occur no earlier than the second quarter 2013. The under spend in budgeted operating expenses also results from expenditures for hearing costs and compliance and enforcement consulting activities been less than expected.
- **SPP, Inc. Indirect Expense** (Actual - \$230K or 5% under budget) – SPP, Inc. Indirect Expenses were less than budget due to actual FTEs being lower than budgeted. Indirect Expenses are discussed in greater detail in the discussion that follows.
- **Total Expenses** (Actual \$1.9 million or 16% under budget) – Although SPP RE ended the year \$1.86 million or 16% under budget, SPP RE completed its intended activities for 2012. Specifically, SPP RE performed 39 audits, performed six spot checks, processed 316 technical feasibility exceptions, identified 173 possible violations, processed 251 violations, reviewed 147 mitigation plans, and examined 17 reportable events. In addition, SPP RE conducted various outreach activities, participated in the facility ratings alert program, and published winter, summer, and long-term reliability assessments.

#### **SPP, Inc. Shared Staff and Indirect Support Staff**

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

Shared staff members charge time and expenses directly to the SPP RE accounts and their hours are included in the official total full time equivalent headcount of the SPP RE for the purposes of reporting to NERC and FERC. Shared staff members record specific hours worked in the performance or support of the SPP RE’s statutory functions in SPP, Inc’s time tracking system. These hours are posted by the shared staff members and reviewed and approved by their specific manager or supervisor. The SPP RE Manager of Finance and Process Improvement as well as

the SPP RE General Manager review the hours posted by the shared staff members. This procedure results in actual hours spent by shared staff on SPP RE statutory functions being charged directly to the particular SPP RE direct function at the shared staff member's compensation rate. These direct charges are included in the SPP RE's Business Plan and Budget. For 2012, shared staff charged 5,100 hours, or 2.71 FTEs based on SPP's standard assumption that total number of hours in a year is 1,880, to the SPP RE. 2012 budgeted shared staff FTEs were 3.00.

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

Due to the timing of the budget schedule, the estimated overhead rate used to develop the 2012 budget was the actual Indirect Overhead Rate for 2010, which was \$71.04/hour. The actual 2012 Indirect Overhead Rate was \$75.88/hour. The development of the \$71.04/hour rate that was used in the development of the 2012 budget and the \$75.88/hour rate embedded in the actual 2012 costs are showed in Attachments 2 and 3, respectively. As shown on Attachments 2 and 3, actual 2012 indirect staff costs and year-end head counts were higher than the amounts used in the development of the 2012 budget.

If you have any questions related to the submitted materials please feel free to call me at 501.614.3265 or email me at [rciesiel.re@spp.org](mailto:rciesiel.re@spp.org).

Sincerely,



Ronald W. Ciesiel

**Southwest Power Pool  
Regional Entity  
Statement of Activities  
From 1/1/2012 through 12/31/2012**

	2012	2012	2012 Variance
Total Statutory	Actual	Budget	from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	9,851,646	9,851,646	-
Penalty Sanctions	200,920	200,920	-
<b>Total ERO Funding</b>	<b>\$ 10,052,566</b>	<b>\$ 10,052,566</b>	<b>\$ -</b>
Federal Grants	-	-	-
Membership Fees	-	-	-
Testing	-	-	-
Services & Software	-	-	-
Workshop Fees	-	-	-
Interest	1,294	-	1,294
Miscellaneous	-	-	-
<b>Total Funding (A)</b>	<b>\$ 10,053,860</b>	<b>\$ 10,052,566</b>	<b>\$ 1,294</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	3,266,019	3,820,690	(554,671)
Payroll Taxes	216,698	241,363	(24,665)
Employee Benefits	261,733	236,154	25,579
Savings & Retirement	136,715	156,334	(19,619)
<b>Total Personnel Expenses</b>	<b>\$ 3,881,165</b>	<b>\$ 4,454,541</b>	<b>\$ (573,376)</b>
<b>Meeting Expenses</b>			
Meetings	69,295	75,000	(5,705)
Travel	366,622	640,000	(273,378)
Conference Calls	-	-	-
<b>Total Meeting Expenses</b>	<b>\$ 435,917</b>	<b>\$ 715,000</b>	<b>\$ (279,083)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	727,923	1,421,500	(693,577)
Rent & Improvements	-	-	-
Office Costs	7,877	2,500	5,377
Professional Services	254,710	343,000	(88,290)
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 990,510</b>	<b>\$ 1,767,000</b>	<b>\$ (776,490)</b>
<b>Total Direct Expenses</b>	<b>\$ 5,307,592</b>	<b>\$ 6,936,541</b>	<b>\$ (1,628,949)</b>
SPP Inc. Indirect Expenses	\$ 4,244,526	\$ 4,474,099	\$ (229,573)
SPP RE Indirect Expenses <sup>(1)</sup>	\$ (0)	\$ 1	\$ (1)
<b>Total Indirect Expenses</b>	<b>\$ 4,244,526</b>	<b>\$ 4,474,100</b>	<b>\$ (229,574)</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses (B)</b>	<b>\$ 9,552,118</b>	<b>\$ 11,410,641</b>	<b>\$ (1,858,523)</b>
<b>Change in Assets (A - B)</b>	<b>501,741</b>	<b>(1,358,075)</b>	<b>1,859,816</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	-	-
Furniture & Fixtures CapEx	-	-	-
Equipment CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
Allocation of Fixed Assets	-	-	-
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 9,552,118</b>	<b>\$ 11,410,641</b>	<b>\$ (1,858,523)</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 501,741</b>	<b>\$ (1,358,075)</b>	<b>\$ 1,859,816</b>
<b>FTEs (2)</b>	<b>29.75</b>	<b>33.50</b>	<b>(3.75)</b>

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

(2) Actual FTE equal RE Direct Staff FTEs (number of days employed at RE during 2012 divided by 365) plus Shared Staff FTEs (2012 billed hours divided by 1880)

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

RELIABILITY STANDARDS	2012 Actual	2012 Budget	2012 Variance from Budget Over/Under	Comments (Explain variances > +/- 10% and > \$10,000)
<b>Funding</b>				
ERO Funding				
Assessments	428,057	428,057	-	0.00%
Penalty Sanctions	8,371	8,371	-	0.00%
Total ERO Funding	\$ 436,428	\$ 436,428	\$ -	0.00%
Federal Grants	-	-	-	-
Membership Fees	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding (A)	\$ 436,428	\$ 436,428	\$ -	0.00%
<b>Expenses</b>				
Personnel Expenses				
Salaries	14,314	158,652	(144,338)	-90.98%
Payroll Taxes	1,006	10,019	(9,013)	-89.96%
Employee Benefits	1,572	9,856	(8,284)	-84.05%
Savings & Retirement	579	6,473	(5,894)	-91.06%
Total Personnel Expenses	\$ 17,471	\$ 185,000	\$ (167,529)	-90.56%
Meeting Expenses				
Meetings	3,263	30,000	(26,737)	-89.12%
Conference Calls	-	-	-	-
Total Meeting Expenses	\$ 3,263	\$ 30,000	\$ (26,737)	-89.12%
Operating Expenses				
Consultants & Contracts	-	-	-	-
Rent & Improvements	-	-	-	-
Office Costs	-	-	-	-
Professional Services	-	-	-	-
Miscellaneous	-	-	-	-
Depreciation	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	-
Total Direct Expenses	\$ 20,734	\$ 215,000	\$ (194,266)	-90.36%
SPP Inc. Indirect Expenses	19,350	166,944	(147,594)	-88.41%
SPP RE Indirect Expenses	6,623	54,484	(47,861)	-87.84%
Total Indirect Expenses	\$ 25,973	\$ 221,428	\$ (195,455)	-86.27%
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-
Total Expenses (B)	\$ 46,706	\$ 436,428	\$ (389,722)	-89.30%
Change in Assets (A - B)	\$ 389,722	\$ -	\$ 389,722	
Fixed Assets				
Depreciation	-	-	-	-
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	-	-	-	-
Leasehold Improvements	-	-	-	-
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-
Allocation of Fixed Assets	-	-	-	-
Total Inc(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	-
TOTAL BUDGET (B + C)	\$ 46,706	\$ 436,428	\$ (389,722)	-89.30%
Change in Working Capital (A-B-C)	\$ 389,722	\$ -	\$ 389,722	
FTE's	0.14	1.25	(1.11)	-89.15%

Personnel Expenses were lower as a result of the additional budgeted SPP RE direct staff position (1 FTE) being repurposed to the Compliance Enforcement Program (CMEP) and less than expected activity required by shared staff to complete the required activities for the proposed UFLS regional standard.

Travel Expenses were lower as a result of the additional budgeted SPP RE direct staff position (1 FTE) being repurposed to the Compliance Enforcement Program (CMEP) and less than expected travel required by shared staff to complete the required activities.

SPP Inc. Indirect Expenses were lower due to actual FTEs being lower than budgeted FTEs. SPP RE Indirect Expenses allocated to this program area were primarily lower due to a smaller percentage being allocated to this program area based on the relative share of functional program direct expenses.

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

2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>COMPLIANCE OPERATIONS, ENFORCEMENT and ORGANIZATION REGISTRATION (includes Critical Infrastructure Protection Funding)</b>				
ERO Funding	8,913,812	8,913,812	-	
Assessments	152,365	152,365	0.00%	
Penalty Sanctions	152,365	152,365	0.00%	
<b>Total ERO Funding</b>	<b>\$ 9,066,177</b>	<b>\$ 9,066,177</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 9,066,177</b>	<b>\$ 9,066,177</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	2,251,451	2,652,413	(390,962)	-14.74%
Payroll Taxes	155,431	164,450	(9,019)	-5.48%
Employee Benefits	198,450	156,492	41,658	26.62%
Savings & Retirement	94,536	108,749	(14,213)	-13.07%
<b>Total Personnel Expenses</b>	<b>\$ 2,709,568</b>	<b>\$ 3,082,104</b>	<b>\$ (372,536)</b>	<b>-12.09%</b>
Personnel Expenses trailed budget primarily due to unfilled budgeted positions. Four positions (Compliance Executive Director, Manager of Finance & Process Improvement, System Events & Reliability Assessment Engineer and Enforcement Law Clerk) were unfilled as of December 31, 2012. In addition, an under spend in budgeted personnel expenses also results from a delay in filling the budgeted Compliance Engineer position (this position was filled in October 2012) and the partial pay for a Compliance Engineer that was called to active military duty in mid February 2012. The variances in employee benefits and savings & retirement costs are also due to the differences between the ratios used to develop the budget and the resulting actual ratios. In preparing the budget, a per person cost is assumed for employee benefits (e.g. healthcare, dental and life insurance premiums). The actual cost incurred exceeded the assumed cost.				
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	227,635	385,000	(157,365)	-40.87%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 227,635</b>	<b>\$ 385,000</b>	<b>\$ (157,365)</b>	<b>-40.87%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	691,345	1,342,000	(650,655)	-48.48%
Rent & Improvements	-	-	-	
Office Costs	4,364	-	4,364	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 695,709</b>	<b>\$ 1,342,000</b>	<b>\$ (646,291)</b>	<b>-48.16%</b>
<b>Total Direct Expenses</b>	<b>\$ 3,632,912</b>	<b>\$ 4,809,104</b>	<b>\$ (1,176,192)</b>	<b>-24.46%</b>
SPP Inc. Indirect Expenses	2,930,835	3,038,381	(107,546)	-3.54%
SPP RE Indirect Expenses	1,160,421	1,218,691	(58,270)	-4.78%
<b>Total Indirect Expenses</b>	<b>\$ 4,091,256</b>	<b>\$ 4,257,072</b>	<b>\$ (165,816)</b>	<b>-3.90%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 7,724,168</b>	<b>\$ 9,066,176</b>	<b>\$ (1,342,008)</b>	<b>-14.80%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 1,342,009</b>	<b>\$ -</b>	<b>\$ 1,342,008</b>	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 7,724,168</b>	<b>\$ 9,066,176</b>	<b>\$ (1,342,008)</b>	<b>-14.80%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 1,342,009</b>	<b>\$ -</b>	<b>\$ 1,342,008</b>	
<b>FTE's</b>	<b>20.55</b>	<b>22.75</b>	<b>(2.21)</b>	<b>-9.69%</b>

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	2012		2012		2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
	Actual	Budget	Budget	Over(Under)		
<b>Funding</b>						
<b>ERO Funding</b>						
Assessments	1,458,579	1,458,579	-	-	0.00%	
Penalty Sanctions	30,138	30,138	-	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 1,488,717</b>	<b>\$ 1,488,717</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>	
Federal Grants	-	-	-	-	-	
Membership Fees	-	-	-	-	-	
Testing	-	-	-	-	-	
Services & Software	-	-	-	-	-	
Workshop Fees	-	-	-	-	-	
Interest	-	-	-	-	-	
Miscellaneous	-	-	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 1,488,717</b>	<b>\$ 1,488,717</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>	
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	461,463	446,633	14,830	3.32%		
Payroll Taxes	31,834	31,989	(155)	-0.48%		
Employee Benefits	33,281	36,589	(3,308)	-9.04%		
Savings & Retirement	17,880	18,030	(150)	-0.83%		
<b>Total Personnel Expenses</b>	<b>\$ 544,458</b>	<b>\$ 533,241</b>	<b>\$ 11,217</b>	<b>2.10%</b>		
<b>Meeting Expenses</b>						
Meetings	-	-	-	-	-	
Travel	66,485	115,000	(48,515)	-42.19%	Travel Expenses trailed budget due to less than expected travel expenses for RE direct staff assisting with event analysis activities and the staff assisting with reliability assessment activities.	
Conference Calls	-	-	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 66,485</b>	<b>\$ 115,000</b>	<b>\$ (48,515)</b>	<b>-42.19%</b>		
<b>Operating Expenses</b>						
Consultants & Contracts	12,478	60,000	(47,522)	-79.20%	Consultants & Contracts Expenses were lower as a result of the RE staff's ability to complete the event analysis and reliability assessment activities with fewer consultant resources than expected.	
Rent & Improvements	-	-	-	-	-	
Office Costs	-	-	-	-	-	
Professional Services	-	-	-	-	-	
Miscellaneous	-	-	-	-	-	
Depreciation	-	-	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 12,478</b>	<b>\$ 60,000</b>	<b>\$ (47,522)</b>	<b>-79.20%</b>		
<b>Total Direct Expenses</b>	<b>\$ 623,421</b>	<b>\$ 708,241</b>	<b>\$ (84,820)</b>	<b>-11.98%</b>		
<b>Other Indirect Expenses</b>						
SPP Inc. Indirect Expenses	618,728	600,998	17,730	2.95%	SPP RE Indirect Expenses were primarily higher due to a larger percentage being allocated to this program area based on the relative share of functional program direct expenses.	
SPP RE Indirect Expenses	199,133	179,478	19,655	10.95%		
<b>Total Indirect Expenses</b>	<b>\$ 817,860</b>	<b>\$ 780,476</b>	<b>\$ 37,384</b>	<b>4.79%</b>		
<b>Other Non-Operating Expenses</b>						
<b>Total Expenses (B)</b>	<b>\$ 1,441,281</b>	<b>\$ 1,488,717</b>	<b>\$ (47,436)</b>	<b>-3.19%</b>		
<b>Change in Assets (A - B)</b>	<b>\$ 47,436</b>	<b>\$ (1)</b>	<b>\$ 47,436</b>			
<b>Fixed Assets</b>						
Depreciation	0.00	0.00	0.00			
Computer & Software CapEx	-	-	-			
Furniture & Fixtures CapEx	-	-	-			
Equipment CapEx	-	-	-			
Leasehold Improvements	-	-	-			
Incr(Dec) in Fixed Assets	-	-	-			
Allocation of Fixed Assets	-	-	-			
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 1,441,281</b>	<b>\$ 1,488,717</b>	<b>\$ (47,436)</b>	<b>-3.19%</b>		
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 47,436</b>	<b>\$ (1)</b>	<b>\$ 47,436</b>			
<b>FTE's</b>	<b>4.34</b>	<b>4.50</b>	<b>(0.16)</b>	<b>-3.62%</b>		



Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and > \$10,000)
<b>TRAINING, EDUCATION and OPERATOR CERTIFICATION</b>				
Funding				
ERO Funding	245,305	245,305	-	0.00%
Assessments	6,697	6,697	-	0.00%
Penalty Sanctions	-	-	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 252,002</b>	<b>\$ 252,002</b>	<b>\$ -</b>	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 252,002</b>	<b>\$ 252,002</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Meeting Expenses</b>				
Meetings	47,696	50,000	(2,304)	-4.61%
Travel	3,415	25,000	(21,585)	-86.34%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 51,111</b>	<b>\$ 75,000</b>	<b>\$ (23,889)</b>	<b>-31.85%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	23,000	19,500	3,500	17.95%
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 23,000</b>	<b>\$ 19,500</b>	<b>\$ 3,500</b>	<b>17.95%</b>
<b>Total Direct Expenses</b>	<b>\$ 74,111</b>	<b>\$ 94,500</b>	<b>\$ (20,389)</b>	<b>-21.58%</b>
SPP Inc. Indirect Expenses	142,654	133,555	9,099	6.81%
SPP RE Indirect Expenses	23,672	23,948	(276)	-1.15%
<b>Total Indirect Expenses</b>	<b>\$ 166,327</b>	<b>\$ 157,503</b>	<b>\$ 8,824</b>	<b>5.60%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 240,438</b>	<b>\$ 252,003</b>	<b>\$ (11,565)</b>	<b>-4.59%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 11,564</b>	<b>\$ -</b>	<b>\$ 11,565</b>	
<b>Fixed Assets</b>				
Depreciation	-	-	-	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 240,438</b>	<b>\$ 252,003</b>	<b>\$ (11,565)</b>	<b>-4.59%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 11,564</b>	<b>\$ -</b>	<b>\$ 11,565</b>	
FTE's	1.00	1.00	-	0.00%

Travel Expenses trailed budget due to lower than expected travel costs and less than expected activity for this program.

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

SITUATION AWARENESS and INFRASTRUCTURE SECURITY Funding	Per Audit			Comments (Explain variances > +/- .10% and >-\$10,000)
	2012 Actual	2012 Budget	from Budget Over(Under)	
<b>ERO Funding</b>				
Assessments	163,968	163,968	-	0.00%
Penalty Sanctions	3,349	3,349	-	0.00%
<b>Total ERO Funding</b>	<b>\$ 167,317</b>	<b>\$ 167,317</b>	<b>\$ -</b>	<b>0.00%</b>
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ 167,317</b>	<b>\$ 167,317</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	32,008	60,424	(28,416)	-47.03%
Payroll Taxes	2,102	3,746	(1,644)	-43.85%
Employee Benefits	1,639	3,565	(1,926)	-54.03%
Savings & Retirement	1,280	2,477	(1,197)	-48.32%
<b>Total Personnel Expenses</b>	<b>\$ 37,029</b>	<b>\$ 70,212</b>	<b>\$ (33,183)</b>	<b>-47.26%</b>
Meeting Expenses				
Meetings	-	-	-	
Travel	11,351	10,000	1,351	13.51%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 11,351</b>	<b>\$ 10,000</b>	<b>\$ 1,351</b>	<b>13.51%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	1,100	-	1,100	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 1,100</b>	<b>\$ -</b>	<b>\$ 1,100</b>	<b>-38.31%</b>
<b>Total Direct Expenses</b>	<b>\$ 49,480</b>	<b>\$ 80,212</b>	<b>\$ (30,732)</b>	<b>-40.52%</b>
SPP Inc. Indirect Expenses	34,240	66,778	(32,538)	-48.73%
SPP RE Indirect Expenses	15,805	20,327	(4,522)	-22.25%
<b>Total Indirect Expenses</b>	<b>\$ 50,045</b>	<b>\$ 87,105</b>	<b>\$ (37,060)</b>	<b>-42.55%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 99,525</b>	<b>\$ 167,317</b>	<b>\$ (67,792)</b>	<b>-40.52%</b>
<b>Change in Assets (A - B)</b>	<b>\$ 67,792</b>	<b>\$ 1</b>	<b>\$ 67,792</b>	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	-	-	-	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ 99,525</b>	<b>\$ 167,317</b>	<b>\$ (67,792)</b>	<b>-40.52%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 67,792</b>	<b>\$ 1</b>	<b>\$ 67,792</b>	
FTE's	0.24	0.50	(0.26)	-52.00%

FTEs were lower as a result of direct staff assigned to the RAPA group spending less time than expected.

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

	2012		Variance from Budget	Comments (Explain variances > +/- 10% and >\$10,000)
	Actual	Budget		
<b>MEMBER FORUMS</b>				
<b>Funding</b>				
ERO Funding				
Assessments				
Penalty Sanctions				
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants				
Membership Fees				
Testing				
Services & Software				
Workshop Fees				
Interest				
Miscellaneous				
<b>Total Funding (A)</b>				
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries				
Payroll Taxes				
Employee Benefits				
Savings & Retirement				
<b>Total Personnel Expenses</b>				
<b>Meeting Expenses</b>				
Meetings				
Travel				
Conference Calls				
<b>Total Meeting Expenses</b>				
<b>Operating Expenses</b>				
Consultants & Contracts				
Rent & Improvements				
Office Costs				
Professional Services				
Miscellaneous				
Depreciation				
<b>Total Operating Expenses</b>				
<b>Indirect Expenses</b>				
<b>Other Non-Operating Expenses</b>				
<b>Total Expenses (B)</b>				
<b>Change in Assets (A - B)</b>				
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx				
Furniture & Fixtures CapEx				
Equipment CapEx				
Leasehold Improvements				
<b>Incr(Dec) in Fixed Assets</b>				
Allocation of Fixed Assets				
<b>Total Incr(Dec) in Fixed Assets (C)</b>				
<b>TOTAL BUDGET (B + C)</b>				
<b>Change in Working Capital (A-B-</b>				
<b>FTE's</b>				

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012  
2012 Variance

GENERAL and ADMINISTRATIVE	2012 Actual	2012 Budget	2012 from Budget Over(Under)	Comments (Explain variances > +/- 10% and >-\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	(1,358,075)	(1,358,075)	-	0.00%
Penalty Sanctions	-	-	-	0.00%
<b>Total ERO Funding</b>	<b>\$ (1,358,075)</b>	<b>\$ (1,358,075)</b>	<b>\$ -</b>	
Federal Grants	-	-	-	0.00%
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	<b>\$ (1,358,075)</b>	<b>\$ (1,358,075)</b>	<b>\$ -</b>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	496,783	502,568	(5,785)	-1.15%
Payroll Taxes	26,325	31,159	(4,834)	-15.51%
Employee Benefits	27,091	29,652	(2,561)	-8.64%
Savings & Retirement	22,440	20,605	1,835	8.91%
<b>Total Personnel Expenses</b>	<b>\$ 572,639</b>	<b>\$ 583,984</b>	<b>\$ (11,345)</b>	-1.94%
<b>Meeting Expenses</b>				
Meetings	21,599	25,000	(3,401)	-13.60%
Travel	54,473	75,000	(20,527)	-27.37%
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 76,072</b>	<b>\$ 100,000</b>	<b>\$ (23,928)</b>	-23.93%
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	3,513	2,500	1,013	40.52%
Professional Services	218,732	193,000	25,732	13.33%
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 222,245</b>	<b>\$ 195,500</b>	<b>\$ 26,745</b>	13.68%
<b>Total Direct Expenses</b>	<b>\$ 870,956</b>	<b>\$ 879,484</b>	<b>\$ (8,528)</b>	-0.97%
SPP Inc. Indirect Expenses	498,720	467,443	31,277	6.69%
SPP RE Indirect Expenses	(1,369,676)	(1,346,927)	(22,749)	1.69%
<b>Total Indirect Expenses</b>	<b>\$ (870,956)</b>	<b>\$ (879,484)</b>	<b>\$ 8,528</b>	-0.97%
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ (1,358,075)</b>	<b>\$ (1,358,075)</b>	<b>\$ -</b>	0.00%
<b>Change in Assets (A - B)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET (B + C)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	0.00%
<b>Change in Working Capital (A-B-C)</b>	<b>\$ (1,358,075)</b>	<b>\$ (1,358,075)</b>	<b>\$ -</b>	0.00%
<b>FTE's</b>	<b>3.50</b>	<b>3.50</b>	<b>(0.00)</b>	0.00%

Travel expenses trailed budget primarily due to a delay in filling the budgeted General Manager position. This position was vacant from April through July.

Actual Professional Services expenses exceeded budget due to an increase in trustee costs and cost of auditors' training exceeding expected cost. These increases were partially offset by budgeted services for recruiter expenses not utilized.

SPP Inc. Indirect Expenses were higher due to an increase in the SPP Inc. Overhead Rate.

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

LEGAL and REGULATORY Funding	2012 Actual	2012 Budget	2012 Variance		Comments (Explain variances > +/- 10% and >\$10,000)
			from Budget	Over(Under)	
<b>ERO Funding</b>					
Assessments	-	-	-	-	
Penalty Sanctions	-	-	-	-	
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	-	
Membership Fees	-	-	-	-	
Testing	-	-	-	-	
Services & Software	-	-	-	-	
Workshop Fees	-	-	-	-	
Interest	-	-	-	-	
Miscellaneous	-	-	-	-	
<b>Total Funding (A)</b>	-	-	-	-	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	-	-	-	-	
Payroll Taxes	-	-	-	-	
Employee Benefits	-	-	-	-	
Savings & Retirement	-	-	-	-	
<b>Total Personnel Expenses</b>	-	-	-	-	
<b>Meeting Expenses</b>					
Meetings	-	-	-	-	
Travel	-	-	-	-	
Conference Calls	-	-	-	-	
<b>Total Meeting Expenses</b>	-	-	-	-	
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-	-	
Rent & Improvements	-	-	-	-	
Office Costs	-	-	-	-	
Professional Services	35,978	150,000	(114,022)	(114,022)	Professional services trailed budget due to less than expected hearing costs.
Miscellaneous	-	-	-	-	
Depreciation	-	-	-	-	
<b>Total Operating Expenses</b>	<b>35,978</b>	<b>150,000</b>	<b>(114,022)</b>	<b>(114,022)</b>	<b>-76.01%</b>
<b>Total Direct Expenses</b>	<b>35,978</b>	<b>150,000</b>	<b>(114,022)</b>	<b>(114,022)</b>	
SPP Inc. Indirect Expenses	-	-	-	-	
SPP RE Indirect Expenses	(35,978)	(150,000)	114,022	114,022	
<b>Total Indirect Expenses</b>	<b>(35,978)</b>	<b>(150,000)</b>	<b>114,022</b>	<b>114,022</b>	<b>-76.01%</b>
<b>Other Non-Operating Expenses</b>	-	-	-	-	
<b>Total Expenses (B)</b>	-	-	-	-	
<b>Change in Assets (A - B)</b>	-	-	-	-	
<b>Fixed Assets</b>					
Depreciation	0.00	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	
Equipment CapEx	-	-	-	-	
Leasehold Improvements	-	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	-	-	-	-	
Allocation of Fixed Assets	-	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	-	-	-	-	
<b>TOTAL BUDGET (B + C)</b>	-	-	-	-	
<b>Change in Working Capital (A-B-C)</b>	-	-	-	-	
<b>FTE's</b>	-	-	-	-	

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

INFORMATION TECHNOLOGY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	-	-	-	
Penalty Sanctions	-	-	-	
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants	-	-	-	
Membership Fees	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	-	-	
Interest	-	-	-	
Miscellaneous	-	-	-	
<b>Total Funding (A)</b>	\$ -	\$ -	\$ -	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	-	-	-	
Payroll Taxes	-	-	-	
Employee Benefits	-	-	-	
Savings & Retirement	-	-	-	
<b>Total Personnel Expenses</b>	\$ -	\$ -	\$ -	
<b>Meeting Expenses</b>				
Meetings	-	-	-	
Travel	-	-	-	
Conference Calls	-	-	-	
<b>Total Meeting Expenses</b>	\$ -	\$ -	\$ -	
<b>Operating Expenses</b>				
Consultants & Contracts	-	-	-	
Rent & Improvements	-	-	-	
Office Costs	-	-	-	
Professional Services	-	-	-	
Miscellaneous	-	-	-	
Depreciation	-	-	-	
<b>Total Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>Total Direct Expenses</b>	\$ -	\$ -	\$ -	
SPP Inc. Indirect Expenses	-	-	-	
SPP RE Indirect Expenses	-	-	-	
<b>Total Indirect Expenses</b>	\$ -	\$ -	\$ -	
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>Total Expenses (B)</b>	\$ -	\$ -	\$ -	
<b>Change in Assets (A - B)</b>	\$ -	\$ -	\$ -	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software CapEx	-	-	-	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	\$ -	\$ -	\$ -	
Allocation of Fixed Assets	-	-	-	
<b>Total Inc(Dec) in Fixed Assets (C)</b>	\$ -	\$ -	\$ -	
<b>TOTAL BUDGET (B + C)</b>	\$ -	\$ -	\$ -	
<b>Change in Working Capital (A-B-C)</b>	\$ -	\$ -	\$ -	
<b>FTE's</b>	-	-	-	

The costs for IT services to support all RE programs are accounted for within the SPP, Inc. Indirect expenses.

Southwest Power Pool  
Regional Entity  
2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

HUMAN RESOURCES	2012 Actual	2012 Budget	Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and >\$10,000)
<b>Funding</b>				
ERO Funding				
Assessments				
Penalty Sanctions				
<b>Total ERO Funding</b>	\$ -	\$ -	\$ -	
Federal Grants				
Membership Fees				
Testing				
Services & Software				
Workshop Fees				
Interest				
Miscellaneous				
<b>Total Funding (A)</b>	\$ -	\$ -	\$ -	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries				
Payroll Taxes				
Employee Benefits				
Savings & Retirement				
<b>Total Personnel Expenses</b>	\$ -	\$ -	\$ -	
<b>Meeting Expenses</b>				
Meetings				
Travel				
Conference Calls				
<b>Total Meeting Expenses</b>	\$ -	\$ -	\$ -	
<b>Operating Expenses</b>				
Consultants & Contract				
Rent & Improvement				
Office Costs				
Professional Services				
Miscellaneous				
Depreciation				
<b>Total Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>Total Direct Expenses</b>	\$ -	\$ -	\$ -	
<b>Indirect Expenses</b>	\$ -	\$ -	\$ -	
<b>Other Non-Operating Ex</b>	\$ -	\$ -	\$ -	
<b>Total Expenses (B)</b>	\$ -	\$ -	\$ -	
<b>Change in Assets (A - B)</b>	\$ -	\$ -	\$ -	
<b>Fixed Assets</b>				
Depreciation	0.00	0.00	0.00	
Computer & Software				
Furniture & Fixtures C				
Equipment CapEx				
Leasehold Improve				
<b>Incr(Dec) in Fixed Assets</b>	\$ -	\$ -	\$ -	
Allocation of Fixed Ass				
<b>Total Inc(Dec) in Fixed Ass</b>	\$ -	\$ -	\$ -	
<b>TOTAL BUDGET (B + C)</b>	\$ -	\$ -	\$ -	
<b>Change in Working Capita</b>	\$ -	\$ -	\$ -	
<b>FTE's</b>	-	-	-	

The costs for HR services to support all RE programs are accounted for within the SPP, Inc. Indirect expenses.

Southwest Power Pool  
Regional Entity

2012 Statement of Activities and Capital Expenditures  
01/01/2012 - 12/31/2012

Comments (Explain variances > +/- 10% and >\$10,000)

2012 Variance  
from Budget  
Over(Under)

2012 Actual

2012 Budget

ACCOUNTING and FINANCE

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  
Payroll Taxes  
Employee Benefits  
Savings & Retirement  
Total Personnel Expenses  
Meeting Expenses  
Meetings  
Travel  
Conference Calls  
Total Meeting Expenses  
Operating Expenses  
Consultants & Contracts  
Rent & Improvements  
Office Costs  
Professional Services  
Miscellaneous  
Depreciation  
Total Operating Expenses  
Indirect Expenses  
Other Non-Operating Expenses  
Total Expenses (B)  
Change in Assets (A - B)  
Fixed Assets  
Depreciation  
Computer & Software CapEx  
Furniture & Fixtures CapEx  
Equipment CapEx  
Leasehold Improvements  
Incr(Dec) in Fixed Assets  
Allocation of Fixed Assets  
Total Inc(Dec) in Fixed Assets (C)  
TOTAL BUDGET (B + C)  
Change in Working Capital (A-B-C)  
FTE's

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The costs for Financial services to support all RE programs are accounted for within the SPP, Inc. Indirect expenses.



**CALCULATION OF THE ACTUAL 2010 SPP INDIRECT COST RATE<sup>1</sup>**

<u>Support Groups</u> <sup>2</sup>	<u>Overhead Costs to Allocate</u>	
Administration	\$ 14,049,031	*
Officers	3,681,391	**
Accounting	1,097,503	
Human Resources	1,925,400	
Internal Audit	0	
Project Management	0	
Process Management	0	
Customer Service	463,959	
Legal	959,540	
Communications	245,914	
Information Technology	11,766,946	
<b>Total Costs</b>	<b>\$ 34,189,684</b>	<b>A</b>
Non-Support Resource Groups		
Ending 2010 Headcount	256	
Average Work Hours/FTE in 2010	1,880	
<b># of Work Hours in 2010</b>	<b>481,280</b>	<b>B</b>
<b>2010 Indirect Rate (A / B)</b>	<b>\$ 71.04</b>	
Times Budgeted SPP RE FTEs	33.5	
Times Average Work Hours/FTE	1,880	
<b>Budgeted SPP Inc. Indirect Costs</b>	<b>\$ 4,474,099</b>	

<sup>1</sup>Due to the timing of the budget process/schedule, the estimated overhead rate for 2012 is based on actual 2010 costs. Any variance between the estimated overhead rate and the actual 2012 overhead rate will be included in the annual 2012 Business Plan and Budget true-up filing.

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

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

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

### CALCULATION OF THE ACTUAL 2012 SPP INDIRECT COST RATE

<u>Support Groups</u> <sup>1</sup>	<u>Overhead Costs to Allocate</u>	
Administration	\$ 15,747,334	*
Officers	6,027,900	**
Accounting	1,202,155	
Human Resources	2,666,116	
SPP Compliance - Physical Security	343,273	
Customer Service	578,985	
Legal	1,310,727	
Communications	397,133	
Information Technology	17,235,217	
	<u>\$ 45,508,840</u>	A
<u>Non-Support Resource Groups</u>		
Ending 2012 Headcount	319	
Average Work Hours/FTE in 2012	1,880	
<b># of Work Hours in 2012</b>	<u>599,720</u>	B
<b>2012 Indirect Overhead Expense Rate (A/B)</b>	<b>\$ 75.88</b>	
<b>Times Actual SPP RE FTEs</b>	<b>29.75</b>	
<b>Times Average Work Hours/FTE</b>	<u>1,880</u>	
<b>Actual SPP Inc. Indirect Costs</b>	<b>\$ 4,244,163</b>	

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

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

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

# **Southwest Power Pool, Inc.**

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

**Southwest Power Pool, Inc.**  
**December 31, 2012 and 2011**

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Southwest Power Pool, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in members' deficit and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

Board of Directors  
Southwest Power Pool, Inc.  
Page 2

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Little Rock, Arkansas  
April 16, 2013

# Southwest Power Pool, Inc.

## Balance Sheets

(In Thousands)

December 31, 2012 and 2011

### Assets

	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 95,693	\$ 73,763
Restricted cash deposits	43,743	34,903
Accounts receivable	17,923	15,901
Prepaid expenses and other	<u>5,412</u>	<u>6,636</u>
Total current assets	<u>162,771</u>	<u>131,203</u>
<b>Property and Equipment, at Cost</b>		
Land	4,812	4,812
Building	67,378	5,965
Furniture and fixtures	9,891	4,613
Equipment and machinery	35,343	31,846
Leasehold improvements	588	1,309
Software	81,344	74,646
Software in development	76,539	34,351
Construction in progress	<u>-</u>	<u>46,779</u>
	275,895	204,321
Less accumulated depreciation and amortization	<u>102,143</u>	<u>92,133</u>
	<u>173,752</u>	<u>112,188</u>
<b>Other Assets, Net</b>	<u>2,997</u>	<u>2,915</u>
	<u>\$ 339,520</u>	<u>\$ 246,306</u>

## Liabilities and Members' Deficit

	<u>2012</u>	<u>2011</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 9,831	\$ 17,816
Customer deposits	43,913	34,903
Current maturities of long-term debt <i>(Note 3)</i>	12,700	11,206
Accrued expenses	28,741	25,741
Deferred revenue	<u>6,286</u>	<u>7,450</u>
Total current liabilities	101,471	97,116
<b>Long-term Debt <i>(Note 3)</i></b>	258,258	170,958
<b>Other Long-term Liabilities</b>	10,519	7,654
<b>Members' Deficit</b>	<u>(30,728)</u>	<u>(29,422)</u>
	<u>\$ 339,520</u>	<u>\$ 246,306</u>



**Southwest Power Pool, Inc.**  
**Statements of Operations**  
**(In Thousands)**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Income</b>		
Tariff fees and member assessments	\$ 118,808	\$ 95,825
Other member services	<u>29,111</u>	<u>33,115</u>
	<u>147,919</u>	<u>128,940</u>
<b>Operating Expenses</b>		
Salaries and benefits	72,262	64,514
Employee travel	2,245	1,655
Administrative	3,720	3,003
Regulatory assessment	14,977	16,639
Meetings	983	838
Communications system	4,020	3,204
Leases	1,690	1,624
Maintenance	8,288	7,308
Consulting services	15,160	16,124
Depreciation and amortization	<u>16,590</u>	<u>13,107</u>
	<u>139,935</u>	<u>128,016</u>
<b>Operating Income</b>	<u>7,984</u>	<u>924</u>
<b>Other Income (Expense)</b>		
Interest income	149	157
Interest expense	(6,398)	(6,307)
Change in fair market value of interest rate swaps	674	183
Other expense	<u>(214)</u>	<u>(21)</u>
	<u>(5,789)</u>	<u>(5,988)</u>
<b>Income/(Loss) Before Change in Funded Status of Employee Benefit Plans</b>	2,195	(5,064)
<b>Change in Funded Status of Employee Benefit Plans</b>	<u>(3,501)</u>	<u>(3,976)</u>
<b>Net Loss</b>	<u>\$ (1,306)</u>	<u>\$ (9,040)</u>

**Southwest Power Pool, Inc.**  
**Statements of Members' Deficit**  
**(In Thousands)**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Balance, Beginning of Year</b>	\$ (29,422)	\$ (20,382)
Net loss	(1,306)	(9,040)
<b>Balance, End of Year</b>	\$ (30,728)	\$ (29,422)

**Southwest Power Pool, Inc.**  
**Statements of Cash Flows**  
**(In Thousands)**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Net loss	\$ (1,306)	\$ (9,040)
Items not requiring cash		
Depreciation and amortization	16,590	13,107
Impairment loss	-	152
Change in funded status of employee benefit plans	3,501	3,976
Loss on disposal of fixed assets	264	-
Change in fair market value of interest rate swaps	(674)	(183)
Changes in assets and liabilities		
Accounts receivable	(2,023)	2,608
Prepaid expenses and other	1,224	(3,285)
Other assets	(180)	(121)
Accounts payable	(7,985)	7,468
Accrued expenses	1,836	569
Other long-term liabilities	<u>229</u>	<u>67</u>
Net cash provided by operating activities	<u>11,476</u>	<u>15,318</u>
<b>Investing Activities</b>		
Acquisition of property and equipment	<u>(78,340)</u>	<u>(79,391)</u>
Net cash used in investing activities	<u>(78,340)</u>	<u>(79,391)</u>
<b>Financing Activities</b>		
Repayments of long-term debt	(11,206)	(13,205)
Issuance of long-term debt	<u>100,000</u>	<u>70,000</u>
Net cash provided by financing activities	<u>88,794</u>	<u>56,795</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>21,930</u>	<u>(7,278)</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>73,763</u>	<u>81,041</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 95,693</u>	<u>\$ 73,763</u>
<b>Supplemental Cash Flow Information</b>		
Interest paid (net of interest capitalized of \$2,723 and \$1,943 in 2012 and 2011, respectively)	\$ 6,261	\$ 6,498

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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

#### *Nature of Operations*

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

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

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

#### *Use of Estimates*

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

#### *Cash and Cash Equivalents and Deposits (in Thousands)*

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2012 and 2011, the Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds held in escrow for disputed invoices.

Pursuant to legislation enacted in 2010, FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution. At December 31, 2012, the Company's cash accounts did not exceed federally insured limits.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Income Taxes***

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

The Company files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

***Accounts Receivable***

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

***Property and Equipment (in Thousands)***

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

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

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$2,723 and \$1,943 in 2012 and 2011, respectively.

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

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Long-lived Asset Impairment (in Thousands)***

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

In 2011, management of the Company determined the system development completed in prior years for the Centralized Balancing Authority (CBA) was obsolete technology and therefore had no fair value. An impairment loss of \$152 was recognized for the year ended December 31, 2011. The loss is included in consulting services in the accompanying Statement of Operations. No asset impairment was recognized during the year ended December 31, 2012.

***Revenue Recognition***

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

***Customer Deposits***

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

***Tariff Fees and Member Assessments (in Thousands)***

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

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

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2012 and 2011, all members paid a \$6,000 membership fee.

# **Southwest Power Pool, Inc.**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

### ***Deferred Revenue***

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

### ***Other Member Services***

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

### ***Withdrawing Members***

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

### ***Concentration of Credit Risk***

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2012 and 2011, the Company maintained cash balances that are not insured by the Federal Deposit Insurance Corporation. However, these cash balances were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

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

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 2: Line of Credit (In Thousands)

The Company has a \$20,000 revolving line of credit expiring in 2013. At December 31, 2012 and 2011, no amounts were borrowed against this line. The agreement has a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus a credit margin. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2012.

### Note 3: Long-term Debt and Interest Rate Swaps (in Thousands)

#### Long-term Debt

	2012	2011
Variable Rate Term Note due 2027 (A)	\$ 3,958	\$ 4,164
Variable Rate Term Note due 2014 (B)	11,000	16,000
5.45% Senior Notes due 2016 (C)	21,000	27,000
4.82% Series 2010-A Senior Notes due 2042 (D)	30,000	30,000
4.82% Series 2010-B Senior Notes due 2042 (E)	35,000	35,000
3.55% Series 2010-C Senior Notes due 2024 (F)	70,000	70,000
3.00% Series 2012-D-1 Senior Notes due 2024 (G)	50,000	-
3.25% Series 2012-D-2 Senior Notes due 2024 (H)	50,000	-
	270,958	182,164
Less current maturities	12,700	11,206
	\$ 258,258	\$ 170,958

- (A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note is secured by a first mortgage on the Company's operation facility.
- (B) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven-year amortization. Payments commenced on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note is unsecured.
- (C) Due July 23, 2016; principal and interest are payable quarterly based on a seven-year amortization. Payments commenced on September 30, 2011. The interest rate is fixed at 5.45%. The note is unsecured.



**Southwest Power Pool, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

- (D) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (E) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.
- (F) Due March 30, 2024; principal and interest are payable quarterly based on 13-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.55%. The note is unsecured.
- (G) Due March 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.00%. The note is unsecured.
- (H) Due September 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on December 30, 2014. The interest rate is fixed at 3.25%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2012, are:

2013	\$	12,700
2014		22,998
2015		24,299
2016		21,353
2017		18,409
Thereafter		<u>171,199</u>
	\$	<u>270,958</u>

Certain of the Company's term notes require compliance with financial and non-financial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2012.

***Variable-to-Fixed Interest Rate Swap***

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement on September 15, 2006 with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$3,927 and \$4,131 at December 31, 2012 and 2011, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The Company entered into another interest rate swap agreement on August 23, 2007, with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.31% on notional amounts of \$11,000 and \$16,000 at December 31, 2012 and 2011, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan B).

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

	2012	2011
Fair value of interest rate swap agreements	\$ 1,857	\$ 2,531
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long- term Liabilities
Gain recognized in statement of operations	\$ 674	\$ 183
Location of gain recognized in statement of operations	Change in Fair Market Value of Interest Rate Swaps	Change in Fair Market Value of Interest Rate Swaps

### Note 4: Operating Leases (In Thousands)

The Company has noncancellable operating leases for office space and certain office equipment, which expire at various times through 2014. The Company incurred lease expense related to these operating leases of \$1,690 and \$1,624 in 2012 and 2011, respectively.

Future minimum lease payments at December 31, 2012, were:

2013	\$ 368
2014	59
	\$ 427

### Note 5: Employee Benefit Plans (in Thousands)

#### *Pension and Other Postretirement Benefit Plans*

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$4,000 to the plan in 2013.

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined postretirement health care plan. The Company’s funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$542 to the plan in 2013.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2012	2011	2012	2011
Benefit obligation	\$ 38,014	\$ 28,921	\$ 7,353	\$ 5,950
Fair value of plan assets	<u>31,295</u>	<u>25,263</u>	<u>7,963</u>	<u>6,751</u>
Funded status	\$ <u>(6,719)</u>	\$ <u>(3,658)</u>	\$ <u>610</u>	\$ <u>801</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	2011	2012	2011
Noncurrent assets	\$ -	\$ -	\$ 610	\$ 801
Noncurrent liabilities	<u>(6,719)</u>	<u>(3,658)</u>	-	-
	\$ <u>(6,719)</u>	\$ <u>(3,658)</u>	\$ <u>610</u>	\$ <u>801</u>

Amounts recognized in members’ equity not yet recognized as components of net periodic benefit cost as of December 31, 2012, consist of:

	Pension Benefits	Postretirement Health Care Benefits
	2012	2012
Net (gain)/loss	\$ 9,784	\$ (615)
Prior service credit	(20)	-
Transition obligation	<u>132</u>	<u>35</u>
	\$ <u>9,896</u>	\$ <u>(580)</u>

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The accumulated benefit obligation for the defined benefit pension plan was \$29,577 and \$22,317 at December 31, 2012 and 2011, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	2011	2012	2011
Employer contributions	\$ 3,892	\$ 3,133	\$ 469	\$ 445
Benefits paid	177	144	26	20
Benefit costs	3,643	2,830	469	445

The following amounts have been recognized in the statements of operations for the year ended December 31, 2012:

	Pension Benefits		Postretirement Health Care Benefits	
	2012	2011	2012	2011
Amounts arising during the period				
Net gain	\$ 823		\$ 820	
Amounts recognized as components of net periodic benefit cost of the period				
Net (gain) or loss	210		(7)	
Net prior service credit	1		-	
Net transition obligation	16		4	

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are \$352, \$1 and \$16, respectively. There is no prior service credit for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2012	2011	2012	2011
Discount rate benefit obligation	5.5%	6.25%	5.5%	6.25%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.0%	4.25%	-	-

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011. The rate was assumed to decrease gradually to 5% by the year 2018 and remain at that level thereafter.

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

Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, subsequently incorporated into FASB Accounting Standards Codification (ASC) 715-60, requires federal subsidies, if any, attributable to past service to be accounted for as an actuarial gain and federal subsidies, if any, attributable to current service to be accounted for as a reduction of net periodic benefit cost. The measures of projected benefit obligation and periodic benefit costs do not reflect any amounts associated with the subsidy because the Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. The effect of adopting the provisions of ASC 715-60, if and when the Company makes such a determination, is not expected to be material.

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

	<b>Pension Benefits</b>	<b>Postretirement Health Care Benefits</b>
2013	\$ 308	\$ 68
2014	474	116
2015	590	143
2016	691	172
2017	818	207
2018–2022	7,053	1,611

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually. At December 31, 2012 and 2011, plan assets by category are as follows:

	Pension Plan Assets		Postretirement Health Care Plan Assets	
	2012	2011	2012	2011
Fixed income securities	14%	14%	29%	30%
Equity securities	72	74	65	67
Cash and equivalents	<u>14</u>	<u>12</u>	<u>6</u>	<u>3</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### ***Pension and Other Postretirement Plan Assets***

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, mutual funds and common stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include foreign company stock, corporate debt obligations, foreign corporate debt obligations, government securities and foreign government securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2012 and 2011, the Company does not hold any plan assets valued using Level 3 inputs.

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The fair values of the Company's pension plan assets at December 31, 2012, by asset category are as follows:

Asset Category	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 5	\$ 5	\$ -	\$ -
Money market mutual funds	657	657	-	-
Mutual funds				
Foreign large blend	734	734	-	-
Mid cap value	1,189	1,189	-	-
Mid cap growth	4,734	4,734	-	-
Small cap growth	1,215	1,215	-	-
Large growth	4,099	4,099	-	-
Common stock				
Industrial materials	1,300	1,300	-	-
Consumer goods	978	978	-	-
Financial Services	550	550	-	-
Energy	1,941	1,941	-	-
Healthcare services	1,566	1,566	-	-
Hardware	21	21	-	-
Business services	293	293	-	-
Foreign company stock				
Industrial materials	666	-	666	-
Hardware	834	-	834	-
Business services	133	-	133	-
Energy	1,956	-	1,956	-
Financial services	289	-	289	-
Corporate debt obligations	2,729	-	2,729	-
Foreign corporate debt obligations	1,134	-	1,134	-
Government securities	3,826	-	3,826	-
Foreign government securities	446	-	446	-
<b>Total</b>	<b>\$ 31,295</b>	<b>\$ 19,282</b>	<b>\$ 12,013</b>	<b>\$ -</b>

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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

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



# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

The fair value of the Company's other postretirement benefit plan assets at December 31, 2012, by asset category are as follows:

Asset Category	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 3	\$ 3	\$ -	\$ -
Money market mutual funds	455	455	-	-
Mutual funds				
Equities				
Foreign large blend	392	392	-	-
Foreign large growth	390	390	-	-
Mid cap growth	615	615	-	-
Small cap value	312	312	-	-
Real estate	367	367	-	-
Emerging markets	214	214	-	-
Commodities	292	292	-	-
Fixed income				
Bond funds	2,028	2,028	-	-
Inflation protected	292	292	-	-
Common stock				
Industrial materials	301	301	-	-
Consumer goods and services	631	631	-	-
Financial services	314	314	-	-
Energy	223	223	-	-
Healthcare services	316	316	-	-
Hardware	41	41	-	-
Business services	194	194	-	-
Software	77	77	-	-
Telecommunications	92	92	-	-
Media	71	71	-	-
Utilities	93	93	-	-
Foreign company stock				
Business services	135	-	135	-
Financial services	64	-	64	-
Energy	51	-	51	-
<b>Total</b>	<b>\$ 7,963</b>	<b>\$ 7,713</b>	<b>\$ 250</b>	<b>\$ -</b>

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

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

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

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### **Defined Contribution Plans**

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company contributes funds to the plan on behalf of plan participants equal to 75% of the participants' elective deferrals up to 6% of deferred compensation. Contributions to the plan were \$2,157 and \$1,966 for 2012 and 2011, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Accumulated contributions and earnings of \$968 and \$775 are recorded in other long-term liabilities at December 31, 2012 and 2011, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. Accrued benefits of \$975 and \$691 are recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2012 and 2011, respectively.

### **Note 6: Related Party Transactions (in Thousands)**

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$9,587 and \$8,984 as of December 31, 2012 and 2011, respectively. The Company recognized revenues of \$110,707 and \$88,257, including assessments and tariff administrative fees, from members for the years ended December 31, 2012 and 2011, respectively.

The Southwest Power Pool Regional State Committee (RSC) was incorporated on April 7, 2004, in the State of Arkansas. The RSC is comprised of commissioners from public service commissions or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004, order regarding the Company's RTO application, stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's board of directors for approval. The Company includes in its annual budget funds sufficient to cover 100% of the operating costs of the RSC. During 2012 and 2011, the Company incurred \$455 and \$311, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2013 to be approximately \$344.

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### **Note 7: Open Access Transmission and EIS Market Operations (In Thousands)**

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 15 providers in nine states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2012 and 2011, the Company billed transmission customers \$ 1,118,542 and \$944,613, respectively. For the years ended December 31, 2012 and 2011, the Company remitted to transmission owners \$1,016,886 and \$864,380, respectively. At December 31, 2012 and 2011, the Company was due to collect from customers and remit to owners transmission service charges of \$85,613 and \$71,590, respectively.

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

### **Note 8: Commitments and Contingencies (in Thousands)**

#### ***Litigation and Regulatory Matters***

In 2011, a suit was filed against the Company claiming a violation of the Arkansas Minimum Wage Act for overtime hours. While the Company believes it has meritorious defenses against the suit, the ultimate resolution of the matter could result in a loss to the Company. An estimate of loss cannot be made at this time.

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

#### ***Integrated Marketplace Contracts***

The company entered into long term contracts totaling \$73,986 with numerous vendors for the development of various components of systems that will comprise the Integrated Marketplace. The remaining commitment on these contracts at December 31, 2012, was approximately \$28,060.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 9: Disclosures About Fair Value of Financial Instruments (in Thousands)**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

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

***Interest Rate Swap Agreements***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At December 31, 2012 and 2011, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheets was a liability of \$1,857 and \$2,531, respectively.

***Cash Equivalents***

The fair value of money market mutual funds included in cash equivalents are estimated using quoted prices in active markets for identical assets or liabilities. At December 31, 2012 and 2011, the fair value measurement of the cash equivalents as recognized in the accompanying balance sheets was \$13,413 and \$12,636, respectively.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

# Southwest Power Pool, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### **Restricted Cash Deposits**

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

### **Customer Deposits**

The carrying amount is a reasonable estimate of fair value.

### **Long-term Debt**

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2012 and 2011.

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 95,693	\$ 95,693	\$ 73,763	\$ 73,763
Restricted cash deposits	\$ 43,743	\$ 43,743	\$ 34,903	\$ 34,903
Financial liabilities				
Customer deposits	\$ 43,913	\$ 43,913	\$ 34,903	\$ 34,903
Long-term debt	\$ 270,958	\$ 274,518	\$ 182,164	\$ 171,540
Swap agreements	\$ 1,857	\$ 1,857	\$ 2,531	\$ 2,531

### **Note 10: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**ATTACHMENT 8**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**TEXAS RELIABILITY ENTITY, INC.**

April 26, 2013

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

**Subject: Texas Reliability Entity (Texas RE) 2012 Actual Cost-to-Budget Comparison**

Dear Mr. Walker and Ms. Turpen,

Texas Reliability Entity (Texas RE) has completed the 2012 True Up Analysis. The budget comparisons are compared to the 2012 Texas RE budget, formally approved by FERC.

Texas RE did not use Statutory funds for Non-statutory purposes. Texas RE's policy is to allocate indirect expenses to programs based on the pro-rata share of FTEs to total program FTEs.

Texas RE maintains a 60 day cash reserve balance.

The significant expense variances at the aggregate statutory level are explained below. The explanations for the expense variances by statutory program area are provided in the attached spreadsheet.

**INCOME**

Total Statutory Income was under budget by \$35k or 0.3%.

Membership Fees decreased \$9,812 or 35.7%. Fewer registered entities paid membership dues than budgeted.

Workshop Fees were under budget by \$27k or 88.9%. Texas RE did not charge fees for the workshops held in May and October 2012.

**EXPENSES**

**Personnel Expenses** (\$1.5 million or 18.9% below budget)

Salary expense was \$999k or 17% less than budget due to FTE vacancies. The vacancies were the result of employee turnover and the timing of hiring replacement employees. Being a function of Salaries, Payroll taxes, Employee benefits, and Savings and Retirement are also less than budget.

**Travel and Meeting Expenses** (\$93k or 22.4% less than budget)

Meeting expenses were 24% less than budget because workshops were hosted by registered entities with no costs to Texas RE.

Travel expenses were \$83k or 23% less than budget due to less travel in the audit area. Meetings were held in Austin rather than traveling outside of the city.





**Other Operating Expenses** (\$340K or 12.5% greater than budget)

Consultants and Contract costs were 92.1% greater than budget.

An unbudgeted consultant to assist with enforcement on violations involving CIP standards was required. Both Human Resources Manager and the Accounting and Finance manager positions were vacant requiring consultants. A portion of these costs are offset in the Personnel expense budget variance.

**Indirect Expenses** (\$72K or 34% less than budget)

Texas RE indirect expenses reduced by \$138k for depreciation charged to Non-Statutory. Rent, insurance, and personnel expenses are charged directly to Non-Statutory instead of being run through the indirect category which causes the indirect allocation to be under budget.

**FIXED ASSETS**

Computer and software costs were 96.7% less than budget. The SharePoint project expected to be complete in 2012 was not final and capitalized until 2013.

**Total Statutory expenses** are under budget \$1.5 million or 14.9%.

Although Texas RE ended the year \$1.5 million under budget, Texas RE completed its intended activities for 2012.

Texas RE completed 32 Non-CIP audits, 8 CIP audits with CCA, 33 CIP audits without CCA, and 41 spot checks.

Texas RE identified 216 non-compliance matters and completely resolved 238 violations to reduce violation caseload from 291 to 269.

23 category zero and 3 category 1 events were examined.

109 technical feasibility exceptions were processed in 2012.

Texas RE verified mitigation plans for 87 possible violations.

In 2012, Texas RE processed 26 new entity registrations, 8 entity removals and 2 entity name changes. Also, 3 TOP certifications and 1 review associated with a control center relocation was conducted.

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

Thank you.

*Judy Foppiano*

**Judy A. Foppiano, CPA**

CFO & Director of Corporate Services

**Texas Reliability Entity, Inc.**

805 Los Cimas Parkway, Suite 200

Austin, Texas 78746

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512.583.4959



Texas Reliability Entity, Inc.  
2012 Statutory & Non-Statutory Statement of Activities  
Audited

Total Statutory & Non-Statutory Combined	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)
<b>Funding</b>			
<b>ERO Funding</b>			
Assessments	\$ 9,503,866	\$ 9,503,866	\$ -
Penalty Sanctions	572,830	572,831	-
<b>Total ERO Funding</b>	<b>\$ 10,076,696</b>	<b>\$ 10,076,697</b>	<b>\$ -</b>
Membership Fees	\$ 1,016,790	\$ 1,026,601	\$ (9,811)
Workshop Fees	3,330	30,000	(26,670)
Interest	15,945	13,000	2,945
<b>Total Funding</b>	<b>\$ 11,112,761</b>	<b>\$ 11,146,298</b>	<b>\$ (33,536)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	\$ 5,283,751	\$ 6,396,166	\$ (1,112,415)
Payroll Taxes	374,727	568,242	(193,515)
Employee Benefits	676,391	875,818	(199,428)
Savings & Retirement	705,777	878,444	(172,667)
<b>Total Personnel Expenses</b>	<b>\$ 7,040,646</b>	<b>\$ 8,718,670</b>	<b>\$ (1,678,024)</b>
<b>Meeting Expenses</b>			
Meetings	\$ 28,246	\$ 37,200	\$ (8,954)
Travel	278,298	372,340	(94,042)
Conference Calls	16,668	18,000	(1,332)
<b>Total Meeting Expenses</b>	<b>\$ 323,212</b>	<b>\$ 427,540</b>	<b>\$ (104,328)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	\$ 561,397	\$ 281,222	\$ 280,175
Rent & Improvements	552,037	499,000	53,037
Office Costs	410,214	358,645	51,569
Professional Services	860,433	870,479	(10,046)
Miscellaneous	-	-	-
Depreciation	769,124	753,948	15,176
<b>Total Operating Expenses</b>	<b>\$ 3,153,205</b>	<b>\$ 2,763,294</b>	<b>\$ 389,911</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ 0</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenses</b>	<b>\$ 10,517,062</b>	<b>\$ 11,909,504</b>	<b>\$ (1,392,441)</b>
<b>Change in Assets</b>	<b>\$ 595,699</b>	<b>\$ (763,207)</b>	<b>\$ 1,358,906</b>
<b>Fixed Assets</b>			
Depreciation	\$ (769,124)	\$ (753,948)	\$ (15,176)
Computer & Software CapEx	12,416	382,000	(369,584)
Furniture & Fixtures CapEx	67,849	75,000	(7,151)
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (688,859)</b>	<b>\$ (296,948)</b>	<b>\$ (391,911)</b>
Allocation of Fixed Assets	\$ -	\$ -	\$ -
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ (688,859)</b>	<b>\$ (296,948)</b>	<b>\$ (391,911)</b>
<b>TOTAL BUDGET</b>	<b>\$ 9,828,203</b>	<b>\$ 11,612,556</b>	<b>\$ (1,784,352)</b>
<b>Change in Working Capital</b>	<b>\$ 1,284,558</b>	<b>\$ (466,259)</b>	<b>\$ 1,750,816</b>
<b>FTE's</b>	<b>56</b>	<b>63</b>	<b>(7)</b>



Texas Reliability Entity, Inc.  
2012 Statutory Statement of Activities  
Audited

Total Statutory	Variance from			
	2012	2012	Budget	
	Actual	Budget	Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	\$ 9,503,866	\$ 9,503,866	\$ -	
Penalty Sanctions	572,830	572,831	-	
<b>Total ERO Funding</b>	<b>\$ 10,076,696</b>	<b>\$ 10,076,697</b>	<b>\$ -</b>	
Membership Fees	\$ 17,690	\$ 27,501	\$ (9,811)	-35.7% Fewer registered entities paid membership dues than budgeted
Workshop Fees	3,330	30,000	(26,670)	-88.9% Did not charge for the May and November workshops
Interest	14,174	13,000	1,174	9.0%
<b>Total Funding</b>	<b>\$ 10,111,889</b>	<b>\$ 10,147,198</b>	<b>\$ (35,308)</b>	-0.3%
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 4,856,116	\$ 5,854,972	\$ (998,856)	-17.1% Vacancies, employee turnover & timing of New hires
Payroll Taxes	343,598	521,979	(178,381)	-34.2% Directly related to staff vacancies.
Employee Benefits	624,515	806,045	(181,531)	-22.5% Directly related to staff vacancies.
Savings & Retirement	650,251	799,971	(149,720)	-18.7% Directly related to staff vacancies.
<b>Total Personnel Expenses</b>	<b>\$ 6,474,479</b>	<b>\$ 7,982,967</b>	<b>\$ (1,508,488)</b>	-18.9%
<b>Meeting &amp; Travel Expenses</b>				
Meetings	\$ 28,246	\$ 37,200	\$ (8,954)	-24.1% Workshops were hosted by registered entities with no costs to Texas RE Less travel in the audit area; meetings were held in Austin rather than traveling away.
Travel	277,154	359,747	(82,593)	-23.0%
Conference Calls	16,668	18,000	(1,332)	-7.4% Lower cost providers
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 322,068</b>	<b>\$ 414,947</b>	<b>\$ (92,879)</b>	-22.4%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 523,522	\$ 272,570	\$ 250,952	92.1% Unbudgeted consultant for CIP, HR and Accounting during vacancies
Rent & Improvements	518,988	499,000	19,988	4.0% Operating costs reimbursement to Landlord not included in budget Unbudgeted computer supplies, subscriptions & paper shredding services
Office Costs	397,623	344,329	53,294	15.5%
Professional Services	853,584	853,300	284	0.0%
Depreciation	769,124	753,948	15,176	2.0%
<b>Total Operating Expenses</b>	<b>\$ 3,062,842</b>	<b>\$ 2,723,147</b>	<b>\$ 339,694</b>	12.5%
				Less than budget due to G & A expenses reduced by depreciation charged
<b>Indirect Expenses</b>	<b>\$ (138,569)</b>	<b>\$ (210,657)</b>	<b>\$ 72,088</b>	-34.2% indirectly to non-Statutory.
<b>Total Expenses</b>	<b>\$ 9,720,819</b>	<b>\$ 10,910,404</b>	<b>\$ (1,189,585)</b>	-10.9%
<b>Change in Assets</b>	<b>\$ 391,070</b>	<b>\$ (763,207)</b>	<b>\$ 1,154,277</b>	
<b>Fixed Assets</b>				
Depreciation	\$ (769,124)	\$ (753,948)	\$ (15,176)	2.0%
Computer & Software CapEx	12,416	382,000	(369,584)	-96.7% SharePoint Project not capitalized until 2013
Furniture & Fixtures CapEx	67,849	75,000	(7,151)	-9.5%
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (688,859)</b>	<b>\$ (296,948)</b>	<b>\$ (391,911)</b>	132.0%
Allocation of Fixed Assets	\$ -	-	-	
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ (688,859)</b>	<b>\$ (296,948)</b>	<b>\$ (391,911)</b>	132.0%
<b>TOTAL BUDGET</b>	<b>\$ 9,031,961</b>	<b>\$ 10,613,456</b>	<b>\$ (1,581,496)</b>	-14.9%
<b>Change in Working Capital</b>	<b>\$ 1,079,928</b>	<b>\$ (466,259)</b>	<b>\$ 1,546,188</b>	-331.6%
<b>FTE's</b>	<b>52</b>	<b>58</b>	<b>(6)</b>	



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RELIABILITY STANDARDS

	2012		2012		Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
	Actual	Budget	Actual	Budget		
<b>Funding</b>						
<b>ERO Funding</b>						
Assessments	\$ 412,751	\$ 412,751	\$ -	\$ -	0.00%	
Penalty Sanctions	\$ 24,247	\$ 24,247	\$ -	\$ -	0.00%	
<b>Total ERO Funding</b>	<b>\$ 436,998</b>	<b>\$ 436,998</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>	
Membership Fees		\$ 1,164	\$ (1,164)	\$ -	-100.00%	Did not allocate membership fees to programs
<b>Total Funding</b>	<b>\$ 436,998</b>	<b>\$ 438,162</b>	<b>\$ (1,164)</b>	<b>\$ -</b>	<b>-0.27%</b>	
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 177,794	\$ 216,978	\$ (39,184)	\$ -	-18.06%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	10,945	19,875	(8,931)	\$ -	-44.93%	Directly related to staff vacancies.
Employee Benefits	20,881	24,318	(3,437)	\$ -	-14.13%	Directly related to staff vacancies.
Savings & Retirement	25,044	31,462	(6,418)	\$ -	-20.40%	Directly related to staff vacancies.
<b>Total Personnel Expenses</b>	<b>\$ 234,664</b>	<b>\$ 292,633</b>	<b>\$ (57,970)</b>	<b>\$ -</b>	<b>-19.81%</b>	
<b>Meeting Expenses</b>						
Meetings	\$ 14	\$ -	\$ 14	\$ -		
Travel	5,070	11,201	(6,131)	\$ -	-54.74%	Travel less than anticipated due to fewer meetings outside of the city
<b>Total Meeting Expenses</b>	<b>\$ 5,084</b>	<b>\$ 11,201</b>	<b>\$ (6,117)</b>	<b>\$ -</b>	<b>-54.61%</b>	
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 10,300	\$ 10,296	\$ 4	\$ -	0.04%	
Office Costs	942	464	478	\$ -	103.20%	Telephone charges higher than budgeted
<b>Total Operating Expenses</b>	<b>\$ 11,242</b>	<b>\$ 10,759</b>	<b>\$ 482</b>	<b>\$ -</b>	<b>4.48%</b>	
<b>Indirect Expenses</b>	<b>\$ 140,709</b>	<b>\$ 130,157</b>	<b>\$ 10,552</b>	<b>\$ -</b>	<b>8.11%</b>	G & A expenses charged to programs through indirect allocation greater than budget
<b>Total Expenses</b>	<b>\$ 391,698</b>	<b>\$ 444,751</b>	<b>\$ (53,052)</b>	<b>\$ -</b>	<b>-11.93%</b>	
<b>Change in Assets</b>	<b>\$ 45,299</b>	<b>\$ (6,589)</b>	<b>\$ 51,888</b>	<b>\$ -</b>	<b>-787.47%</b>	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
Allocation of Fixed Assets	\$ -	\$ 6,589	\$ (6,589)	\$ -	-100.00%	
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 6,589</b>	<b>\$ (6,589)</b>	<b>\$ -</b>	<b>-100.00%</b>	
<b>TOTAL BUDGET</b>	<b>\$ 391,698</b>	<b>\$ 451,340</b>	<b>\$ (59,641)</b>	<b>\$ -</b>	<b>-13.21%</b>	
<b>Change in Working Capital</b>	<b>\$ 45,299</b>	<b>\$ (13,178)</b>	<b>\$ 58,477</b>	<b>\$ -</b>	<b>-443.74%</b>	
<b>FTE's</b>	<b>1</b>	<b>2</b>	<b>(1)</b>	<b>\$ -</b>		



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COMPLIANCE OPERATIONS,  
ENFORCEMENT and  
ORGANIZATION REGISTRATION

	2012	2012	2012		
	Actual	Budget	Variance		Comments (Explain variances > +/- 10% and \$10,000)
			from Budget		
			Over(Under)		
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	\$ 8,018,471	\$ 8,018,471	\$ -	0.0%	
Penalty Sanctions	\$ 460,689	\$ 460,689	\$ -	0.0%	
<b>Total ERO Funding</b>	<b>\$ 8,479,160</b>	<b>\$ 8,479,160</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Fees		22,116	(22,116)	-100.0%	Did not allocate membership fees to programs
<b>Total Funding</b>	<b>\$ 8,479,160</b>	<b>\$ 8,501,276</b>	<b>\$ (22,116)</b>	<b>-0.3%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 2,881,790	\$ 3,851,860	\$ (970,070)	-25.2%	Vacancies, employee turnover & timing of New hires, some costs charged to SAIS
Payroll Taxes	\$ 207,972	\$ 343,046	\$ (135,074)	-39.4%	Directly related to staff vacancies.
Employee Benefits	\$ 366,480	\$ 546,872	\$ (180,392)	-33.0%	Directly related to staff vacancies.
Savings & Retirement	\$ 383,207	\$ 558,520	\$ (175,313)	-31.4%	Directly related to staff vacancies.
<b>Total Personnel Expenses</b>	<b>\$ 3,839,448</b>	<b>\$ 5,300,298</b>	<b>\$ (1,460,850)</b>	<b>-27.6%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 597	\$ 597	\$ 0	100.0%	
Travel	\$ 125,573	\$ 255,291	\$ (129,718)	-50.8%	Less Travel for audits and meetings; meetings attended locally vs. traveling outside of the city
<b>Total Meeting Expenses</b>	<b>\$ 126,169</b>	<b>\$ 255,291</b>	<b>\$ (129,122)</b>	<b>-50.6%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 291,721	\$ 155,000	\$ 136,721	88.2%	Audit of CMEP and Consultant in place of vacant positions
Office Costs	\$ 13,551	\$ 14,898	\$ (1,347)	-9.0%	
Professional Services	\$ 306,356	\$ 288,000	\$ 18,356	6.4%	Unbudgeted legal fees for contested case and auditor for compliance
Depreciation	\$ -	\$ 281,280	\$ (281,280)	-100.0%	Depreciation actually charged to IT
<b>Total Operating Expenses</b>	<b>\$ 611,627</b>	<b>\$ 739,178</b>	<b>\$ (127,551)</b>	<b>-17.3%</b>	
<b>Indirect Expenses</b>	<b>\$ 2,843,650</b>	<b>\$ 2,472,982</b>	<b>\$ 370,668</b>	<b>15.0%</b>	G & A expenses charged to programs through indirect allocation greater than budget
<b>Total Expenses</b>	<b>\$ 7,420,895</b>	<b>\$ 8,767,749</b>	<b>\$ (1,346,854)</b>	<b>-15.4%</b>	
<b>Change in Assets</b>	<b>\$ 1,058,265</b>	<b>\$ (266,473)</b>	<b>\$ 1,324,738</b>	<b>-497.1%</b>	
<b>Fixed Assets</b>					
Depreciation	\$ -	\$ (281,280)	\$ 281,280	-100.0%	Budgeted assets not purchased in 2012, result zero depr. expense
Computer & Software CapEx	\$ -	\$ 140,000	\$ (140,000)	-100.0%	Texas RE elected to use OATIs webCDMS (Compliance Data Management System) instead of purchasing a compliance portal.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 141,280</b>	<b>\$ 141,280</b>		
Allocation of Fixed Assets	\$ -	\$ 125,193	\$ (125,193)	-100.0%	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 266,473</b>	<b>\$ 16,087</b>	<b>6.0%</b>	
<b>TOTAL BUDGET</b>	<b>\$ 7,420,895</b>	<b>\$ 9,034,222</b>	<b>\$ (1,330,767)</b>	<b>-14.7%</b>	
<b>Change in Working Capital</b>	<b>\$ 1,058,265</b>	<b>\$ (532,946)</b>	<b>\$ 1,308,651</b>	<b>-245.6%</b>	
<b>FTE's</b>	<b>30</b>	<b>38</b>	<b>(8)</b>		



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RELIABILITY ASSESSMENTS and  
PERFORMANCE ANALYSIS

	2012			
	2012 Actual	2012 Budget	Variance from Budget Over(Under)	
<b>Funding</b>				
<b>ERO Funding</b>				
Assessments	\$1,040,204	\$ 1,040,204	\$ -	0.0%
Penalty Sanctions	57,586	57,586		0.0%
<b>Total ERO Funding</b>	<b>\$1,097,790</b>	<b>\$1,097,790</b>	<b>\$ -</b>	<b>0.0%</b>
			-	
Membership Fees		2,765	(2,765)	-100.0%
<b>Total Funding</b>	<b>\$1,097,790</b>	<b>1,100,555</b>	<b>(2,765)</b>	<b>-0.3%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 573,404	\$ 590,517	\$ (17,113)	-2.9%
Payroll Taxes	41,602	50,270	(8,668)	-17.2%
Employee Benefits	67,750	71,718	(3,967)	-5.5%
Savings & Retirement	77,255	85,625	(8,370)	-9.8%
<b>Total Personnel Expenses</b>	<b>\$ 760,012</b>	<b>\$ 798,129</b>	<b>\$ (38,118)</b>	<b>-4.8%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 896		\$ 896	100.0%
				Increased travel for RAS, RMWG and related stakeholder meetings, workshops & training; NERC sponsored meetings, workgroups and training
Travel	40,857	8,950	31,907	356.5%
<b>Total Meeting Expenses</b>	<b>\$ 41,752</b>	<b>\$ 8,950</b>	<b>\$ 32,802</b>	<b>366.5%</b>
<b>Operating Expenses</b>				
Office Costs	\$ 3,533		\$ 3,533	100.0%
<b>Total Operating Expenses</b>	<b>\$ 3,533</b>	<b>\$ -</b>	<b>\$ 3,533</b>	
				G & A expenses charged to programs through indirect allocation
<b>Indirect Expenses</b>	<b>\$ 477,269</b>	<b>\$ 309,123</b>	<b>\$ 168,146</b>	<b>54.4%</b>
				greater than budget
<b>Total Expenses</b>	<b>\$1,282,566</b>	<b>\$1,116,202</b>	<b>\$ 166,364</b>	<b>14.9%</b>
<b>Change in Assets</b>	<b>\$ (184,777)</b>	<b>\$ (15,648)</b>	<b>\$ (169,129)</b>	<b>1080.8%</b>
				Fixed Assets budgeted were not purchased in 2012; therefore no allocation
Allocation of Fixed Assets	\$ -	\$ 15,648	\$ (15,648)	-100.0%
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 15,648</b>	<b>\$ (15,648)</b>	<b>-100.0%</b>
<b>TOTAL BUDGET</b>	<b>\$1,282,566</b>	<b>\$1,131,850</b>	<b>\$ 150,716</b>	<b>13.3%</b>
<b>Change in Working Capital</b>	<b>\$ (184,777)</b>	<b>\$ (31,296)</b>	<b>\$ (153,481)</b>	<b>490.4%</b>
<b>FTE's</b>	<b>5.0</b>	<b>4.8</b>	<b>0.3</b>	



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TRAINING, EDUCATION and OPERATOR CERTIFICATION	2012				Comments (Explain variances > +/- 10% and \$10,000)
	2012 Actual	2012 Budget	Variance from Budget Over(Under)		
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	\$ 323,547	\$ 323,547	\$ -	0.0%	
Penalty Sanctions	21,216	21,216	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 344,763</b>	<b>\$ 344,763</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Fees		\$ 1,019	\$ (1,019)	-100.0%	Did not allocate membership fees to programs
Workshop Fees	3,330	30,000	(26,670)	-88.9%	Did not charge for the May and November workshops
<b>Total Funding</b>	<b>\$ 348,093</b>	<b>\$ 375,782</b>	<b>\$ (27,689)</b>	<b>-7.4%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 87,833	\$ 172,069	\$ (84,236)	-49.0%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	6,130	15,130	(8,999)	-59.5%	Directly related to staff vacancies.
Employee Benefits	10,917	25,200	(14,283)	-56.7%	Directly related to staff vacancies.
Savings & Retirement	12,031	24,950	(12,919)	-51.8%	Directly related to staff vacancies.
<b>Total Personnel Expenses</b>	<b>\$ 116,912</b>	<b>\$ 237,349</b>	<b>\$ (120,437)</b>	<b>-50.7%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ 5,108	\$ 30,000	\$ (24,892)	-83.0%	Workshops held in May and October hosted by registered entities with no cost to Texas RE
Travel	8,347	310	8,038	2596.7%	Travel expenses for training & workshops outside of office higher than budget.
Conference Calls	6,873	-	6,873	100.0%	Budgeted under IT, actual charges applied to department
<b>Total Meeting Expenses</b>	<b>\$ 20,328</b>	<b>\$ 30,310</b>	<b>\$ (9,981)</b>	<b>-32.9%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 18	-	\$ 18	100.0%	
Office Costs	406	-	406	100.0%	
<b>Total Operating Expenses</b>	<b>\$ 424</b>	<b>\$ -</b>	<b>\$ 424</b>	<b>100.0%</b>	
<b>Indirect Expenses</b>	<b>\$ 103,630</b>	<b>\$ 113,887</b>	<b>\$ (10,257)</b>	<b>-9.0%</b>	
<b>Total Expenses</b>	<b>\$ 241,294</b>	<b>\$ 381,545</b>	<b>\$ (140,251)</b>	<b>-36.8%</b>	
<b>Change in Assets</b>	<b>\$ 106,799</b>	<b>\$ (5,765)</b>	<b>\$ 112,562</b>	<b>-1952.6%</b>	
<b>Fixed Assets</b>					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -	-	
Allocation of Fixed Assets	\$ -	\$ 5,765	\$ (5,765)	-100.0%	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 5,765</b>	<b>\$ (5,765)</b>	<b>-100.0%</b>	
<b>TOTAL BUDGET</b>	<b>\$ 241,294</b>	<b>\$ 387,310</b>	<b>\$ (146,016)</b>	<b>-37.7%</b>	
<b>Change in Working Capital</b>	<b>\$ 106,799</b>	<b>\$ (11,529)</b>	<b>\$ 118,327</b>	<b>-1026.4%</b>	
<b>FTE's</b>	<b>1.1</b>	<b>1.75</b>	<b>(0.7)</b>		



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SITUATION AWARENESS and  
INFRASTRUCTURE SECURITY (Includes  
Critical Infrastructure Protection)

	2012	2012	2012 Variance		
	Actual	Budget	from Budget	Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	\$ 188,157	\$ 188,157	\$ -	0.0%	
Penalty Sanctions	9,093	9,093		0.0%	
<b>Total ERO Funding</b>	<b>\$ 197,250</b>	<b>\$ 197,250</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Fees		\$ 437	\$ (437)	-100.0%	
<b>Total Funding</b>	<b>\$ 197,250</b>	<b>\$ 197,687</b>	<b>\$ (437)</b>	<b>-0.2%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 150,713	\$ 111,755	\$ 38,958	34.9%	Budgeted in CMEP, charged to SAIS
Payroll Taxes	11,070	9,897	1,173	11.9%	Directly related to salary variance
Employee Benefits	25,564	12,186	13,378	109.8%	Directly related to salary variance
Savings & Retirement	20,269	16,204	4,065	25.1%	Directly related to salary variance
<b>Total Personnel Expenses</b>	<b>\$ 207,615</b>	<b>\$ 150,042</b>	<b>\$ 57,573</b>	<b>38.4%</b>	
<b>Meeting Expenses</b>					
Travel	\$ 11,623	\$ 1,306	\$ 10,317	790.0%	Travel costs for CIP audits budgeted in Compliance; charged to SAIS.
<b>Total Meeting Expenses</b>	<b>\$ 11,623</b>	<b>\$ 1,306</b>	<b>\$ 10,317</b>	<b>790.0%</b>	
<b>Operating Expenses</b>					
Office Costs	\$ 651		\$ 651	100.0%	Office costs (telephone, dues & shipping) budgeted under compliance
<b>Total Operating Expenses</b>	<b>\$ 651</b>	<b>\$ -</b>	<b>\$ 651</b>		
<b>Indirect Expenses</b>	<b>\$ 164,477</b>	<b>\$ 48,809</b>	<b>\$ 115,668</b>	<b>237.0%</b>	G & A expenses charged to programs through indirect allocation greater than budget
<b>Total Expenses</b>	<b>\$ 384,366</b>	<b>\$ 200,157</b>	<b>\$ 184,209</b>	<b>92.0%</b>	
<b>Change in Assets</b>	<b>\$ (187,116)</b>	<b>\$ (2,471)</b>	<b>\$ (184,646)</b>	<b>7472.5%</b>	
<b>Fixed Assets</b>					
Incr(Dec) in Fixed Assets	\$ -	\$ -	\$ -		
Allocation of Fixed Assets	\$ -	\$ 2,471	\$ (2,471)	-100.0%	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 2,471</b>	<b>\$ (2,471)</b>	<b>-100.0%</b>	
<b>TOTAL BUDGET</b>	<b>\$ 384,366</b>	<b>\$ 202,628</b>	<b>\$ 181,738</b>	<b>89.7%</b>	
<b>Change in Working Capital</b>	<b>\$ (187,116)</b>	<b>\$ (4,941)</b>	<b>\$ (182,175)</b>	<b>3687.0%</b>	
<b>FTE's</b>	<b>1.7</b>	<b>0.75</b>	<b>1.0</b>		





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GENERAL and ADMINISTRATIVE

	2012	2012	Variance		
	Actual	Budget	from Budget		Comments (Explain variances > +/- 10% and \$10,000)
			Over(Under)		
<b>Funding</b>					
<b>ERO Funding</b>					
Assessments	✓ \$ (479,263)	\$ (479,263)	\$ -	0.0%	
Penalty Sanctions					
<b>Total ERO Funding</b>	<b>\$ (479,263)</b>	<b>\$ (479,263)</b>	<b>\$ -</b>	<b>0.0%</b>	
Membership Fees	\$ 17,690	\$ -	\$ 17,690	100.0%	Budgeted to programs, actually charged to G & A
Interest	14,174	13,000	1,174	9.0%	Interest earned based on cash balance
<b>Total Funding</b>	<b>\$ (447,399)</b>	<b>\$ (466,263)</b>	<b>\$ 18,864</b>	<b>-4.0%</b>	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	✓ \$ 169,342	\$ 189,550	\$ (20,208)	-10.7%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	✓ 8,680	17,635	(8,955)	-50.8%	Directly related to staff vacancies.
Employee Benefits	✓ 22,141	24,282	(2,141)	-8.8%	Employee contributions increased resulting in the matching retirement being greater than budgeted.
Savings & Retirement	21,440	17,485	3,955	22.6%	
<b>Total Personnel Expenses</b>	<b>\$ 221,604</b>	<b>\$ 248,952</b>	<b>\$ (27,348)</b>	<b>-11.0%</b>	
<b>Meeting Expenses</b>					
Meetings	✓ \$ 5,040	\$ 6,000	\$ (960)	-16.0%	
Travel	✓ 52,250	46,305	5,945	12.8%	
Conference Calls	9,795		9,795	100.0%	Budgeted under IT, actual charges applied to department
<b>Total Meeting Expenses</b>	<b>\$ 67,085</b>	<b>\$ 52,305</b>	<b>\$ 14,780</b>	<b>28.3%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 111,223	\$ 2,500	\$ 108,723	4348.9%	Comp study, board recruiting costs greater than anticipated
Rent & Improvements	462,189	499,000	(36,812)	-7.4%	Utilities and Maintenance less than anticipated
Office Costs	✓ 30,394	✓ 30,030	364	1.2%	
Professional Services	242,138	256,000	(13,862)	-5.4%	
Depreciation	✓ 384,562	164,184	220,378	134.2%	Deprecation for Computer and software greater than budgeted
<b>Total Operating Expenses</b>	<b>\$ 1,230,506</b>	<b>\$ 951,714</b>	<b>\$ 278,792</b>	<b>29.3%</b>	
<b>Indirect Expenses</b>	<b>\$ (1,519,194)</b>	<b>\$ (1,252,971)</b>	<b>\$ (266,223)</b>	<b>21.2%</b>	Total expenses greater than budget as described above.
<b>Total Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Change in Assets</b>	<b>\$ (447,399)</b>	<b>\$ (466,263)</b>	<b>\$ 18,864</b>	<b>-4.0%</b>	
<b>Fixed Assets</b>					
Depreciation	✓ \$ (384,562)	✓ \$ (164,184)	\$ (220,378)	134.2%	Deprecation for Computer and software greater than budgeted
Furniture & Fixtures CapEx	67,849	75,000	(7,151)	-9.5%	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (316,713)</b>	<b>\$ 89,184</b>	<b>\$ (227,529)</b>	<b>-255.1%</b>	
Allocation of Fixed Assets	\$ -	\$ (89,184)	\$ 89,184	-100.0%	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ (316,713)</b>	<b>\$ -</b>	<b>\$ (138,345)</b>		
<b>TOTAL BUDGET</b>	<b>\$ (316,713)</b>	<b>\$ -</b>	<b>\$ (138,345)</b>		
<b>Change in Working Capital</b>	<b>\$ (130,687)</b>	<b>\$ (466,263)</b>	<b>\$ 157,208</b>	<b>-33.7%</b>	
<b>FTE's</b>	<b>2.3</b>	<b>2.25</b>	<b>0.1</b>		



Texas Reliability Entity, Inc.  
2012 Statement of Activities  
Audited

LEGAL and REGULATORY

	2012		2012		2012 Variance	
	Actual	Budget	Actual	Budget	from Budget	Comments (Explain variances > +/- 10% and \$10,000)
			Over	(Under)		
<b>Total Funding</b>	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Expenses</b>						
<b>Personnel Expenses</b>						
Salaries	\$ 384,418	\$ 307,061	\$ 77,357		25.2%	Due to workload, FTE's charged more hours to Legal than budgeted
Payroll Taxes	\$ 26,612	28,454	(1,842)		-6.5%	
Employee Benefits	\$ 50,727	44,487	6,240		14.0%	Directly related to additional FTE and salary expense.
Savings & Retirement	\$ 51,445	24,524	26,921		109.8%	Directly related to additional FTE and salary expense.
<b>Total Personnel Expenses</b>	<b>\$ 513,201</b>	<b>\$ 404,526</b>	<b>\$ 108,675</b>		<b>26.9%</b>	
<b>Meeting Expenses</b>						
Meetings	\$ 16,471		\$ 16,471		100.0%	Regional entities and NERC meeting in January not budgeted
Travel	16,518	7,425	9,093		122.5%	Travel for meetings and legal issues greater than budgeted
<b>Total Meeting Expenses</b>	<b>\$ 32,989</b>	<b>\$ 7,425</b>	<b>\$ 25,564</b>		<b>344.3%</b>	
<b>Operating Expenses</b>						
Consultants & Contracts	\$ 15,617	\$ 1,854	\$ 13,763		742.4%	Legal fees for contested case not included in budget.
Office Costs	\$ 3,110	2,312	798		34.5%	Telephone charges greater than budgeted
Professional Services	125,224	18,000	107,224		595.7%	Outside attorneys used at board's request not included in budget
<b>Total Operating Expenses</b>	<b>\$ 143,951</b>	<b>\$ 22,166</b>	<b>\$ 121,785</b>		<b>549.4%</b>	
<b>Indirect Expenses</b>	<b>\$ (690,141)</b>	<b>\$ (434,117)</b>	<b>\$ (256,024)</b>		<b>59.0%</b>	Total expenses greater than budget as described above
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>Fixed Assets</b>						
Incr(Dec) in Fixed Assets	\$ -	-	-			
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>TOTAL BUDGET</b>	<b>-</b>	<b>-</b>	<b>-</b>			
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>			
<b>FTE's</b>	<b>4.5</b>	<b>3.0</b>	<b>1.5</b>		<b>48.7%</b>	



Texas Reliability Entity, Inc.  
2012 Statement of Activities  
Audited

INFORMATION TECHNOLOGY				2012 Variance	
	2012	2012	from Budget		
	Actual	Budget	Over(Under)		Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
Total Funding	\$ -	\$ -	\$ -	-	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 242,561	\$ 215,760	\$ 26,801	12.4%	Additional FTE due to workload in IT department
Payroll Taxes	18,614	19,477	(863)	-4.4%	
Employee Benefits	38,737	31,566	7,170	22.7%	Directly related to additional FTE and salary expense.
Savings & Retirement	32,443	21,285	11,158	52.4%	Directly related to additional FTE and salary expense.
<b>Total Personnel Expenses</b>	<b>\$ 332,355</b>	<b>\$ 288,088</b>	<b>\$ 44,267</b>	<b>15.4%</b>	
<b>Meeting Expenses</b>					
Meetings	\$ -	\$ 1,200	\$ (1,200)	-100.0%	IT Steering Group meeting budgeted to be held in Austin did not occur
Travel	11,713	25,904	(14,191)	-54.8%	Less travel required for steering and working groups than budgeted
Conference Calls		18,000	(18,000)	-100.0%	Conference calls charged to department/program that host instead of IT
<b>Total Meeting Expenses</b>	<b>\$ 11,713</b>	<b>\$ 45,104</b>	<b>\$ (33,391)</b>	<b>-74.0%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 20,794	\$ 70,920	\$ (50,126)	-70.7%	Rent for Lewisville data center included in contracts budget, actual costs charged to Rent, correcting going forward
Rent & Improvements	56,800	-	56,800	100.0%	Actual rent cost for Lewisville data center, budgeted under contracts.
Office Costs	312,509	256,292	56,217	21.9%	Computer supplies and software not included in budget
Professional Services	61,767	108,000	(46,233)	-42.8%	Over budgeted for security guard services
Depreciation	384,562	308,484	76,078	24.7%	Depreciation for Computer and software greater than budgeted
<b>Total Operating Expenses</b>	<b>\$ 836,432</b>	<b>\$ 743,696</b>	<b>\$ 92,736</b>	<b>12.5%</b>	
<b>Indirect Expenses</b>	<b>\$ (1,180,499)</b>	<b>\$ (1,076,888)</b>	<b>\$ (103,611)</b>	<b>9.6%</b>	Total expenses greater than budget as described above.
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ 0</b>	<b>\$ (0)</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ (0)</b>	<b>\$ 0</b>		
<b>Fixed Assets</b>					
Depreciation	384,562	(308,484)	(76,078)	24.7%	Depreciation for Computer and software greater than budgeted
Computer & Software CapEx	12,416	242,000	(229,584)	-94.9%	SharePoint project not completed in 2012
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (372,146)</b>	<b>\$ 66,484</b>	<b>\$ (305,662)</b>	<b>-459.8%</b>	
Allocation of Fixed Assets	\$ -	(66,484)	66,484	-100.0%	Fixed Assets budgeted were not purchased in 2012; therefore no allocation
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ (372,146)</b>	<b>\$ -</b>	<b>\$ (239,178)</b>	<b>100.0%</b>	
<b>TOTAL BUDGET</b>	<b>\$ (372,146)</b>	<b>\$ 0</b>	<b>\$ (239,178)</b>	<b>100.0%</b>	
<b>Change in Working Capital</b>	<b>\$ 372,146</b>	<b>\$ (0)</b>	<b>\$ 239,178</b>	<b>100.0%</b>	
FTE's	2.9	2.5	0.4		



Texas Reliability Entity, Inc.  
2012 Statement of Activities  
Audited

HUMAN RESOURCES

	2012			
	2012 Actual	2012 Budget	Variance from Budget Over(Under)	
<b>Funding</b>				
<b>Total Funding</b>	\$ -	\$ -	\$ -	
<b>Expenses</b>				
<b>Total Personnel Expenses</b>	\$ -	\$ -	\$ -	
<b>Meeting Expenses</b>				
Meetings	\$ 121	\$ 0	\$ 121	100.0% Staff meeting expenses not budgeted
Travel	2,823	1,404	1,419	101.1% Business meals for staff training events greater than budgeted
<b>Total Meeting Expenses</b>	<u>\$ 2,944</u>	<u>\$ 1,404</u>	<u>\$ 1,540</u>	109.7%
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 28,725	\$ 24,000	\$ 4,725	19.7% Temporary staff during HR manager vacancy
Office Costs	2,915	268	2,647	987.8% Primarily due to PayScale subscription that was not budgeted
Professional Services	-	23,100	(23,100)	-100.0% Professional services charged to G & A
<b>Total Operating Expenses</b>	<u>\$ 31,640</u>	<u>\$ 47,368</u>	<u>\$ (15,728)</u>	-33.2%
				All costs are allocated to programs through indirect expense. The variance explanations for the line items above apply for the indirect expense.
<b>Indirect Expenses</b>	<u>\$ (34,584)</u>	<u>\$ (48,772)</u>	<u>\$ 14,188</u>	-29.1%
<b>Total Expenses</b>	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ 0</u>	
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ (0)</u>	
<b>Fixed Assets</b>				
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Total Inc(Dec) in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>TOTAL BUDGET</b>	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ 0</u>	
<b>Change in Working Capital</b>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ (0)</u>	
<b>FTE's</b>	0.8	1.0	(0.2)	-24.0%



Texas Reliability Entity, Inc.  
2012 Statement of Activities  
Audited

ACCOUNTING and FINANCE

	2012	2012	2012 Variance		
	Actual	Budget	from Budget	Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>					
<b>Total Funding</b>	\$ -	\$ -	\$ -	\$ -	
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 188,261	\$ 199,422	\$ (11,161)	-5.60%	Vacancies, employee turnover & timing of New hires
Payroll Taxes	11,973	18,196	(6,223)	-34.20%	Directly related to staff vacancies.
Employee Benefits	21,318	25,416	(4,098)	-16.12%	Directly related to staff vacancies.
Savings & Retirement	27,117	19,916	7,201	36.15%	Employee contributions increased resulting in the matching retirement being greater than budgeted.
<b>Total Personnel Expenses</b>	<b>\$ 248,669</b>	<b>\$ 262,950</b>	<b>\$ (14,281)</b>	<b>-5.43%</b>	
<b>Meeting Expenses</b>					
Travel	\$ 2,380	\$ 1,652	\$ 728	44.09%	Trips to Washington DC and MN for budget meetings; only one trip budgeted
<b>Total Meeting Expenses</b>	<b>\$ 2,380</b>	<b>\$ 1,652</b>	<b>\$ 728</b>	<b>44.09%</b>	
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 45,124	\$ 8,000	\$ 37,124	464.05%	Charges for Accountemps during Accounting Manager vacancy
Office Costs	29,613	40,065	(10,452)	-26.09%	Fees for credit cards, Concur Travel service and property taxes less than budgeted.
Professional Services	118,099	160,200	(42,101)	-26.28%	Accounting support services (ADP & Concur Expense reporting) less than budgeted
<b>Total Operating Expenses</b>	<b>\$ 192,836</b>	<b>\$ 208,265</b>	<b>\$ (15,429)</b>	<b>-7.41%</b>	
<b>Indirect Expenses</b>	<b>\$ (443,885)</b>	<b>\$ (472,867)</b>	<b>\$ 28,982</b>	<b>-6.13%</b>	Total expenses less than budget as described above.
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (0)</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>Fixed Assets</b>					
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>TOTAL BUDGET</b>	<b>-</b>	<b>-</b>	<b>(0)</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0</b>		
<b>FTE's</b>	<b>2.0</b>	<b>2.0</b>	<b>(0.0)</b>	<b>-2.00%</b>	



Texas Reliability Entity, Inc.  
2012 Statement of Activities  
Audited

NON-STATUTORY	2012 Actual	2012 Budget	2012 Variance from Budget Over(Under)	Comments (Explain variances > +/- 10% and \$10,000)
<b>Funding</b>				
Non-Stat Assessments	\$ 999,100	\$ 999,100	\$ -	0.0%
Interest	1,772		1,772	100.0%
<b>Total Funding</b>	<b>\$ 1,000,871</b>	<b>\$ 999,100</b>	<b>\$ 1,772</b>	<b>0.2%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 427,636	\$ 541,194	\$ (113,558)	-21.0% Vacancies, employee turnover & timing of New hires
Payroll Taxes	31,129	46,263	(15,134)	-32.7% Directly related to staff vacancies.
Employee Benefits	51,876	69,773	(17,897)	-25.6% Directly related to staff vacancies.
Savings & Retirement	55,526	78,473	(22,947)	-29.2% Directly related to staff vacancies.
<b>Total Personnel Expenses</b>	<b>\$ 566,167</b>	<b>\$ 735,703</b>	<b>\$ (169,536)</b>	<b>-23.0%</b>
<b>Meeting Expenses</b>				
Travel	\$ 1,144	\$ 12,593	\$ (11,449)	-90.9% Budgeted Travel not required for Protocol Department
<b>Total Meeting Expenses</b>	<b>\$ 1,144</b>	<b>\$ 12,593</b>	<b>\$ (11,449)</b>	<b>-90.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 37,875	\$ 8,652	\$ 29,223	337.8% Hired a consultant to cover staff vacancies and to enhance protocol program.
Rent & Improvements	33,048	-	33,048	100.0% Budgeted rent expense under indirect allocation; actually charged the expense directly to the activity.
Office Costs	12,591	14,316	(1,725)	-12.1%
Professional Services	6,849	17,179	(10,330)	-60.1% Expected to incur outside legal expenses; however, none was required for Protocol, due to use of in-house corporate counsel.
<b>Total Operating Expenses</b>	<b>\$ 90,363</b>	<b>\$ 40,147</b>	<b>\$ 50,216</b>	<b>125.1%</b>
<b>Indirect Expenses</b>	<b>\$ 138,569</b>	<b>\$ 210,657</b>	<b>\$ (72,088)</b>	<b>-34.2%</b> Depreciation is the only item charged through indirect expenses. Budget included Rent and other items.
<b>Total Expenses</b>	<b>\$ 796,243</b>	<b>\$ 999,100</b>	<b>\$ (202,857)</b>	<b>-20.3%</b>
<b>Change in Assets</b>	<b>\$ 204,628</b>	<b>\$ -</b>	<b>\$ 204,628</b>	
<b>Fixed Assets</b>				
<b>Total Inc(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>TOTAL BUDGET</b>	<b>\$ 796,243</b>	<b>\$ 999,100</b>	<b>\$ (202,857)</b>	<b>-20.3%</b>
<b>Change in Working Capital</b>	<b>\$ 204,628</b>	<b>\$ -</b>	<b>\$ 204,628</b>	
<b>FTE's</b>	<b>4.0</b>	<b>5.0</b>	<b>(1.0)</b>	<b>-20.0%</b>

# **Texas Reliability Entity, Inc.**

Auditor's Report and Financial Statements

December 31, 2012 and 2011

**Texas Reliability Entity, Inc.**  
**December 31, 2012 and 2011**

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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, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Reliability Entity, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Statutory and Nonstatutory Operating Activities is presented for purposes of additional analysis and is 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  
April 22, 2013

**Texas Reliability Entity, Inc.**  
**Statements of Financial Position**  
**December 31, 2012 and 2011**

**Assets**

	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash	\$ 6,483,137	\$ 5,237,025
Accounts receivable	3,766	2,972
Other current assets	298,910	304,832
Total current assets	6,785,813	5,544,829
<b>Property and Equipment, Net</b>	1,191,777	1,734,219
Total assets	\$ 7,977,590	\$ 7,279,048

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 250,812	\$ 52,133
Accrued liabilities	568,789	524,840
Deferred revenue	1,284,821	1,424,606
Total current liabilities	2,104,422	2,001,579
<b>Unrestricted Net Assets</b>	5,873,168	5,277,469
Total liabilities and net assets	\$ 7,977,590	\$ 7,279,048

**Texas Reliability Entity, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Revenues, Gains and Other Support</b>		
Statutory revenue	\$ 10,097,716	\$ 9,419,898
Protocol revenue	999,100	970,000
Interest income	<u>15,945</u>	<u>13,520</u>
Total revenues, gains and other support	<u>11,112,761</u>	<u>10,403,418</u>
<b>Expenses</b>		
Salaries and related benefits	7,040,648	6,479,918
Facility and equipment costs	711,200	701,990
Outside services	1,421,830	774,089
Travel and meetings	323,211	373,802
Administrative and other	251,049	411,524
Depreciation	<u>769,124</u>	<u>681,978</u>
Total expenses	<u>10,517,062</u>	<u>9,423,301</u>
<b>Change in Unrestricted Net Assets</b>	595,699	980,117
<b>Unrestricted Net Assets, Beginning of Year</b>	<u>5,277,469</u>	<u>4,297,352</u>
<b>Unrestricted Net Assets, End of Year</b>	<u><u>\$ 5,873,168</u></u>	<u><u>\$ 5,277,469</u></u>

**Texas Reliability Entity, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Change in net assets	\$ 595,699	\$ 980,117
Items not requiring cash		
Depreciation	769,124	680,518
Net loss on disposal of fixed assets	-	2,238
Changes in		
Accounts receivable	(794)	124,633
Other current assets	5,922	(135,023)
Accounts payable	198,679	(731,225)
Deferred revenue	(139,785)	815,191
Accrued liabilities	43,949	(53,530)
Net cash provided by operating activities	<u>1,472,794</u>	<u>1,682,919</u>
<b>Investing Activities</b>		
Capital expenditures for property and equipment and systems under development	<u>(226,682)</u>	<u>(119,047)</u>
Net cash used in investing activities	<u>(226,682)</u>	<u>(119,047)</u>
<b>Net Increase in Cash</b>	1,246,112	1,563,872
<b>Cash, Beginning of Year</b>	<u>5,237,025</u>	<u>3,673,153</u>
<b>Cash, End of Year</b>	<u>\$ 6,483,137</u>	<u>\$ 5,237,025</u>

# Texas Reliability Entity, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 1: Organization and Operations

Texas Reliability Entity, Inc. (Texas RE) is a Texas nonprofit corporation that is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Texas RE was formed January 1, 2010, to be the Regional Entity for the Electric Reliability Council of Texas, Inc. (ERCOT) region and to preserve and enhance reliability across the ERCOT region by encouraging a culture of compliance among all users, owners and operators of the bulk-power system (BPS). Texas RE, took assignment of all rights, contracts, obligations, assets and liabilities of Texas Regional Entity (which was an independent division of ERCOT, the predecessor Regional Entity), effective midnight on June 30, 2010. Texas RE became the Regional Entity for the ERCOT region on July 1, 2010, pursuant to its Amended and Restated Delegation Agreement with North American Electric Reliability Corporation (NERC), which was approved by the Federal Energy Regulatory Commission (FERC) on May 6, 2010. The Delegation Agreement with NERC was further amended effective January 1, 2011 and October 7, 2011. Texas Regional Entity was the authorized Regional Entity for the ERCOT region from May 2007 through June 30, 2010.

As Regional Entity, Texas RE proposes and facilitates development of new and modified NERC Reliability Standards and Regional Standards (Standards); monitors, assesses, investigates and enforces compliance by registered entities with Standards in the ERCOT region, and oversees the mitigation of any violations. Texas RE is authorized to impose penalties and sanctions for violations, but NERC and FERC must approve determination of all violations and the imposition of all penalties and sanctions. These Regional Entity activities are referred to herein as “statutory activities”.

The ERCOT region is the geographic area located within the state of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In addition to Texas RE’s statutory activities as Regional Entity, Texas RE has a contract with the Public Utility Commission of Texas (PUCT) and ERCOT to be the Reliability Monitor for the ERCOT region. As Reliability Monitor, Texas RE monitors, investigates and reports to the PUCT regarding compliance with state reliability rules (the reliability-based ERCOT Protocols and Operating Guides), and coordinates and assists PUCT staff with related reliability-related matters. The PUCT is responsible for the enforcement of violations of the state reliability rules. Texas RE’s activities under this contract are permitted by NERC and FERC, by Exhibit E to the Delegation Agreement, and these activities are referred to herein as “Nonstatutory” activities.

# **Texas Reliability Entity, Inc.**

## **Notes to Financial Statements**

### **December 31, 2012 and 2011**

#### ***Membership and Governance***

Texas RE has the following six membership sectors under its Bylaws:

- **System Coordination and Planning:** An entity that is registered with NERC as a Reliability Coordinator (RC), Balancing Authority (BA), Planning Authority (PA), Resource Planner (RP) or Interchange Authority (IA).
- **Transmission and Distribution:** An entity that is registered with NERC as a Transmission Owner (TO), Transmission Planner (TP), Transmission Service Provider (TSP), Distribution Provider (DP), and/or Transmission Operator (TOP) and is not a Cooperative or Municipal Utility.
- **Cooperative Utility:** An entity that is (a) a corporation organized under Chapter 161 of the Texas Utilities Code or a predecessor statute to Chapter 161 and operating under that chapter; or (b) a corporation organized as an electric cooperative in a state other than Texas that has obtained a certificate of authority to conduct affairs in the State of Texas; or (c) a cooperative association organized under Tex. Rev. Civ. Stat. 1396-50.01 or a predecessor to that statute and operating under that statute that is registered with NERC for at least one reliability function.
- **Municipal Utility:** An entity that owns or controls transmission or distribution facilities, owns or controls dispatchable generating facilities, or provides retail electric service and is a municipally owned utility as defined in PURA §11.003 and is registered with NERC for at least one reliability function.
- **Generation:** An entity that is registered with NERC as a Generator Owner (GO) or Generator Operator (GOP).
- **Load-Serving and Marketing:** An entity that is registered with NERC as a Load Serving Entity (LSE), a Purchasing-Selling Entity (PSE) or any newly defined NERC reliability function for demand response.

Membership in Texas RE is voluntary and open to any entity that is an user, owner, or operator of the ERCOT region BPS and registered with NERC for at least one reliability function. Eligible registered entities must complete and submit a membership application, pay a nominal annual fee, which may be waived for good cause shown, and comply with the Texas RE Bylaws. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards development process, even if not a Texas RE member.

Texas RE is governed by a hybrid board of directors (the Board), comprised of the following nine directors:

- Texas RE President and Chief Executive Officer
- Four Independent Directors

# Texas Reliability Entity, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

- Two Member Directors (the Chair and Vice-Chair of the Member Representatives Committee)
- Chair of the PUCT, or another PUCT Commissioner designated by the Chairman, as an ex officio nonvoting member
- Texas Public Counsel, from the Texas Office of Public Utility Counsel, as an ex officio nonvoting member

The Board's primary role is to oversee management of Texas RE, including assuring that Texas RE meets its requirements under the Bylaws and Delegation Agreement, and to elect a chief executive officer to manage and be responsible for the day-to-day ongoing activities of Texas RE. The Board has one subcommittee, the Audit and Governance Committee, which is comprised of the Independent Directors.

Texas RE has two stakeholder committees, the Member Representatives Committee (MRC) and the Reliability Standards Committee (RSC). The MRC includes representatives from members in each of the six membership sectors and provides advice and recommendations to the Board on administrative, financial, reliability-related or any other matters, except for standards development issues, through its elected Chair and Vice Chair, who serve as directors. The RSC includes representatives from the six industry sectors described above, whether or not members of Texas RE and including any entity with a direct and material interest in the ERCOT region BPS. The RSC facilitates the Regional Standards development process, coordinates the development of Regional Standards and variances with the development of national NERC Standards, and monitors, reviews, and comments on Standards under development and Standards interpretation requests.

## Note 2: Summary of Significant Accounting Policies

### *Use of Estimates*

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

### *Cash*

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2012, Texas RE's cash accounts exceeded federally insured limits by approximately \$6,400,000. Texas RE places its cash with a high quality financial institution, and management believes no significant risks exist with respect to uninsured balances.



**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

***Revenue Recognition***

Texas RE funds its statutory operations primarily from assessments NERC collects from load serving entities and pays to Texas RE in four quarterly payments, pursuant to the Delegation Agreement. Four quarterly payments were received by Texas RE, which totaled \$9,503,866 and \$9,227,823 from NERC during 2012 and 2011, respectively. NERC pays Texas RE at or near the beginning of each quarter. Additionally, Texas RE recognized \$17,690 and \$35,500 for membership dues; \$572,830 and \$20,000 from fines and penalties and \$3,330 and \$136,575 from providing workshops in 2012 and 2011, respectively. All statutory budgeted expenditures for Texas RE are approved by the Texas RE Board when it approves Texas RE's annual business plan and budget.

Texas RE funds its nonstatutory operations from revenues paid by ERCOT from its PUCT approved system administration fee, pursuant to the Reliability Monitor Agreement. Texas RE received revenue of \$999,100 and \$970,000 from the Reliability Monitor Agreement in 2012 and 2011, respectively to cover all operating expenses incurred by Texas RE. 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 defers amounts related to fines and penalties pursuant to the NERC operating procedure and the concurring FERC order that restricts availability until the appeals process is complete. After the appeals process is complete, penalty monies received on or prior to June 30 will be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty monies received after June 30 will be applied as a general offset to budget requirements for the next subsequent fiscal year. Fines and penalties of \$1,284,821 and \$1,424,606 have been recorded as deferred revenue at December 31, 2012 and 2011, respectively.

***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 Directors is specified in the Bylaws, which were approved by the Texas RE membership. Texas RE Independent Director compensation (approximately \$190,000 during 2012) is paid monthly. In addition to their compensation, Texas RE independent board members are reimbursed for their actual expenses incurred related to their duties as a Texas RE board member.

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. 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 depreciated 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	5 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, 2012 and 2011.

***Unrestricted Net Assets***

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing Texas RE's objectives. Accordingly, net assets of Texas RE and changes therein are classified and reported as unrestricted net assets.

***Income Taxes***

Texas RE is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Texas RE is subject to federal income tax on any unrelated business taxable income.

Texas RE files tax returns in the U.S. federal jurisdiction. With a few exceptions, Texas RE is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 3: Expenses by Functional Classification**

While the statement of activities presents expenses by natural classification, Texas RE's expenses by functional classification for the years ended December 31 were as follows:

	<u>2012</u>	<u>2011</u>
Program	\$ 6,602,467	\$ 5,915,819
General and administrative	<u>3,914,595</u>	<u>3,507,482</u>
Total	<u>\$ 10,517,062</u>	<u>\$ 9,423,301</u>

Certain costs have been allocated among the program and general and management categories based on actual use or estimates made by management.

**Note 4: Property and Equipment**

Property and equipment at December 31 consists of:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 408,364	382,698
Computer hardware	701,980	689,564
Computer software	1,168,815	1,164,687
Furniture	309,512	301,413
Leasehold improvement	206,521	172,436
Work in process	<u>142,288</u>	<u>-</u>
Total property and equipment	2,937,480	2,710,798
Less accumulated depreciation	<u>1,745,703</u>	<u>976,579</u>
Total property and equipment, net	<u>\$ 1,191,777</u>	<u>\$ 1,734,219</u>

**Texas Reliability Entity, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 5: Operating Leases**

Texas RE leases office space, datacenter space and equipment under noncancellable agreements recorded as operating leases. Operating lease expenditures for the year ended December 31, 2012, were \$663,634. The future rental payments due under operating leases are as follows through December 31, 2012:

2013	\$ 623,027
2014	547,627
2015	424,652
2016	424,652
2017	424,652
Thereafter	<u>270,000</u>
	<u>\$ 2,714,610</u>

**Note 6: Employee Benefit Plans**

Texas RE employees are sponsored under the Texas RE Defined Contribution 401(k) Plan (the 401(k) Plan) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) Plan utilizes a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate. Texas RE matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the Texas RE match of 75% after five years. In addition, Texas RE contributes 10% of a participant's eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the Texas RE contributions of 10% after three years. Employer contributions to the 401(k) plans were \$705,777 and \$641,601, respectively, in 2012 and 2011.

**Note 7: Subsequent Event**

On January 29, 2013, Texas RE obtained a \$500,000 bank line of credit that expires in 2014. The line is not collateralized by any of Texas RE's assets and is unsecured. Interest rate varies with LIBOR plus 4.265%.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Other Information**

**Texas Reliability Entity, Inc.**  
**Schedule of Statutory and Nonstatutory Operating Activities**  
**Year Ended December 31, 2012**

	<u>Statutory</u>	<u>Nonstatutory</u>	<u>Total</u>
<b>Revenues, Gains and Other Support</b>			
Statutory revenue	\$ 10,097,716	\$ -	\$ 10,097,716
Protocol revenue	-	999,100	999,100
Interest income	14,174	1,771	15,945
	<u>10,111,890</u>	<u>1,000,871</u>	<u>11,112,761</u>
Total revenues, gains and other support			
<b>Expenses</b>			
Salaries and related benefits	6,474,479	566,169	7,040,648
Facility and equipment costs	678,152	33,048	711,200
Outside services	1,377,106	44,724	1,421,830
Travel and meetings	322,067	1,144	323,211
Administrative and other	238,458	12,591	251,049
Depreciation	769,124	-	769,124
	<u>9,859,386</u>	<u>657,676</u>	<u>10,517,062</u>
Total expenses			
<b>Change in Unrestricted Net Assets</b>	252,504	343,195	595,699
<b>Unrestricted Net Assets, Beginning of Year</b>	<u>4,951,492</u>	<u>325,977</u>	<u>5,277,469</u>
<b>Unrestricted Net Assets, End of Year</b>	<u>\$ 5,203,996</u>	<u>\$ 669,172</u>	<u>\$ 5,873,168</u>

**Note:** Texas RE uses Nonstatutory funding to pay for Nonstatutory expenses.

**ATTACHMENT 9**

**2012 ACTUAL COST-TO-BUDGET COMPARISON**

**AND**

**2012 AUDITED FINANCIAL REPORT**

**FOR**

**WESTERN ELECTRICITY COORDINATING COUNCIL**



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Director of Finance and Accounting

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May 6, 2013

Mr. Michael Walker  
Senior Vice President, Chief Financial and Administrative Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E.  
Suite 600, North Tower  
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**RE: 2012 Statement of Activities and Variance Explanations Based on Audited Financials**

**Summary**

The Western Electricity Coordinating Council's (WECC) audited Statutory total change in working capital for the year ended December 31, 2012 is under budget by \$5.93 million with grant activity and \$136,000 under budget without grant activity

Significant variances related to the statutory budget are explained by line item, based on program specific budgets and actual results. A summary of significant overall variances is described in this document. Year-end variances greater than \$10,000 and 10 percent are explained, in addition to any other variances that are noteworthy.

WECC completed its goals and key deliverables as discussed in the 2012 Business Plan and Budget except for the following:

- The development of procedures to comply with NERC Fill-in-the-Blank Standards in the Standards program area was not completed. Significant progress has been made on this objective; however, due to the nature of standards development, work is still in progress.
- The development and implementation of the Base Case Coordination System (BCCS) in Reliability Assessment and Performance Analysis (RAPA) was delayed due to the software vendor. The project will extend into 2013.

**Allocation of Indirect Costs**

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

**Federal Grants**

In WECC's 2010 Amended Business Plan and Budget, WECC included revenue and associated costs related to three U.S. Department of Energy grants. FERC determined that the activities performed under the three grants received by WECC qualify as Section 215 activities.



The Western Interconnection Synchrophasor Program (WISP) (budgeted in the Situation Awareness program area) increases reliability by, among other things, enhancing the situation awareness of WECC's Reliability Coordinator Offices.

This Interconnection-wide Synchrophasor system also enables smart grid functionality such as:

- Improved integrated system operations.
- Enhanced, knowledge-based, real-time, advanced-warning systems.
- Reduced energy losses.
- Increased efficiency of asset use.
- Improved market efficiency.
- Increased reliability and efficient integration of intermittent renewable resources.

The Regional Transmission Expansion Planning (RTEP) project, which encompasses all activities funded under this U.S. DOE grant, produces Interconnection-level transmission plans for the Western Interconnection. The RTEP project is a natural expansion of the depth, breadth, and coordination of existing regional and subregional planning processes. The plan accomplishes the following:

- Evaluates the long-term regional transmission capacity needs under a comprehensive set of load, resource, and policy scenarios.
- Incorporates the results of a comprehensive examination of reliability impacts, technology costs, and emissions conducted during the project.
- Provides guidance for decision-makers at all levels (project developers, siting authorities, utility regulators, and others).
- Facilitates and accelerates the development of needed transmission infrastructure.

The Balancing Authority Cooperation Concepts to Reduce Variable Generation Integration Costs in the Western Interconnection project examined the benefits of different Balancing Authority coordination scenarios including consolidation concepts and less-than-hourly scheduling intervals to aid in the reliable integration of variable generation. The work related to this grant was completed in 2012.

WECC uses a fund-accounting system to ensure that federal grant activities are segregated in accordance with federal cost-accounting standards.

### **Non-Statutory**

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2012, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors and its Standing Committees, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are

allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. This allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

## **Reserves**

WECC did not use any working capital reserves during 2012.

## **Variance Explanations (Statutory Activities)**

### **FUNDING**

- **Grant Funding** (\$497,000 over budget)
  - Grant revenue is a function of the expenditures incurred by WECC and the eight participants in the WISP project. Actual expenditures are over budget which, resulted in an increase in grant revenue recognized. The variances are timing differences only; total project cost has not changed.
- **Workshops** (\$329,000 under budget)
  - Workshop revenue was under budget due to lower-than-anticipated attendance at workshops and training sessions.
- **Miscellaneous Income** (\$86,000 under budget)
  - In accordance with Generally Accepted Accounting Principles, WECC adjusts its investment account balances to fair market value. These adjustments result in unrealized gains or losses that roll into miscellaneous funding.

### **EXPENSES**

- **Payroll Taxes** (\$322,000 under budget)
  - Payroll taxes are under budget due to open positions, turnover, and hiring delays for new positions. Additionally, in some departments, payroll taxes in the budget were not capped for the Internal Revenue Service social security ceiling.
- **Employee Benefits** (\$529,000 under budget)
  - Health Reimbursement Account expenditures are less than anticipated.
  - Insurance programs are under budget due to lower-than-anticipated enrollment
  - Training is under budget due to scheduling, workload, and other emergent issues.
- **Meetings** (\$455,000 under budget)
  - Meetings are under budget primarily due to a new meeting policy that went into effect in December 2011, mandating the use of the Salt Lake City meeting facilities to the extent possible, as opposed to the use off-site facilities.



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- **Travel** (\$398,000 under budget)
  - Increased use of the Salt Lake City meeting facilities, per the meeting policy, resulted in less travel by WECC employees.
  - Travel is also under budget due to more efficient audits requiring fewer days on-site and increased use of webinars.
- **Conference Calls** (\$94,000 under budget)
  - Actual conference call usage is less than budgeted, in part due to the increased use of services like WebEx.
- **Consultants & Contracts** (\$2.26 million under budget)
  - Consultants and Contracts costs associated with the grants are under budget due to decreased spending by the WISP sub-recipient, Pacific Gas and Electric.
- **Professional Services** (\$171,000 over budget)
  - Professional Services are over budget due to unbudgeted expenses for the NPCC audit of the RC.
- **Indirect Expenses** (\$82,000 under budget)
  - Indirect expenses are related to the Administrative Services program areas that are allocated, based on FTEs, to the other Statutory program areas and WREGIS. Actual expenditures in those areas are less than budgeted.

## FIXED ASSETS

- **Computer & Software CapEx** (\$1.38 million under budget)
  - Computer & Software CapEx is under budget primarily due to timing variances related to the rate of grant asset spending. Additionally, the WISP project management team revised the project execution plan (PEP), which aligns with the DOE project extension. One component of the PEP revisions is delayed CapEx spending.

Please feel free to contact me if you have any questions.

Thank you,

Jillian Lessner

Director of Finance and Accounting

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Summary**

	2012 Actual	2012 Budget	2012 Variance
<b>Funding</b>			
<b>WECC Funding</b>			
WECC Assessments	\$ 36,977,492	\$ 36,977,492	\$ -
Penalty Sanctions	2,256,023	2,256,023	-
<b>Total ERO Funding</b>	<b>\$ 39,233,515</b>	<b>\$ 39,233,515</b>	<b>\$ -</b>
Membership Fees	1,489,043	1,800,000	(310,957)
Grant Funding	27,928,645	27,431,301	497,344
Services & Software	-	-	-
Workshops	676,865	1,013,475	(336,610)
Interest	305,196	300,000	5,196
Miscellaneous	(75,563)	10,000	(85,649)
<b>Total Funding</b>	<b>\$ 69,557,701</b>	<b>\$ 69,788,291</b>	<b>\$ (230,676)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	22,449,605	22,797,163	(347,558)
Payroll Taxes	1,533,321	1,862,164	(328,843)
Employee Benefits	2,723,637	3,300,190	(576,553)
Savings & Retirement	1,431,530	1,549,899	(118,369)
<b>Total Personnel Expenses</b>	<b>\$ 28,138,093</b>	<b>\$ 29,509,416</b>	<b>\$ (1,371,323)</b>
<b>Meeting Expenses</b>			
Meetings	665,172	1,140,705	(475,533)
Travel	1,701,134	2,135,420	(434,286)
Conference Calls	106,683	201,060	(94,377)
<b>Total Meeting Expenses</b>	<b>\$ 2,472,989</b>	<b>\$ 3,477,185</b>	<b>\$ (1,004,196)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	17,538,998	19,873,972	(2,334,974)
Office Rent	1,896,011	2,093,159	(197,148)
Office Costs	6,385,155	6,489,886	(104,731)
Professional Services	1,151,537	988,461	163,076
Miscellaneous	-	-	-
Depreciation	3,766,593	3,672,600	93,993
<b>Total Operating Expenses</b>	<b>\$ 30,738,294</b>	<b>\$ 33,118,078</b>	<b>\$ (2,379,784)</b>
<b>Total Direct Expenses</b>	<b>\$ 61,349,376</b>	<b>\$ 66,104,679</b>	<b>\$ (4,755,303)</b>
<b>Indirect Expenses</b>	-	-	-
<b>Other Non-Operating Expenses</b>	<b>\$ 16,431</b>	<b>\$ -</b>	<b>\$ 16,431</b>
<b>Total Expenses</b>	<b>61,365,807</b>	<b>66,104,679</b>	<b>(4,738,872)</b>
<b>Change in Assets</b>	<b>\$ 8,191,894</b>	<b>\$ 3,683,611</b>	<b>\$ 4,508,196</b>
<b>Fixed Assets</b>			
Depreciation	(3,766,593)	(3,672,600)	(93,993)
Computer & Software CapEx	5,690,454	7,077,228	(1,386,774)
Furniture & Fixtures CapEx	-	-	-
Leasehold Improvements	6,661	-	6,661
<b>Change in Fixed Assets</b>	<b>\$ 1,930,522</b>	<b>\$ 3,404,628</b>	<b>\$ (1,474,106)</b>
Allocation of Fixed Assets	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 1,930,522</b>	<b>\$ 3,404,628</b>	<b>\$ (1,474,106)</b>
<b>Total Budget</b>	<b>63,296,329</b>	<b>69,509,307</b>	<b>(6,212,978)</b>
<b>Change in Working Capital</b>	<b>\$ 6,261,372</b>	<b>\$ 278,984</b>	<b>\$ 5,982,302</b>
<b>FTEs</b>	203.66	218.3	(14.6)

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Statutory Summary**

	2012 Actual	2012 Budget	2012 Variance
<b>Funding</b>			
<b>WECC Funding</b>			
WECC Assessments	\$ 36,977,492	\$ 36,977,492	\$ -
Penalty Sanctions	2,256,023	2,256,023	-
<b>Total ERO Funding</b>	<b>\$ 39,233,515</b>	<b>\$ 39,233,515</b>	<b>\$ -</b>
Membership Fees	-	-	-
Grant Funding	27,928,645	27,431,301	497,344
Services & Software	-	-	-
Workshops	674,200	1,003,475	(329,275)
Interest	305,196	291,171	14,025
Miscellaneous	(75,943)	9,706	(85,649)
<b>Total Funding</b>	<b>\$ 68,065,613</b>	<b>\$ 67,969,167</b>	<b>\$ 96,445</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	22,137,816	22,440,790	(302,974)
Payroll Taxes	1,510,756	1,832,322	(321,566)
Employee Benefits	2,691,736	3,220,425	(528,689)
Savings & Retirement	1,413,506	1,525,323	(111,817)
<b>Total Personnel Expenses</b>	<b>\$ 27,753,814</b>	<b>\$ 29,018,860</b>	<b>\$ (1,265,046)</b>
<b>Meeting Expenses</b>			
Meetings	663,756	1,119,205	(455,449)
Travel	1,687,104	2,085,420	(398,316)
Conference Calls	106,683	200,560	(93,877)
<b>Total Meeting Expenses</b>	<b>\$ 2,457,543</b>	<b>\$ 3,405,185</b>	<b>\$ (947,642)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	17,535,019	19,798,972	(2,263,953)
Office Rent	1,896,011	2,093,159	(197,148)
Office Costs	5,982,350	6,035,686	(53,336)
Professional Services	1,103,402	931,961	171,441
Miscellaneous	-	-	-
Depreciation	3,766,593	3,672,600	93,993
<b>Total Operating Expenses</b>	<b>\$ 30,283,375</b>	<b>\$ 32,532,378</b>	<b>\$ (2,249,003)</b>
<b>Total Direct Expenses</b>	<b>\$ 60,494,732</b>	<b>\$ 64,956,422</b>	<b>\$ (4,461,691)</b>
<b>Indirect Expenses</b>	(303,981)	(385,883)	81,902
<b>Other Non-Operating Expenses</b>	<b>\$ 16,431</b>	<b>\$ -</b>	<b>\$ 16,431</b>
<b>Total Expenses</b>	<b>60,207,182</b>	<b>64,570,539</b>	<b>(4,363,358)</b>
<b>Change in Assets</b>	<b>\$ 7,858,431</b>	<b>\$ 3,398,628</b>	<b>\$ 4,459,803</b>
<b>Fixed Assets</b>			
Depreciation	(3,766,593)	(3,672,600)	(93,993)
Computer & Software CapEx	5,690,454	7,071,228	(1,380,774)
Furniture & Fixtures CapEx	-	-	-
Leasehold Improvements	6,661	-	6,661
<b>Change in Fixed Assets</b>	<b>\$ 1,930,522</b>	<b>\$ 3,398,628</b>	<b>\$ (1,468,106)</b>
Allocation of Fixed Assets	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 1,930,522</b>	<b>\$ 3,398,628</b>	<b>\$ (1,468,106)</b>
<b>Total Budget</b>	<b>62,137,704</b>	<b>67,969,167</b>	<b>(5,831,464)</b>
<b>Change in Working Capital</b>	<b>\$ 5,927,909</b>	<b>\$ -</b>	<b>\$ 5,927,909</b>
<b>FTEs</b>	200.0	213.3	(13.3)

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Reliability Standards**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 945,657	\$ 945,657	\$ -	0.0%	
Penalty Sanctions	54,725	54,725	-	0.0%	
<b>Total ERO Funding</b>	<b>\$ 1,000,382</b>	<b>\$ 1,000,382</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 1,000,382</b>	<b>\$ 1,000,382</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	390,791	478,530	(87,739)	-18.3%	Actual Salaries are less than budgeted.
Payroll Taxes	27,247	40,691	(13,444)	-33.0%	Payroll Taxes follow Salaries.
Employee Benefits	24,610	59,466	(34,856)	-58.6%	Under-utilization of training and medical benefits.
Savings & Retirement	26,685	41,327	(14,642)	-35.4%	Savings & Retirement follows Salaries.
<b>Total Personnel Expenses</b>	<b>\$ 469,333</b>	<b>\$ 620,014</b>	<b>\$ (150,681)</b>		
<b>Meeting Expenses</b>					
Meetings	941	14,700	(13,759)	-93.6%	Lower-than-anticipated hosted meetings.
Travel	18,755	59,000	(40,245)	-68.2%	Lower-than-anticipated attendance at external meetings.
Conference Calls	4,173	14,440	(10,267)	-71.1%	Increased use of WebEx.
<b>Total Meeting Expenses</b>	<b>\$ 23,869</b>	<b>\$ 88,140</b>	<b>\$ (64,271)</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	-	-	-		
Office Rent	-	-	-		
Office Costs	6,382	8,020	(1,638)	-20.4%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ 6,382</b>	<b>\$ 8,020</b>	<b>\$ (1,638)</b>		
<b>Total Direct Expenses</b>	<b>\$ 499,584</b>	<b>\$ 716,174</b>	<b>\$ (216,590)</b>		
<b>Indirect Expenses</b>	308,789	308,706	83	0.0%	
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>808,373</b>	<b>1,024,880</b>	<b>(216,507)</b>		
<b>Change in Assets</b>	<b>\$ 192,009</b>	<b>\$ (24,498)</b>	<b>\$ 216,507</b>		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Allocation of Fixed Assets	(7,266)	(24,498)	17,232	-70.3%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (7,266)</b>	<b>\$ (24,498)</b>	<b>\$ 17,232</b>		
<b>Total Budget</b>	<b>801,107</b>	<b>1,000,382</b>	<b>(199,275)</b>		
<b>Change in Working Capital</b>	<b>\$ 199,275</b>	<b>\$ -</b>	<b>\$ 199,275</b>		
<b>FTEs</b>	4.0	4.0	-		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Compliance Monitoring and Enforcement and Organization Registration and Certification**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 12,654,013	\$ 12,654,013	\$ -	0.00%	
Penalty Sanctions	800,348	800,348	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 13,454,361</b>	<b>\$ 13,454,361</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	285,150	396,875	(111,725)	-28.15%	CUG/CIPUG workshop attendance was less than predicted.
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 13,739,511</b>	<b>\$ 13,851,236</b>	<b>\$ (111,725)</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	4,800,905	5,539,806	(738,901)	-13.34%	Four unfilled positions and turnover.
Payroll Taxes	350,723	461,222	(110,499)	-23.96%	Payroll Taxes follow Salaries.
Employee Benefits	559,340	683,041	(123,701)	-18.11%	Under-utilization of training and medical benefits due to staffing and workload; four unfilled positions and turnover.
Savings & Retirement	301,528	362,814	(61,286)	-21.23%	Four unfilled positions and turnover; lower-than-anticipated participation in the 401(K) plan.
<b>Total Personnel Expenses</b>	<b>\$ 6,012,496</b>	<b>\$ 7,066,883</b>	<b>\$ (1,054,387)</b>		
<b>Meeting Expenses</b>					
Meetings	324,049	434,797	(110,748)	-25.47%	Lower-than-anticipated rates and attendance at CUG/CIPUG meetings.
Travel	723,463	995,000	(271,537)	-27.29%	Four unfilled positions and turnover; more efficient audits requiring fewer days onsite.
Conference Calls	18,924	58,750	(39,826)	-67.79%	Increased use of WebEx; lower-than-anticipated number of conference calls.
<b>Total Meeting Expenses</b>	<b>\$ 1,066,436</b>	<b>\$ 1,488,547</b>	<b>\$ (422,111)</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	673,309	575,000	98,309	17.10%	Four unfilled positions; staff augmentation for audits
Office Rent	7,198	-	7,198		
Office Costs	562,040	481,260	80,780	16.79%	New cubicles to replace outdated units. Replacement parts no longer available.
Professional Services	-	18,000	(18,000)	-100.00%	Use of in-house counsel over external law firms.
Miscellaneous	-	-	-		
Depreciation	108,145	150,150	(42,005)	-27.98%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are less than budgeted.
<b>Total Operating Expenses</b>	<b>\$ 1,350,692</b>	<b>\$ 1,224,410</b>	<b>\$ 126,282</b>		
<b>Total Direct Expenses</b>	<b>\$ 8,429,624</b>	<b>\$ 9,779,840</b>	<b>\$ (1,350,216)</b>		
<b>Indirect Expenses</b>	4,169,288	4,514,827	(345,539)	-7.65%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>12,598,912</b>	<b>14,294,667</b>	<b>(1,695,755)</b>		
<b>Change in Assets</b>	<b>\$ 1,140,599</b>	<b>\$ (443,431)</b>	<b>\$ 1,584,030</b>		
<b>Fixed Assets</b>					
Depreciation	(108,145)	(150,150)	42,005	-27.98%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are less than budgeted.
Computer & Software CapEx	9,127	65,000	(55,873)	-85.96%	Planned purchases of auditing software delay.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ (99,018)</b>	<b>\$ (85,150)</b>	<b>\$ (13,868)</b>		
Allocation of Fixed Assets	(98,109)	(358,280)	260,171	-72.62%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ (197,127)</b>	<b>\$ (443,430)</b>	<b>\$ 246,303</b>		
<b>Total Budget</b>	<b>12,401,785</b>	<b>13,851,237</b>	<b>(1,449,452)</b>		
<b>Change in Working Capital</b>	<b>\$ 1,337,726</b>	<b>\$ -</b>	<b>\$ 1,337,727</b>		
<b>FTEs</b>	54.01	58.5	(4.5)		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Training and Education**

	<u>2012 Actual</u>	<u>2012 Budget</u>	<u>2012 Variance</u>		<u>Explanations of Variances - 10% and \$10,000</u>
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ (20,680)	\$ (20,680)	\$ -	0.00%	
Penalty Sanctions	20,522	20,522	-	0.00%	
<b>Total ERO Funding</b>	<u>\$ (158)</u>	<u>\$ (158)</u>	<u>\$ -</u>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software					
Workshops	389,050	606,600	(217,550)	-35.86%	Lower-than-anticipated attendance at training sessions and workshops.
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<u>\$ 388,892</u>	<u>\$ 606,442</u>	<u>\$ (217,550)</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	96,469	98,906	(2,437)	-2.46%	
Payroll Taxes	7,274	8,575	(1,301)	-15.17%	
Employee Benefits	1,497	21,095	(19,598)	-92.90%	Underutilization of external training and lower-than-budgeted enrollment in insurance plans.
Savings & Retirement					One employee's defined contribution had not calculated correctly and \$5K needed to be contributed for a true-up.
	11,148	7,062	4,086	57.86%	
<b>Total Personnel Expenses</b>	<u>\$ 116,388</u>	<u>\$ 135,638</u>	<u>\$ (19,250)</u>		
<b>Meeting Expenses</b>					
Meetings	74,080	144,432	(70,352)	-48.71%	Lower-than-budgeted training sessions and workshops due to decreased attendance and cancellations.
Travel	12,560	9,800	2,760	28.16%	
Conference Calls	895	500	395	79.00%	
<b>Total Meeting Expenses</b>	<u>\$ 87,535</u>	<u>\$ 154,732</u>	<u>\$ (67,197)</u>		
<b>Operating Expenses</b>					
Consultants & Contracts	74,543	81,000	(6,457)	-7.97%	
Office Rent	46,520	46,368	152	0.33%	
Office Costs	101,285	102,280	(995)	-0.97%	
Professional Services	-	-	-		
Miscellaneous	-	-	-		
Depreciation	-	1,000	(1,000)	-100.00%	
<b>Total Operating Expenses</b>	<u>\$ 222,348</u>	<u>\$ 230,648</u>	<u>\$ (8,300)</u>		
<b>Total Direct Expenses</b>	<u>\$ 426,271</u>	<u>\$ 521,018</u>	<u>\$ (94,747)</u>		
<b>Indirect Expenses</b>	77,197	95,611	(18,414)	-19.26%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<u>503,468</u>	<u>616,629</u>	<u>(113,161)</u>		
<b>Change in Assets</b>	<u>\$ (114,576)</u>	<u>\$ (10,187)</u>	<u>\$ (104,389)</u>		
<b>Fixed Assets</b>					
Depreciation	-	(1,000)	1,000	-100.00%	
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<u>\$ -</u>	<u>\$ (1,000)</u>	<u>\$ 1,000</u>		
Allocation of Fixed Assets	(1,817)	(9,187)	7,370	-80.22%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ (1,817)</u>	<u>\$ (10,187)</u>	<u>\$ 8,370</u>		
<b>Total Budget (Expenses plus Inc(Dec) in Fi</b>	<u>501,651</u>	<u>606,442</u>	<u>(104,791)</u>		
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<u>\$ (112,759)</u>	<u>\$ -</u>	<u>\$ (112,759)</u>		
<b>FTEs</b>	1.00	1.5	(0.5)		



**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Reliability Assessment and Performance Analysis**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ 4,288,165	\$ 4,288,165	\$ -	0.00%	
Penalty Sanctions	289,356	289,356	-	0.00%	
<b>Total ERO Funding</b>	<b>\$ 4,577,521</b>	<b>\$ 4,577,521</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	3,355,966	2,884,940	471,026	16.33%	Based on costs incurred related to grant activities.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 7,933,487</b>	<b>\$ 7,462,461</b>	<b>\$ 471,026</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,756,508	1,970,357	(213,849)	-10.85%	Under by 3.4 FTEs due to turnover, unfilled positions and hiring difficulties.
Payroll Taxes	122,649	167,548	(44,899)	-26.80%	Payroll Taxes follow Salaries.
Employee Benefits	265,267	297,964	(32,697)	-10.97%	Insurance benefits follow headcount. Lower than budgeted enrollment in insurance programs.
Savings & Retirement	144,663	137,982	6,681	4.84%	Some longer term employees grandfathered into the plan at higher defined contribution rates, which were not budgeted.
<b>Total Personnel Expenses</b>	<b>\$ 2,289,087</b>	<b>\$ 2,573,851</b>	<b>\$ (284,764)</b>		
<b>Meeting Expenses</b>					
Meetings	52,280	171,483	(119,203)	-69.51%	Meeting policy went into effect December 2011, mandating use of Salt Lake City meeting facilities as opposed to off-site facilities to the extent possible.
Travel	107,260	230,600	(123,340)	-53.49%	Related to the new meeting policy and reduced travel to external meetings.
Conference Calls	21,552	41,000	(19,448)	-47.43%	Lower-than-anticipated usage of conference calls.
<b>Total Meeting Expenses</b>	<b>\$ 181,092</b>	<b>\$ 443,083</b>	<b>\$ (261,991)</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	2,849,577	2,717,516	132,061	4.86%	
Office Rent	-	-	-		
Office Costs	143,089	181,510	(38,421)	-21.17%	Timing of software renewals.
Professional Services	-	43,750	(43,750)	-100.00%	No actual Non-Affiliated Director compensation related to RTEP grant meetings.
Miscellaneous	-	-	-		
Depreciation	91,072	8,400	82,672	984.19%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are greater than budgeted.
<b>Total Operating Expenses</b>	<b>\$ 3,083,738</b>	<b>\$ 2,951,176</b>	<b>\$ 132,562</b>		
<b>Total Direct Expenses</b>	<b>\$ 5,553,917</b>	<b>\$ 5,968,110</b>	<b>\$ (414,193)</b>		
<b>Indirect Expenses</b>	1,371,785	1,632,284	(260,499)	-15.96%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>6,925,702</b>	<b>7,600,394</b>	<b>(674,692)</b>		
<b>Change in Assets</b>	<b>\$ 1,007,785</b>	<b>\$ (137,933)</b>	<b>\$ 1,145,718</b>		
<b>Fixed Assets</b>					
Depreciation	(91,072)	(8,400)	(82,672)	984.19%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are greater than budgeted.
Computer & Software CapEx	557,359	-	557,359		Timing on the Base Case Coordination System project - budgeted mostly in 2011 and costs were mostly incurred in 2012
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ 466,287</b>	<b>\$ (8,400)</b>	<b>\$ 474,687</b>		
Allocation of Fixed Assets	(32,280)	(129,533)	97,253	-75.08%	Based on standardized Regional Entity FTE ratios and spending in Administrative Services areas.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 434,007</b>	<b>\$ (137,933)</b>	<b>\$ 571,940</b>		
<b>Total Budget</b>	<b>7,359,709</b>	<b>7,462,461</b>	<b>(102,752)</b>		
<b>Change in Working Capital</b>	<b>\$ 573,778</b>	<b>\$ -</b>	<b>\$ 573,778</b>		
<b>FTEs</b>	17.77	21.2	(3.4)		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Situation Awareness and Infrastructure Security**

	<u>2012 Actual</u>	<u>2012 Budget</u>	<u>2012 Variance</u>	<u>Explanations of Variances - 10% and \$10,000</u>
<b>Funding</b>				
<b>WECC Funding</b>				
WECC Assessments	\$ 19,110,337	\$ 19,110,337	\$ -	0.00%
Penalty Sanctions	1,091,072	1,091,072	-	0.00%
<b>Total ERO Funding</b>	<u>\$ 20,201,409</u>	<u>\$ 20,201,409</u>	<u>\$ -</u>	
Membership Fees	-	-	-	
Grant Funding	24,428,349	24,459,669	(31,320)	-0.13%
Services & Software	-	-	-	
Workshops	-	-	-	
Interest	-	-	-	
Miscellaneous	20,000	-	-	
<b>Total Funding</b>	<u>\$ 44,649,758</u>	<u>\$ 44,661,078</u>	<u>\$ (31,320)</u>	
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	9,698,718	9,110,925	587,793	6.45%
Payroll Taxes	657,950	745,553	(87,603)	-11.75%
Employee Benefits	859,072	1,027,969	(168,897)	-16.43%
Savinas & Retirement	594,451	614,538	(20,087)	-3.27%
<b>Total Personnel Expenses</b>	<u>\$ 11,810,191</u>	<u>\$ 11,498,985</u>	<u>\$ 311,206</u>	
<b>Meeting Expenses</b>				
Meetings	42,620	-	42,620	Unbudgeted expenditures for the NPCC audit of the RC.
Travel	386,888	397,000	(10,112)	-2.55%
Conference Calls	22,803	24,200	(1,397)	-5.77%
<b>Total Meeting Expenses</b>	<u>\$ 452,311</u>	<u>\$ 421,200</u>	<u>\$ 31,111</u>	
<b>Operating Expenses</b>				
Consultants & Contracts	13,585,396	16,245,456	(2,660,060)	-16.37%
Office Rent	685,254	855,692	(170,438)	-19.92%
Office Costs	4,192,156	4,071,634	120,522	2.96%
Professional Services				
	336,520	171,000	165,520	96.80%
Miscellaneous	-	-	-	
Depreciation	3,087,083	2,600,002	487,081	18.73%
<b>Total Operating Expenses</b>	<u>\$ 21,886,409</u>	<u>\$ 23,943,784</u>	<u>\$ (2,057,375)</u>	
<b>Total Direct Expenses</b>	<u>\$ 34,148,911</u>	<u>\$ 35,863,969</u>	<u>\$ (1,715,058)</u>	
<b>Indirect Expenses</b>	4,851,722	5,083,309	(231,587)	-4.56%
<b>Other Non-Operating Expenses</b>	<u>\$ 16,511</u>			
<b>Total Expenses</b>	<u>\$ 39,017,144</u>	<u>\$ 40,947,278</u>	<u>\$ (1,946,645)</u>	
<b>Change in Assets</b>	<u>\$ 5,632,614</u>	<u>\$ 3,713,800</u>	<u>\$ 1,915,325</u>	
<b>Fixed Assets</b>				
Depreciation	(3,087,083)	(2,600,002)	(487,081)	18.73%
Computer & Software CapEx	4,925,006	6,802,228	(1,877,222)	-27.60%
Furniture & Fixtures CapEx	-	-	-	Timing delays related to WISP grant. 2012 amounts will be spent in 2013.
Leasehold Improvements	6,661	-	6,661	
<b>Change in Fixed Assets</b>	<u>\$ 1,844,584</u>	<u>\$ 4,202,226</u>	<u>\$ (2,357,642)</u>	
Allocation of Fixed Assets	(141,860)	(488,426)	346,566	-70.96%
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ 1,702,724</u>	<u>\$ 3,713,800</u>	<u>\$ (2,011,076)</u>	
<b>Total Budget</b>	<u>40,719,868</u>	<u>44,661,078</u>	<u>(3,957,211)</u>	
<b>Change in Working Capital</b>	<u>\$ 3,929,890</u>	<u>\$ -</u>	<u>\$ 3,926,401</u>	
<b>FTEs</b>	78.1	79.8	(1.7)	

**Western Electricity Coordinating Council  
2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital  
Technical Committees and Member Forums**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	144,330	86,691	57,639	66.49%	Timing related to the VGS grant.
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ 144,330</b>	<b>\$ 86,691</b>	<b>\$ 57,639</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	856,825	909,422	(52,597)	-5.78%	
Payroll Taxes	62,130	77,343	(15,213)	-19.67%	Salaries lower than budgeted.
Employee Benefits	89,330	80,436	8,894	11.06%	
Savings & Retirement	63,886	63,695	191	0.30%	
<b>Total Personnel Expenses</b>	<b>\$ 1,072,171</b>	<b>\$ 1,130,896</b>	<b>\$ (58,725)</b>		
<b>Meeting Expenses</b>					
Meetings	164,354	349,503	(185,149)	-52.97%	Meeting policy went into effect December 2011, mandating use of Salt Lake City meeting facilities as opposed to off-site facilities to the extent possible.
Travel	146,754	141,600	5,154	3.64%	
Conference Calls	20,278	39,870	(19,592)	-49.14%	Lower-than-anticipated usage of conference calls.
<b>Total Meeting Expenses</b>	<b>\$ 331,386</b>	<b>\$ 530,973</b>	<b>\$ (199,587)</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	157,220	70,000	87,220	124.60%	Project delays on VGS grant. 2011 expenses pushed into 2012. See offset in Grant Revenue.
Office Rent	-	-	-		
Office Costs	131,249	99,049	32,200	32.51%	Unbudgeted Change order of Open Access Technology software renewal.
Professional Services	422,000	403,000	19,000	4.71%	
Miscellaneous	-	-	-		
Depreciation	-	16,000	(16,000)	-100.00%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are less than budgeted.
<b>Total Operating Expenses</b>	<b>\$ 710,469</b>	<b>\$ 588,049</b>	<b>\$ 122,420</b>		
<b>Total Direct Expenses</b>	<b>\$ 2,114,026</b>	<b>\$ 2,249,918</b>	<b>\$ (135,892)</b>		
<b>Indirect Expenses</b>	<b>(1,969,696)</b>	<b>(2,163,227)</b>	<b>193,531</b>	-8.95%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>144,330</b>	<b>86,691</b>	<b>57,639</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	-	(16,000)	16,000	-100.00%	Depreciation expense is directly correlated to the timing of fixed asset purchases. Fixed Asset purchases are less than budgeted.
Computer & Software CapEx	-	75,000	(75,000)	-100.00%	Enhanced Curtailment Calculator project delayed.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 59,000</b>	<b>\$ (59,000)</b>		
Allocation of Fixed Assets	-	(59,000)	59,000	-100.00%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>144,330</b>	<b>86,691</b>	<b>57,639</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	<b>8.0</b>	<b>8.0</b>	<b>-</b>		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**General and Administrative**

	2012 Actual	2012 Budget	2011 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	305,196	291,171	14,025	4.82%	
Miscellaneous	(95,943)	9,706	(105,649)	-1088.49%	Mark-to-market fluctuations in WECC's investment portfolio.
<b>Total Funding</b>	<u>\$ 209,253</u>	<u>\$ 300,877</u>	<u>\$ (91,624)</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,961,907	2,030,913	(69,006)	-3.40%	
Payroll Taxes	110,828	139,971	(29,143)	-20.82%	Under budget by 2.5 FTEs.
Employee Benefits	198,971	232,263	(33,292)	-14.33%	No relocation expenditures.
Savings & Retirement	117,704	115,270	2,434	2.11%	Retirement contributions were not budgeted on executive bonuses.
<b>Total Personnel Expenses</b>	<u>\$ 2,389,410</u>	<u>\$ 2,518,417</u>	<u>\$ (129,007)</u>		
<b>Meeting Expenses</b>					
Meetings	5,295	4,290	1,005	23.43%	
Travel	162,349	130,120	32,229	24.77%	Greater-than-anticipated executive travel related to bifurcation and unionization meetings.
Conference Calls	8,363	10,700	(2,337)	-21.84%	
<b>Total Meeting Expenses</b>	<u>\$ 176,007</u>	<u>\$ 145,110</u>	<u>\$ 30,897</u>		
<b>Operating Expenses</b>					
Consultants & Contracts	114,843	60,000	54,843	91.41%	Unbudgeted executive development and procurement subject matter expert consulting.
Office Rent	1,151,838	1,191,100	(39,262)	-3.30%	
Office Costs	274,380	283,033	(8,653)	-3.06%	
Professional Services	105,946	104,411	1,535	1.47%	
Miscellaneous	-	-	-		
Depreciation	357,005	776,149	(419,144)	-54.00%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
<b>Total Operating Expenses</b>	<u>\$ 2,004,012</u>	<u>\$ 2,414,693</u>	<u>\$ (410,681)</u>		
<b>Total Direct Expenses</b>	<u>\$ 4,569,429</u>	<u>\$ 5,078,220</u>	<u>\$ (508,791)</u>		
<b>Indirect Expenses</b>	(4,360,176)	(5,078,221)	718,045	-14.14%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<u>209,253</u>	<u>(1)</u>	<u>209,254</u>		
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ 300,878</u>	<u>\$ (300,878)</u>		
<b>Fixed Assets</b>					
Depreciation	(357,005)	(776,149)	419,144	-54.00%	Depreciation was budgeted based on the prior year budget, not on prior year actual depreciation.
Computer & Software CapEx	-	-	-		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<u>\$ (357,005)</u>	<u>\$ (776,149)</u>	<u>\$ 419,144</u>		
Allocation of Fixed Assets	357,005	1,077,027	(720,022)	-66.85%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ -</u>	<u>\$ 300,878</u>	<u>\$ (300,878)</u>		
<b>Total Budget</b>	<u>209,253</u>	<u>300,877</u>	<u>(91,624)</u>		
<b>Change in Working Capital</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
FTEs	14.4	16.9	(2.5)		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Legal**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	1,319,996	1,143,740	176,256	15.41%	Over budget by .4 FTEs; actual salaries are higher than budgeted.
Payroll Taxes	82,308	94,193	(11,885)	-12.62%	Payroll Taxes were not capped in the Legal budget for the Social Security ceiling.
Employee Benefits	108,605	119,983	(11,378)	-9.48%	
Savings & Retirement	81,401	77,571	3,830	4.94%	Retirement contributions were not budgeted on executive bonuses.
<b>Total Personnel Expenses</b>	<b>\$ 1,592,310</b>	<b>\$ 1,435,487</b>	<b>\$ 156,823</b>		
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	64,682	88,000	(23,318)	-26.50%	Lower-than-anticipated travel to meetings.
Conference Calls	1,753	2,500	(747)	-29.88%	
<b>Total Meeting Expenses</b>	<b>\$ 66,435</b>	<b>\$ 90,500</b>	<b>\$ (24,065)</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	23,048	-	23,048		Contractor used for work related to new corporate compliance focus.
Office Rent	-	-	-		
Office Costs	59,394	66,360	(6,966)	-10.50%	
Professional Services	147,046	135,000	12,046	8.92%	
Miscellaneous	-	-	-		
Depreciation	-	-	-		
<b>Total Operating Expenses</b>	<b>\$ 229,488</b>	<b>\$ 201,360</b>	<b>\$ 28,128</b>		
<b>Total Direct Expenses</b>	<b>\$ 1,888,233</b>	<b>\$ 1,727,347</b>	<b>\$ 160,886</b>		
<b>Indirect Expenses</b>	(1,888,233)	(1,727,347)	(160,886)	9.31%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	-	-	-		
Computer & Software CapEx	25,468	20,000	5,468	27.34%	
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ 25,468</b>	<b>\$ 20,000</b>	<b>\$ 5,468</b>		
Allocation of Fixed Assets	(25,468)	(20,000)	(5,468)		Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	9.99	9.6	0.4		

**Western Electricity Coordinating Council  
2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital  
Information Technology**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	556,513	636,736	(80,223)	-12.60%	Two unfilled positions.
Payroll Taxes	40,522	54,142	(13,620)	-25.16%	Payroll Taxes follow Salaries.
Employee Benefits	96,519	83,276	13,243	15.90%	Greater-than-anticipated utilization of insurance plans.
Savings & Retirement	30,395	44,588	(14,193)	-31.83%	Two unfilled positions; lower-than-anticipated participation in the 401(K) plan.
<b>Total Personnel Expenses</b>	<u>\$ 723,949</u>	<u>\$ 818,742</u>	<u>\$ (94,793)</u>		
<b>Meeting Expenses</b>					
Meetings	-	-	-		
Travel	13,948	10,000	3,948	39.48%	
Conference Calls	5,788	6,000	(212)	-3.53%	
<b>Total Meeting Expenses</b>	<u>\$ 19,736</u>	<u>\$ 16,000</u>	<u>\$ 3,736</u>		
<b>Operating Expenses</b>					
Consultants & Contracts	48,943	15,000	33,943	226.29%	Unbudgeted SharePoint consulting
Office Rent	4,447	-	4,447		
Office Costs	388,641	649,000	(260,359)	-40.12%	Purchases budgeted here were capitalized. See offset in Fixed Assets. Two Microsoft contracts renegotiated at lower prices.
Professional Services	18,237	-	18,237		
Miscellaneous	-	-	-		
Depreciation	117,684	120,900	(3,216)	-2.66%	
<b>Total Operating Expenses</b>	<u>\$ 577,952</u>	<u>\$ 784,900</u>	<u>\$ (206,948)</u>		
<b>Total Direct Expenses</b>	<u>\$ 1,321,637</u>	<u>\$ 1,619,642</u>	<u>\$ (298,005)</u>		
<b>Indirect Expenses</b>	(1,321,637)	(1,619,642)	298,005	-18.40%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	-	-	-		
<b>Change in Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>Fixed Assets</b>					
Depreciation	(117,684)	(120,900)	3,216	-2.66%	
Computer & Software CapEx	153,916	69,000	84,916	123.07%	Purchases budgeted in Office Costs were capitalizable. See offset in Office Costs.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<u>\$ 36,232</u>	<u>\$ (51,900)</u>	<u>\$ 88,132</u>		
Allocation of Fixed Assets	(36,232)	51,900	(88,132)	-169.81%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>Total Budget</b>	-	-	-		
<b>Change in Working Capital</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
<b>FTEs</b>	5.1	6.8	(1.7)		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Human Resources**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	279,773	244,954	34,819	14.21%	Actual salaries higher than budgeted due to an unbudgeted promotion and unbudgeted market adjustments.
Payroll Taxes	20,594	20,702	(108)	-0.52%	
Employee Benefits	442,316	569,100	(126,784)	-22.28%	Lower-than-anticipated utilization of the health reimbursement account insurance program.
Savings & Retirement	20,621	22,048	(1,427)	-6.47%	
<b>Total Personnel Expenses</b>	<b>\$ 763,304</b>	<b>\$ 856,804</b>	<b>\$ (93,500)</b>		
<b>Meeting Expenses</b>					
Meetings	137	-	137		
Travel	26,408	15,000	11,408	76.05%	Increased participation in job fairs as part of an aggressive hiring strategy to fill vacant positions.
Conference Calls	1,348	2,000	(652)	-32.60%	
<b>Total Meeting Expenses</b>	<b>\$ 27,893</b>	<b>\$ 17,000</b>	<b>\$ 10,893</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	8,140	30,000	(21,860)	-72.87%	\$15K was budgeted here for a new human resources information system; actuals recorded in Office Costs.
Office Rent	694	-	694		
Office Costs	73,310	60,630	12,680	20.91%	Implementation of unbudgeted human resources information system. Budget is in Consultants and Contracts and Fixed Assets. Total budget was \$35K and actuals were \$13K.
Professional Services	(711)	10,000	(10,711)	-107.11%	Insurance reimbursement of cumulative legal fees on an employee matter.
Miscellaneous	-	-	-		
Depreciation	692	-	692		
<b>Total Operating Expenses</b>	<b>\$ 82,125</b>	<b>\$ 100,630</b>	<b>\$ (18,505)</b>		
<b>Total Direct Expenses</b>	<b>\$ 873,322</b>	<b>\$ 974,434</b>	<b>\$ (101,112)</b>		
<b>Indirect Expenses</b>	(873,322)	(974,434)	101,112	-10.38%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>					
<b>Total Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	(692)	-	(692)		
Computer & Software CapEx	-	20,000	(20,000)	-100.00%	Human resources information system budgeted in Fixed Assets and Consultants and Contracts, but recorded in Office Costs.
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ (692)</b>	<b>\$ 20,000</b>	<b>\$ (20,692)</b>		
Allocation of Fixed Assets	692	(20,000)	20,692		Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	<b>2.95</b>	<b>3.0</b>	<b>(0.1)</b>		

**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Finance and Accounting**

	2012 Actual	2012 Budget	2012 Variance		Explanations of Variances - 10% and \$10,000
<b>Funding</b>					
<b>WECC Funding</b>					
WECC Assessments	\$ -	\$ -	\$ -		
Penalty Sanctions	-	-	-		
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
Membership Fees	-	-	-		
Grant Funding	-	-	-		
Services & Software	-	-	-		
Workshops	-	-	-		
Interest	-	-	-		
Miscellaneous	-	-	-		
<b>Total Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	419,411	276,500	142,911	51.69%	Addition of one unbudgeted position and overlap of outgoing and incoming personnel for smooth transition.
Payroll Taxes	28,531	22,379	6,152	27.49%	
Employee Benefits	46,209	45,829	380	0.83%	
Savings & Retirement	21,024	18,430	2,594	14.07%	
<b>Total Personnel Expenses</b>	<b>\$ 515,175</b>	<b>\$ 363,138</b>	<b>\$ 152,037</b>		
<b>Meeting Expenses</b>					
Meetings	-	-	-		Travel for unbudgeted position and other unanticipated travel requirements.
Travel	24,037	9,300	14,737	158.46%	
Conference Calls	806	600	206	34.33%	
<b>Total Meeting Expenses</b>	<b>\$ 24,843</b>	<b>\$ 9,900</b>	<b>\$ 14,943</b>		
<b>Operating Expenses</b>					
Consultants & Contracts	-	5,000	(5,000)	-100.00%	Unbudgeted software license fees for the accounting, fixed asset and new budget systems. Restatement of WECC's 2010 financials and insufficient budget for new auditor fees.
Office Rent	60	-	60		
Office Costs	50,424	32,910	17,514	53.22%	
Professional Services	74,364	46,800	27,564	58.90%	
Miscellaneous	-	-	-		
Depreciation	4,912	-	4,912		
<b>Total Operating Expenses</b>	<b>\$ 129,760</b>	<b>\$ 84,710</b>	<b>\$ 45,050</b>		
<b>Total Direct Expenses</b>	<b>\$ 669,778</b>	<b>\$ 457,748</b>	<b>\$ 212,030</b>		
<b>Indirect Expenses</b>	(669,698)	(457,748)	(211,950)	46.30%	Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Other Non-Operating Expenses</b>	<b>\$ (80)</b>	<b>\$ (80)</b>			
<b>Total Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Change in Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Fixed Assets</b>					
Depreciation	(4,912)	-	(4,912)		-2.11%
Computer & Software CapEx	19,578	20,000	(422)		
Furniture & Fixtures CapEx	-	-	-		
Leasehold Improvements	-	-	-		
<b>Change in Fixed Assets</b>	<b>\$ 14,666</b>	<b>\$ 20,000</b>	<b>\$ (5,334)</b>		
Allocation of Fixed Assets	(14,666)	(20,000)	5,334		Allocated to Statutory Program Areas based on their FTE ratio to total.
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Total Budget</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Change in Working Capital</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>FTEs</b>	4.61	4.0	0.6		



**Western Electricity Coordinating Council**  
**2012 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital**  
**Non-Statutory Summary**

	2012 Actual	2012 Budget	2012 Variance
<b>Funding</b>			
<b>WECC Funding</b>			
WECC Assessments	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-
<b>Total ERO Funding</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Membership Fees	1,489,043	1,800,000	(310,957)
Grant Funding	-	-	-
Services & Software	-	-	-
Workshops	2,665	10,000	(7,335)
Interest	-	8,829	(8,829)
Miscellaneous	380	294	86
<b>Total Funding</b>	<b>\$ 1,492,088</b>	<b>\$ 1,819,123</b>	<b>\$ (327,121)</b>
<b>Expenses</b>			
<b>Personnel Expenses</b>			
Salaries	311,789	356,373	(44,584)
Payroll Taxes	22,565	29,842	(7,277)
Employee Benefits	31,901	79,765	(47,864)
Savings & Retirement	18,024	24,576	(6,552)
<b>Total Personnel Expenses</b>	<b>\$ 384,279</b>	<b>\$ 490,556</b>	<b>\$ (106,277)</b>
<b>Meeting Expenses</b>			
Meetings	1,416	21,500	(20,084)
Travel	14,030	50,000	(35,970)
Conference Calls	-	500	(500)
<b>Total Meeting Expenses</b>	<b>\$ 15,446</b>	<b>\$ 72,000</b>	<b>\$ (56,554)</b>
<b>Operating Expenses</b>			
Consultants & Contracts	3,979	75,000	(71,021)
Office Rent	-	-	-
Office Costs	402,805	454,200	(51,395)
Professional Services	48,135	56,500	(8,365)
Miscellaneous	-	-	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 454,919</b>	<b>\$ 585,700</b>	<b>\$ (130,781)</b>
<b>Total Direct Expenses</b>	<b>\$ 854,644</b>	<b>\$ 1,148,256</b>	<b>\$ (293,612)</b>
<b>Indirect Expenses</b>	303,981	385,883	(81,902)
<b>Other Non-Operating Expenses</b>			\$ -
<b>Total Expenses</b>	1,158,625	1,534,139	(375,514)
<b>Change in Assets</b>	<b>\$ 333,463</b>	<b>\$ 284,984</b>	<b>\$ 48,393</b>
<b>Fixed Assets</b>			
Depreciation	-	-	-
Computer & Software CapEx	-	6,000	(6,000)
Furniture & Fixtures CapEx	-	-	-
Leasehold Improvements	-	-	-
<b>Change in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 6,000</b>	<b>\$ (6,000)</b>
Allocation of Fixed Assets	-	-	-
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ -</b>	<b>\$ 6,000</b>	<b>\$ (6,000)</b>
<b>Total Budget</b>	1,158,625	1,540,139	(381,514)
<b>Change in Working Capital</b>	<b>\$ 333,463</b>	<b>\$ 278,984</b>	<b>\$ 54,393</b>
<b>FTEs</b>	3.70	5.0	(1.3)

**Financial Statements and Report of Independent  
Certified Public Accountants**

**Western Electricity Coordinating Council**

**December 31, 2012 and 2011**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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**Board of Directors  
Western Electricity Coordinating Council**

We have audited the accompanying financial statements of Western Electricity Coordinating Council, which comprise the statements of financial position as of December 31, 2012 and 2011, 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 Western Electricity Coordinating Council as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Salt Lake City, Utah  
May 28, 2013

## FINANCIAL STATEMENTS

Western Electricity Coordinating Council

STATEMENTS OF FINANCIAL POSITION

December 31,

	ASSETS	
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 39,940,191	\$ 36,467,365
Certificates of deposit	1,436,598	1,182,085
Investments	5,930,113	6,622,041
Accounts receivable, net of allowance of \$42,000 at December 31, 2012 and 2011	12,908,228	6,722,564
Prepaid expenses and other assets	835,773	502,486
Property, equipment, and software, net	<u>11,964,467</u>	<u>10,033,947</u>
 Total assets	 <u>\$ 73,015,370</u>	 <u>\$ 61,530,488</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 7,557,387	\$ 7,776,577
Accrued expenses	1,892,947	1,800,884
Deferred revenue	24,381,993	21,121,670
Other liabilities	<u>7,051,156</u>	<u>6,891,368</u>
Total liabilities	40,883,483	37,590,499
 UNRESTRICTED NET ASSETS	 <u>32,131,887</u>	 <u>23,939,989</u>
 Total liabilities and net assets	 <u>\$ 73,015,370</u>	 <u>\$ 61,530,488</u>

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

Western Electricity Coordinating Council

STATEMENTS OF ACTIVITIES

Years ended December 31,

	<u>2012</u>	<u>2011</u>
Operating revenue		
Electric Reliability Organization funding	\$ 39,233,515	\$ 39,201,178
Meetings and workshops	676,865	839,790
Western Renewable Energy Generation Information System (WREGIS)	1,489,043	2,141,170
Federal grants	27,928,644	18,392,811
Other	32,805	4,451
Total operating revenue	<u>69,360,872</u>	<u>60,579,400</u>
Operating expenses		
Labor	28,150,057	26,282,991
Office and equipment	8,256,436	7,094,425
Depreciation and amortization	3,766,592	3,048,719
Contract labor and consultants	17,538,997	14,853,384
Meetings	2,472,988	2,597,868
Professional services	1,151,537	789,325
Excise taxes	12,764	12,997
Other	16,431	8,223
Total operating expenses	<u>61,365,802</u>	<u>54,687,932</u>
Increase in unrestricted net assets from operations	<u>7,995,070</u>	<u>5,891,468</u>
Nonoperating activity		
Interest and dividends	305,601	304,944
Net unrealized loss on investments	(56,671)	(25,843)
Net realized loss on investments	(52,102)	(19,645)
Net nonoperating activity	<u>196,828</u>	<u>259,456</u>
Increase in unrestricted net assets	<u>8,191,898</u>	<u>6,150,924</u>
Net assets, beginning of year	<u>23,939,989</u>	<u>17,789,065</u>
Net assets, end of year	<u>\$ 32,131,887</u>	<u>\$ 23,939,989</u>

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



Western Electricity Coordinating Council

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Increase in net assets	\$ 8,191,898	\$ 6,150,924
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	3,766,592	3,048,719
Unrealized loss on investments	56,671	25,843
Realized loss on investments	52,102	19,645
Decrease (increase) in assets:		
Accounts receivable	(6,185,664)	(3,137,375)
Prepaid expenses and other assets	(333,287)	(131,163)
Increase (decrease) in liabilities:		
Accounts payable	(748,544)	1,185,028
Accrued expenses	92,063	(772,644)
Deferred revenue	3,260,323	(2,847,732)
Other liabilities	<u>159,788</u>	<u>4,182,544</u>
Net cash provided by operating activities	<u>8,311,942</u>	<u>7,723,789</u>
Cash flows from investing activities		
Purchase of property and equipment	(5,167,758)	(6,562,988)
Purchase and sale of investments and certificates of deposit, net	<u>328,642</u>	<u>(2,213,871)</u>
Net cash used in investing activities	<u>(4,839,116)</u>	<u>(8,776,859)</u>
Net increase (decrease) in cash and cash equivalents	3,472,826	(1,053,070)
Cash and cash equivalents, beginning of year	<u>36,467,365</u>	<u>37,520,435</u>
Cash and cash equivalents, end of year	<u>\$ 39,940,191</u>	<u>\$ 36,467,365</u>
Non-cash investing and financing activities		
Property and equipment financed with accounts payable	\$ 529,354	\$ -

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

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of activities

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to assure a reliable bulk electric power system in the Western Interconnection. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2011 with North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission to establish and enforce reliability standards for the bulk electric system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to load-servicing entities 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 WECC's region. WECC funds its non-statutory activities through annual and other activity fees.

2. Financial statement presentation

WECC's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The information regarding its financial position and activities is reported based on the existence or absence of donor-imposed restrictions in three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2012 and 2011, WECC had only unrestricted net assets.

3. Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Revenue recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund. Federal grant revenue is generated through WECC's and WECC sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis. Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

5. Cash and cash equivalents

Cash and cash equivalents consist of bank demand accounts, money market investment accounts, and other highly liquid investments with original maturity of three months or less. Deposits at times may exceed the federally insured limits.

Pursuant to the Delegation Agreement with NERC, cash equivalents contractually restricted as of December 31, 2012 and 2011 were \$4,720,916 and \$3,939,982, respectively.

6. Certificates of deposit

Certificates of deposits held that are not debt securities have original maturities greater than three months.

7. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are included in the change in net assets.

8. Accounts receivable

Accounts receivable consists of statutory funding, grants and other fees receivables that have not been collected. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Property, equipment, and software

Property, equipment, and software, which individually exceed \$5,000, are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Equipment and software	3 years
Furniture and fixtures	5 years

Leasehold improvements are depreciated over the shorter of the lease term or their estimated useful life of 10 years. Minor replacements, maintenance, and repairs, which do not increase the useful lives of the property, equipment, and software, are expensed as incurred.

10. Impairment of long-lived assets

WECC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If it is determined that the estimated undiscounted future cash flows are not sufficient to recover the carrying value of an asset, an impairment loss is recognized in the statement of activities for the difference between the carrying value and the fair value of the asset.

11. Income taxes

WECC has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(6) of the Internal Revenue Code and, as such, is not subject to federal or state income taxes on exempt purpose income. WECC recognized no unrelated business income tax benefit in the years ended December 31, 2012 and 2011.

WECC has identified and evaluated its significant tax positions for which the statute of limitations remain open. The open tax years are the years ended December 31, 2009 through December 31, 2012 for federal tax purposes and Utah tax purposes. WECC applied the more likely than not criteria to all tax positions and determined no material unrecognized tax benefits or liability should be recognized. In addition, there have been no material changes in unrecognized benefits as of December 31, 2012, and it is not expected that there will be a material change in the 12 months following December 31, 2012. There have been no tax penalties or related interest expenses.

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Functional Allocation of Expenses

The costs of programs and supporting services have been summarized on a functional basis. WECC's expenses are classified as *Statutory Expenses* or *Non-statutory Expenses* as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

NOTE B – FAIR VALUE MEASUREMENTS

WECC's financial instruments, including cash equivalents, accounts receivable, accounts payable, and accrued liabilities are carried at cost which approximates their fair value due to the short-term nature of these instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, WECC uses various valuation approaches within a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of WECC. Unobservable inputs are inputs that reflect WECC's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The following hierarchy prioritizes the inputs according to valuation methodologies used to measure fair value:

Level 1: Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuation based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuation based on unobservable inputs that are used when little or no market data is available.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment in determining fair value is greatest in instruments categorized in Level 3.

Western Electricity Coordinating Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE B – FAIR VALUE MEASUREMENTS – CONTINUED

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, WECC's own assumptions are set to reflect those that WECC believes a market participant would use in pricing the asset or liability at the measurement date.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

Description	Fair Value Measurements as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 35,340,465	\$ -	\$ -	\$ 35,340,465
Commercial paper	-	89,941	-	89,941
	<u>35,340,465</u>	<u>89,941</u>	<u>-</u>	<u>35,430,406</u>
<b>Investments:</b>				
Commercial paper	-	2,138,625	-	2,138,625
Corporate bonds	-	1,128,748	-	1,128,748
Government agency bonds	-	2,501,506	-	2,501,506
Foreign bonds	-	161,234	-	161,234
	<u>-</u>	<u>5,930,113</u>	<u>-</u>	<u>5,930,113</u>
	<u>\$ 35,340,465</u>	<u>\$ 6,020,054</u>	<u>\$ -</u>	<u>\$ 41,360,519</u>

Description	Fair Value Measurements as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 8,006,708	\$ -	\$ -	\$ 8,006,708
Commercial paper	-	6,363,128	-	6,363,128
	<u>8,006,708</u>	<u>6,363,128</u>	<u>-</u>	<u>14,369,836</u>
<b>Investments:</b>				
Commercial paper	-	974,606	-	974,606
Corporate bonds	-	3,320,221	-	3,320,221
Government agency bonds	-	2,168,578	-	2,168,578
Foreign bonds	-	158,636	-	158,636
	<u>-</u>	<u>6,622,041</u>	<u>-</u>	<u>6,622,041</u>
	<u>\$ 8,006,708</u>	<u>\$ 12,985,169</u>	<u>\$ -</u>	<u>\$ 20,991,877</u>

Money market funds are valued using observable prices in the active market. Commercial paper, corporate bonds, government agency bonds, and foreign bonds are valued using observable quoted prices of similar securities.

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

NOTE C – INVESTMENTS

Investments stated at fair value consisted of the following as of December 31:

	2012		2011
Commercial paper	\$ 2,138,625	\$	974,606
Corporate bonds	1,128,748		3,320,221
Government agency bonds	2,501,506		2,168,578
Foreign bonds	161,234		158,636
	<u>\$ 5,930,113</u>	\$	<u>6,622,041</u>

NOTE D – PROPERTY, EQUIPMENT, AND SOFTWARE

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

	2012		2011
Equipment	\$ 10,787,879	\$	7,627,337
Software	6,774,760		5,989,934
Leasehold improvements	5,632,787		5,626,127
Furniture and fixtures	689,655		689,655
	<u>23,885,081</u>		<u>19,933,053</u>
Less accumulated depreciation and amortization	(14,562,013)		(10,795,420)
Construction in progress	2,641,399		896,314
Property, equipment and software - net	<u>\$ 11,964,467</u>	\$	<u>10,033,947</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$3,766,592 and \$3,048,719, respectively.

Equipment purchased with grant funds is secured by a lien on the equipment for the years ended December 31, 2012 and 2011 was \$5,693,821 and \$4,936,249, respectively.

Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE E – ACCOUNTS PAYABLE

Accounts payable consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Assessment payables	\$ 4,469,827	\$ 4,397,868
Trade payables	2,986,287	3,364,796
Other payables	<u>101,273</u>	<u>13,913</u>
	<u>\$ 7,557,387</u>	<u>\$ 7,776,577</u>

NOTE F – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Accrued wages and paid time off	\$ 1,672,000	\$ 1,682,309
Other accrued expenses	<u>220,947</u>	<u>118,575</u>
	<u>\$ 1,892,947</u>	<u>\$ 1,800,884</u>

Other liabilities consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Sub-recipient payable	\$ 5,257,558	\$ 4,978,340
Deferred rents	<u>1,793,598</u>	<u>1,913,028</u>
	<u>\$ 7,051,156</u>	<u>\$ 6,891,368</u>

NOTE G – UNRESTRICTED NET ASSETS

WECC reports information regarding statutory and non-statutory related earnings to the Federal Energy Regulatory Commission in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2011. As of December 31, the breakdown of such earnings included in unrestricted net assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Non-statutory earnings	\$ 7,811,415	\$ 7,492,641
Statutory earnings	<u>24,320,472</u>	<u>16,447,348</u>
	<u>\$ 32,131,887</u>	<u>\$ 23,939,989</u>



Western Electricity Coordinating Council  
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE H – COMMITMENTS AND CONTINGENCIES

1. Operating lease commitments

WECC has entered into non-cancelable operating leases for office space and office equipment. Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

<u>Years Ending December 31:</u>	<u>Amount</u>
2013	\$ 1,747,933
2014	1,557,367
2015	1,564,866
2016	1,588,950
2017	1,629,499
Thereafter	<u>3,722,063</u>
	<u>\$ 11,810,678</u>

Total rent expense under non-cancelable operating leases was \$1,828,431 and \$1,787,342 for the years ended December 31, 2012 and 2011, respectively.

2. Sub-recipient grant

WECC committed up to a total of \$22 million in federal grant awards to a sub-recipient. WECC records a payable in sub-recipient payable for payments due for the sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis. As of December 31, 2012 the remaining commitment was \$14,072,976.

3. Other matters

During 2012, WECC's registered functions underwent a regulatory compliance audit. The findings of which could result in an enforcement action and a future loss from a monetary penalty from its regulators. WECC is unable to estimate the amount, if any, of the potential monetary penalty associated with this action.

As a result of the events that led up to the September 8, 2011 power outage within the Western Interconnection, WECC may face compliance enforcement action and a future loss from a monetary penalty from its regulators. WECC is unable to estimate the amount, if any, of the potential monetary penalty associated with this action.

Western Electricity Coordinating Council  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE I – RETIREMENT PLANS

1. Employee benefit plan

WECC has a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying statements of activities was \$1,427,114 and \$1,466,489 for the years ended December 31, 2012 and 2011, respectively.

NOTE J – FUNCTIONAL EXPENSES

The detail of functional expenses for the years ended December 31, are as follows:

	2012	2011
Program services		
Statutory services	\$ 51,997,258	\$ 44,860,449
Non-statutory services	936,470	889,549
	52,933,728	45,749,998
Support Services		
Management and general	8,432,074	8,937,934
	\$ 61,365,802	\$ 54,687,932

NOTE K – SUBSEQUENT EVENTS

WECC has evaluated events occurring between the end of its most recent fiscal year and May 28, 2013, the date the financial statements were available for issue.

**ATTACHMENT 10**

**METRICS CONCERNING ADMINISTRATIVE COSTS IN  
2012 NERC AND REGIONAL ENTITY  
BUDGETS AND ACTUAL COSTS**

Analysis of Administrative (Indirect) Costs  
2012 Actual and Budget

2012 ACTUAL SPEND					
	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 51,200,212	\$ 30,071,355	\$ 21,128,857	41.27%	\$ 1.42
FRCC	5,519,156	4,918,683	600,473	10.88%	8.19
MRO	8,819,027	4,607,445	4,211,582	47.76%	1.09
NPCC	12,916,639	10,619,055	2,297,584	17.79%	4.62
RFC	16,014,703	10,712,245	5,302,458	33.11%	2.02
SERC	13,271,927	8,658,435	4,613,492	34.76%	1.88
SPP	9,552,118	4,400,658	5,151,460	53.93%	0.85
Texas RE	9,031,959	5,991,084	3,040,875	33.67%	1.97
WECC	62,137,704	51,286,671	10,851,033	17.46%	4.73
TOTAL/Average	\$ 188,463,445	\$ 131,265,631	\$ 57,197,814	30.35%	\$ 2.29

2012 BUDGET SPEND					
	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	\$ 53,112,272	\$ 33,189,444	\$ 19,922,828	37.51%	\$ 1.67
FRCC	\$ 6,394,454	\$ 5,697,287	\$ 697,167	10.90%	8.17
MRO	\$ 9,057,229	\$ 5,636,696	\$ 3,420,533	37.77%	1.65
NPCC	\$ 13,680,644	\$ 11,488,152	\$ 2,192,492	16.03%	5.24
RFC	\$ 16,656,499	\$ 11,371,965	\$ 5,284,534	31.73%	2.15
SERC	\$ 15,594,445	\$ 10,537,671	\$ 5,056,774	32.43%	2.08
SPP	\$ 11,410,642	\$ 5,907,059	\$ 5,503,583	48.23%	1.07
Texas RE	\$ 10,613,458	\$ 7,694,168	\$ 2,919,290	27.51%	2.64
WECC	\$ 67,969,167	\$ 56,956,789	\$ 11,012,378	16.20%	5.17
TOTAL/Average	\$ 204,488,810	\$ 148,479,231	\$ 56,009,579	27.39%	\$ 2.65

2012 ACTUAL FTEs					
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	167.83	116.03	51.80	30.86%	2.24
FRCC	25.42	21.22	4.20	16.52%	5.05
MRO	35.44	25.14	10.30	29.06%	2.44
NPCC	33.34	25.42	7.92	23.76%	3.21
RFC	65.46	49.58	15.88	24.26%	3.12
SERC	68.70	52.95	15.75	22.93%	3.36
SPP	29.77	26.27	3.50	11.76%	7.51
Texas RE	51.29	38.79	12.50	24.37%	3.10
WECC	199.93	154.88	45.05	22.53%	3.44
TOTAL/Average	677.18	510.28	166.90	24.65%	3.06

2012 BUDGET FTEs					
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	176.75	129.00	47.75	27.02%	2.70
FRCC	30.69	26.67	4.02	13.10%	6.63
MRO	37.00	29.15	7.85	21.22%	3.71
NPCC	35.43	27.00	8.43	23.79%	3.20
RFC	73.00	56.70	16.30	22.33%	3.48
SERC	73.70	56.95	16.75	22.73%	3.40
SPP	33.50	30.00	3.50	10.45%	8.57
Texas RE	58.00	47.25	10.75	18.53%	4.40
WECC	213.30	165.00	48.30	22.64%	3.42
TOTAL/Average	731.37	567.72	163.65	22.38%	3.47

2012 ACTUAL SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 305,072	\$ 259,169	\$ 407,893	\$ 125,894
FRCC	217,119	231,795	142,970	23,622
MRO	248,844	183,271	408,891	118,837
NPCC	387,422	417,744	290,099	68,914
RFC	244,649	216,060	333,908	81,003
SERC	193,187	163,521	292,920	67,154
SPP	320,864	167,516	1,471,846	173,042
Texas RE	176,096	154,449	243,270	59,288
WECC	310,797	331,138	240,866	54,274
TOTAL/Average	\$ 278,306	\$ 257,242	\$ 342,707	\$ 84,465

2012 BUDGETED SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	\$ 300,494	\$ 257,283	\$ 417,232	\$ 112,718
FRCC	208,356	213,622	173,425	22,716
MRO	244,790	193,369	435,737	92,447
NPCC	386,132	425,487	260,082	61,882
RFC	228,171	200,564	324,205	72,391
SERC	211,594	185,034	301,897	68,613
SPP	340,616	196,902	1,572,452	164,286
Texas RE	182,991	162,840	271,562	50,333
WECC	318,655	345,193	228,000	51,629
TOTAL/Average	\$ 279,597	\$ 261,536	\$ 342,252	\$ 76,582

The accompanying narrative in this filing is essential to understanding the financial information on this schedule